What’s New in 2016
We clarified that aircraft used directly and principally in agricultural spraying are required to be registered with the Minnesota Department of Transportation, but are not subject to Minnesota sales or use tax.

This fact sheet covers:
- when to register your aircraft
- aircraft registration and tax payment
- aircraft trades
- aircraft dealers and lessors
- nonprofit incorporated flying clubs
- nonresidents
- examples of taxable sales
- examples of exempt sales

When to register your aircraft
When you acquire complete or partial ownership of an aircraft, or when you first bring an aircraft into Minnesota to be hangared, you must register the aircraft with the Minnesota Department of Transportation (DOT), Office of Aeronautics. You must furnish proof that the correct sales or use tax has been paid or that your purchase is exempt. If the correct sales tax has not been paid, it must be paid at the time of registration. See the Aircraft Registration and tax payment section below for details. The guidelines in this fact sheet do not apply to airline companies subject to airflight property taxes under Minnesota Statutes 270.071 to 270.079.

For Minnesota sales and use tax purposes, the term “aircraft” includes, but is not limited to:
- airplanes
- gliders
- gyro-copters
- helicopters
- hot air balloons
- kit planes (assembled or unassembled)
- powered parachutes
- sail planes
- ultralights and sportplanes

Aircraft registration and tax payment
To register your aircraft and pay any tax that is due, you must complete an Aircraft Registration Application and Sales/Use Tax Return form (Aircraft Registration). In some cases, the registration and payment of tax can be completed electronically. To electronically register and pay, or to download a copy of the Aircraft Registration form, go to the DOT, Office of Aeronautics website: www.dot.state.mn.us/aero

For information on registration requirements contact:
Minnesota Department of Transportation
Aircraft Registration, Office of Aeronautics
222 East Plato Boulevard
St. Paul, Minnesota 55107-1618
Phone: 651-234-7200 or 1-800-657-3922 (toll-free)
Website: www.dot.state.mn.us/aero

Sales or use tax payment. To show proof that sales or use tax has been paid, to pay any tax that is due, or to claim an exemption from the tax, complete Section 3 of the Aircraft Registration. Instructions for completing Section 3 and information on allowable exemptions are on page two of the Aircraft Registration.

If you have an ongoing lease, you must show proof of sales tax payments to receive your annual registration from the Department of Transportation, Office of Aeronautics.

Minnesota aircraft dealers should charge Minnesota sales tax and list the tax amount on the invoice. The dealer is required to inform the Office of Aeronautics that sales tax was paid so that the aircraft registration can be completed. If the dealer doesn’t inform the Office of Aeronautics that sales tax paid, you will be required to prove that you paid sales tax in order to register the aircraft without paying additional sales or use tax. You must complete and file a paper Aircraft Registration if you are claiming a sales tax exemption.

If you buy an aircraft from a private party, a business that does not normally sell aircraft, or from an out-of-state dealer, you may not be charged Minnesota sales tax.
tax. There is no exemption from sales tax on these aircraft purchases. Minnesota use tax will be due when you register your aircraft with DOT, Office of Aeronautics.

Tax applies to purchases of unairworthy or disassembled aircraft, as long as the aircraft retains a federal aircraft registration number. If you buy parts to build an aircraft, the parts are taxable. Before registration can be completed, you must present proof that Minnesota sales or use tax has been paid or that an exemption applies.

**Tax paid to another state.** Credit is allowed for sales tax legally required to be paid to another state. If the other state’s tax rate is less than Minnesota’s rate, you owe the difference to Minnesota. You need to attach a copy of the receipt showing tax paid to another state to your Aircraft Registration.

**Local tax.** If an aircraft is purchased, hangared or stored in an area that has a local sales and use tax, local tax is also due. If the appropriate local tax has not been paid, it is also due when you register your aircraft. For more information, see Fact Sheet 164, Local Sales and Use Taxes.

**Agricultural aircraft.** Aircraft used directly and principally for agricultural spraying are required to be registered with the Minnesota Department of Transportation, but are not subject to Minnesota sales or use tax.

