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Motor Vehicle Leases and Rentals

The purpose of this Tax Fact is to explain how South Dakota state and local taxes apply to motor vehicle lease and rentals. It is not intended to answer all questions that may arise. The information contained in this fact sheet is current as of the date of publication.

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Lease and Rentals

The sale of products and services in South Dakota are subject to sales tax or use tax. One exception is the sale or purchase of a motor vehicle subject to the motor vehicle excise tax.

Motor vehicles not subject to motor vehicle excise tax include:

- Motorcycles, cars, pickups, and vans that will be rented for 28 days or less
- Trailers with a trailer ID plate under [SDCL 32-5-8.1](#) that have an unladen weight of 9,000 pounds or more *and* are rented for six months or less
- If you rent or lease a motor vehicle for 28 days or less to customers in South Dakota, the rental fee is subject to state and municipal sales tax and may be subject to tourism tax and motor vehicle gross receipts tax.

* The next page shows the tax that applies to the lease or rental receipts for certain vehicles.

- Dealers are required to collect the state sales tax and any applicable municipal sales tax, motor vehicle gross receipts tax, and tourism tax on any vehicle, product, or service they sell that is subject to sales tax in South Dakota.

South Dakota Taxes and Rates	
Motor Vehicle Excise Tax – Applies to the purchase of most motor vehicles.	4%
State Sales Tax and Use Tax – Applies to all sales or purchases of taxable products and services.	4.5%
The following tax may apply in addition to the state sales tax:	
Municipal Sales Tax and Use Tax – Applies to all sales of products and services that are subject to the state sales tax or use tax if the purchaser receives or uses the product or service in a municipality that imposes a sales tax or use tax.	1 to 2%
Motor Vehicle Gross Receipts Tax – Applies to the rental of motorcycles, cars, trucks, and vans for less than 28 days, and the rental of certain trailers for six months or less.	4.5%
Tourism Tax – Applies to the rental of certain motor vehicles. Tourism tax does not apply when you are remitting use tax.	1.5%

If a dealer is in the business of renting or leasing motor vehicles, the dealer must title the rental or leased vehicles in a separate and distinct name from that of the dealership.

Motor Vehicle Leases and Rentals

The following table shows the tax that applies to the lease or rental receipts for certain motor vehicles. This is not an all-inclusive list of motor vehicles. For title, license, and registration information on a specific vehicle, please contact your County Treasurer.

For tax information on vehicle purchases, see the Tax Fact on [Motor Vehicle Sales & Purchases](#).

For any vehicle type not specifically listed below, please contact your County Treasurer for applicable taxes.

Vehicle & Trailer Lease and Rentals - Tax Application					
Short Term Lease or Rental - 28 Days or Less	Sales or Use Tax	Municipal Sales or Use Tax	Tourism Tax	Motor Vehicle Gross Receipts Tax	Motor Vehicle Excise Tax
Automobiles, Pickups, Vans, and Motorcycles	Yes	Yes	Yes	Yes	No
ATVs & UTVs	Yes	Yes	Yes	Yes	No
Recreational Motor Vehicle - RVs, Snowmobiles, & Boats	Yes	Yes	Yes	No	Yes
Recreational Equipment - Electric Bikes & Mopeds	Yes	Yes	Yes	No	No
Trailers & Camper Trailers - unladen weight of 9,000 lbs or more	Yes	Yes	No	Yes	No
Long Term Lease - Greater Than 28 Consecutive Days	Sales or Use Tax	Municipal Sales or Use Tax	Tourism Tax	Motor Vehicle Gross Receipts Tax	Motor Vehicle Excise Tax
Automobiles, Pickups, Vans, and Motorcycles	No	No	No	No	Yes
ATVs & UTVs	No	No	No	No	Yes
Recreational Motor Vehicle - RVs, Snowmobiles, & Boats	Yes	Yes	Yes	No	Yes
Recreational Equipment - Electric Bikes & Mopeds	Yes	Yes	Yes	No	No
Trailers & Camper Trailers - unladen weight of 9,000 lbs or more					
• more than 28 days but less than six months	No	No	No	Yes	No
Trailers & Camper Trailers - gross weight rating of less than 16,000 lbs					
• Six months or longer	No	No	No	No	Yes

Motor Vehicle Rentals

Motor vehicles titled in the name of a rental company and rented for 28 days or less are exempt from the motor vehicle excise tax but are subject to other state taxes. Trailers that have an unladen weight of 9,000 lbs or more, that are rented for six months or less, are also exempt from the motor vehicles excise tax but are subject to other state taxes. See the [Motor Vehicle Lease and Rentals—Tax Application](#) chart on page two for details on what taxes may apply to rentals.

Optional Products or Services—Rentals

The following items may be included with a vehicle rental. The charges for these items are subject to the same tax as the vehicle rental, whether the rental agency itemizes each charge on the customer's invoice or includes it in the car rental fee.