**Aircraft trades**

A trade-in deduction is allowed for aircraft if all the following conditions are met:

- the sale must be conducted by a licensed aircraft dealer, or a lessor registered to collect and remit Minnesota sales tax,
- an invoice or sales agreement must show the transaction was a trade and must show the value of each aircraft,
- the federal registration numbers of both aircraft must be shown, and
- the new owners must each complete their own Aircraft Registration, unless the licensed Minnesota aircraft dealer handled the transaction.

**Even trades.** There is no tax due on an even trade of an aircraft for an aircraft if tax was correctly paid on the initial aircraft purchases, and all of the above conditions are met.

**Other trades.** Sometimes aircraft are traded and the value of one aircraft is more than the value of the other. If all the preceding conditions are met, the person trading up to the higher value aircraft must pay tax on the difference in price. The person trading down to a lower value aircraft may claim an even trade exemption.

**Trades between individuals.** If the trade is not conducted by a licensed aircraft dealer or lessor as described in this section, tax is due on both aircraft, based on the value of each aircraft.

**Aircraft dealers and lessors**

All Minnesota aircraft dealers and lessors must be registered with the Minnesota Department of Revenue to collect sales tax. If you are not registered to collect sales tax, you may apply for a Minnesota identification number at the Department of Revenue website at: www.revenue.state.mn.us, or call Business Registration at 651-282-5225.

**How to report sales and use tax associated with aircraft.** Sellers must report sales tax collected as Aircraft Sales on their sales and use tax return. Purchasers must report untaxed purchases as Aircraft Purchases on their sales and use tax return. You can add the new tax lines in e-Services. You will no longer use the General Rate Sales tax line or the Use Tax Purchases tax line to report sales or use tax on aircraft. You will still use any applicable local tax lines.

Annual filers report any sales or use tax on aircraft for the year (January 1 – December 31, 2015) on the new aircraft tax lines by February 5, 2016.

**Charging sales tax.** For sales of aircraft, the sales tax rate imposed in the seller’s taxing jurisdiction applies when the purchaser picks up the aircraft at the seller’s location. If the seller delivers the aircraft to a different location for the purchaser, the sales tax rate imposed in the taxing jurisdiction where the aircraft is delivered is charged. The rate of tax imposed on the lease or rental of an aircraft that requires only one payment for the lease or rental period follows these same rules.

The rate of tax imposed on the lease or rental of an aircraft that requires recurring periodic payments is based on the tax rate imposed in the primary property location for each payment. The primary property location is the address for the leased property given to the lessor by the lessee. The property location is not altered by intermittent use at different locations.

**Purchases by dealers or lessors.** To buy an aircraft solely for resale or for leasing to others, give the seller a completed Form ST3, Certificate of Exemption. Specify the resale exemption. Repair and replacement parts can also be purchased exempt for resale or lease.

**Registration by dealers or lessors.** To register aircraft exempt from tax, refer to the appropriate procedures listed in the following paragraphs.
Resale: To qualify, the aircraft may be used only for demonstration purposes. You must show you are a licensed Minnesota aircraft dealer or otherwise in the business of selling aircraft. Attach a copy of your Minnesota dealer’s license to your Aircraft Registration. If you do not have one, attach a description of your business. You will also need to fill in your Minnesota Tax ID number.

Lease: Attach a copy of all executed leases to your Aircraft Registration. If no formal lease agreement exists, you must attach a description of the leasing or rental activity. Include a statement describing the owner’s use of the aircraft. If the aircraft is owned by a nonprofit incorporated flying club or association, attach a copy of the club’s charter and bylaws. You will also need to fill in your Minnesota Tax ID number.

Note: If you registered the aircraft exempt solely for resale or leasing to others, but later use the aircraft for any business or personal use, you owe use tax on the original purchase price of the aircraft.

**Nonprofit incorporated flying clubs**

A nonprofit incorporated flying club or association may buy aircraft used for leasing purposes and aircraft repair parts exempt from sales tax. The club must collect sales tax from its shareholders and/or members on all rental fees, dues, membership fees, and all other fees and charges assessed upon the members. When the flying club registers the aircraft, it must file the Aircraft Registration. Use lease as the exemption reason to show that the aircraft is owned by a nonprofit incorporated flying club or association. Attach a copy of the club’s charter and by-laws and list the club’s Minnesota Tax ID Number.

**Nonresidents**

A non-Minnesota resident who takes possession of an aircraft in Minnesota is exempt from paying Minnesota sales or use tax if the purchaser transports the aircraft outside Minnesota and:

- the aircraft is not returned to Minnesota except in the course of interstate commerce, or occasional use;
- the aircraft is subsequently registered in another state or country; and
- the aircraft meets the definitions in Minnesota Statutes 360.511 and is approved by the Federal Aviation Administration.

This exemption also applies if the non-Minnesota purchaser takes possession of the aircraft in Minnesota and uses it here exclusively for a training period of not more than ten days before removing it from Minnesota.

Aircraft leased to out-of-state residents are exempt if the aircraft is based and used outside Minnesota.

**Examples of taxable sales**

- Selling or leasing aircraft
- Repair and replacement parts, and installation labor for aircraft that is not operating under Federal Aviation Regulations, parts 91 or 135.
- Aviation oil
- Rentals of aircraft to students for instruction and solo flights when the rental is stated separately from other flight instruction fees
- Rentals of aircraft to instructors for both instructional flights and solo flights when the student’s use of the aircraft is included in a lump sum fee for flight instruction
- Books and manuals sold to students if billed separately from tuition
- Books and manuals sold to instructors who give them to students without charge, as part of instruction fees

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**Guidelines for lease-backs between owners and fixed-base operators**

If you buy an aircraft solely for leasing it back to a fixed-base operator (FBO), both you and the FBO must be registered with the Minnesota Department of Revenue for sales tax.

**Remitting the proper amount of sales or use tax.** Detailed documentation must be kept by both the owner and the FBO in lease-back transactions.

The FBO must collect sales tax on amounts received from leasing the aircraft to others and report the sales tax collected on the Aircraft Sales tax line on the sales and use tax return. The FBO must remit use tax on amounts paid to the owner for its own taxable use on the Aircraft Purchases tax line. For example, FBO’s use of aircraft during flight instruction or for personal use.

If the FBO leases an aircraft to the owner, tax may be handled in either of the following ways:

- The FBO collects sales tax from the owner and reports the tax collected as Aircraft Sales on the sales and use tax return. The lease price should be based on amounts charged to other lessees or the fair market rental value.
- The owner reports use tax directly to the state on the Aircraft Purchases tax line. In the event of an audit, it is important that the FBO has documentation that the owner is paying the tax.

Because the owner and the FBO have an ongoing relationship, we recommend there be a legal contract detailing each party’s responsibilities, liabilities, and understandings to ensure that the proper amount of sales and use tax is remitted by the owner and the FBO.
Examples of exempt sales

- Equipment and parts necessary for repair and maintenance of aircraft and equipment or parts to upgrade and improve aircraft, and their associated installation charges. To qualify for this exemption, the aircraft must be operated under Federal Aviation Regulations, parts 91 or 135 (This exemption does not apply to tools or equipment used to perform the repair). Prior to July 1, 2013, these items were taxable.
- Aircraft and aircraft parts bought solely for resale or leasing. The buyer must give the seller a Form ST3, Certificate of Exemption. Specify the resale exemption.
- Aircraft and aircraft parts bought by a qualifying exempt organization. The organization must give the seller Form ST3, Certificate of Exemption. Specify the Exempt Organization exemption.
- Aviation fuel (subject to petroleum tax)
- Wash jobs on aircraft
- Repair labor if separately stated
- Flight instruction fees
- Rentals of hangar space
- Flight transportation charges for cargo or passengers
- Aerial crop spraying charges
- Charter services (providing an operator along with an aircraft). The charter operator must pay tax on the purchase or lease of the aircraft used to provide charter service.
- IRC Section 351 transfers from one corporation to another corporation for stock are not taxable only if the seller, after the transfer, is in control of the corporation (owns at least 80% of the stock)
- IRC Section 721 transfers—nonrecognition of gain or loss on contribution (partnerships)
- Transfers on death: revocable trusts, wills, and inheritance. You must provide court documents.

Legal References
Minnesota Statutes 297A.668, subd. 4, Sourcing rules for the lease or rental of aircraft
Minnesota Statutes 297A.82, Aircraft; flight equipment; payment of taxes; exemptions.
Minnesota Rule 8130.6000, Airflight Equipment

Revenue Notices
96-05, Sales of Ultralight Planes

Other Fact Sheets
164, Local Sales and Use Taxes