- Additional driver fee
- Airport concession fees and facility fees
- Car navigational (GPS) system
- Car Satellite radio
- Child seat
- Drivers 24 years or younger
- Drop charges
- Emergency roadside service
- Energy surcharges
- Exceeding mileage
- Frequent flyer surcharge
- Fuel and service charges
- Fuel purchase option
- Loss damage waiver
- Rental tax surcharges
- Ski racks
- Up charges for nonstandard vehicles
- Vehicle licensing fees passed onto customer

Insurance Premiums for Rental Vehicles

A car rental company does not owe sales tax on the insurance premiums customers pay for insurance the rental company sells when the following criteria are met:

1. The insurance is from a licensed insurance company;
2. The entire amount charged to the customer for the premium is subject to insurance premiums tax; and
3. The charge is itemized on the customer's invoice.

If the charge to the customer for the insurance is greater than the amount the insurance company pays insurance premiums tax on, the entire charge is subject to sales tax.

Motor Vehicle Leases

For motor vehicles and off-road vehicles leased for more than 28 days, the lessor is responsible for titling and licensing the motor vehicle and denoting the lessee on the application for the title. The lessor or the lessee pays the motor vehicle excise tax.

The lease type will determine how the motor vehicle excise tax due is calculated. There are two types of vehicle leases:

- **Open-ended Leases** – this is a lease where the length of the lease is not set at the time the contract is entered into.
- **Closed Leases** – this is a lease where the length of the lease is set at the time the contract is entered into.

For an *open-ended lease*, motor vehicle excise tax is due on the purchase price of the vehicle, plus cash, rebates, the net trade-in, extended warranties, administrative fees, acquisition fees, and any other fees on the purchase of the vehicle.

For a *closed lease*, motor vehicle excise tax is due on the total of all lease payments, including cash, rebates, the net trade-in, extended warranties, administrative fees, acquisition fees, and any other fees on the purchase of the vehicle.

Motor vehicles with a gross vehicle weight rating of less than 16,000 lbs are subject to motor vehicle excise tax under a closed lease. Motor vehicles include:

- Cars
- Motorcycles
- Pickups
- Motorized bicycles
- Vans
- Off-road vehicles
- Light trailers

Motor Vehicle Leases (contd.)

Additional Consideration Paid on a Lease

If a lease is extended from that of the initial lease period, or if additional consideration is paid during a lease or upon termination of a lease, additional taxes are due. An [Extended or Additional Consideration Lease Tax Worksheet](#) is completed and submitted to the Motor Vehicle Division, along with the appropriate taxes.

- If the vehicle is leased for an additional period of time, the motor vehicle excise tax shall be assessed on the additional lease payments. The lessor is responsible for completion of the worksheet and payment of the taxes.
- If additional consideration is paid during the course of the lease or upon termination of the lease, the motor vehicle excise tax shall be assessed on such amount. The lessor is responsible for completion of the worksheet and payment of the taxes.
 - ⇒ Additional consideration paid during a lease or upon termination of a lease does not include late fees assessed for late lease payments.
- If the lessee buys the vehicle at the end of the lease, motor vehicle excise tax is assessed on the purchase price. The lessor shall assign the title and certify the purchase price. The title must be submitted to the lessee's county treasurer's office with the required fees and taxes.

Tax Credit for Total Loss of Leased Vehicle

If the motor vehicle lease tax has been paid on a current qualifying lease, and the vehicle is destroyed to the extent that constitutes a total loss, a credit will be given for the motor vehicle lease tax paid for the remaining lease period.

To qualify for the credit:

1. There must be a total loss of the vehicle subject to the previous lease (example: fire, accident, or vandalism); or
2. A new lease must be executed, or a vehicle must be substituted under the original lease
 - ⇒ the new lease or substituted vehicle under the original lease shall be executed by the same lessor and lessee;
 - ⇒ the vehicle must be of the same or similar make, model, year, and options as the vehicle subject to the previous lease;
 - ⇒ for the remaining lease period of the previous lease; and
 - ⇒ for the same lease price.

The lease shall contain the same lease terms as the previous lease.

Delivery Fees for Leased or Rented Vehicles

Charges for the delivery of a leased or rented vehicle are subject to the same tax as applied to the lease or rental. Delivery charges include any charges for transportation, mileage, driver time, etc.

Examples:

1. *A car dealer delivers a vehicle to their customer for a long-term lease (greater than 28 consecutive days). The delivery is part of the lease agreement and included within the lease price.*
 - The charge for delivery is subject to the motor vehicle excise tax and paid when the vehicle is registered.
2. *A car rental company will deliver rental cars to customers. These are short-term rentals (28 days or less).*
 - The delivery charge is subject to the same taxes as the rental fee. This includes state sales tax, applicable municipal sales tax, motor vehicle gross receipts tax, and tourism tax.
 - The applicable municipal tax is based on where the rental car is delivered to the customer.

Sourcing - Which State or Municipal Tax Applies?

Long-Term Lease

Long-term leases are subject to the motor vehicle excise tax. The lessor or the lessee pays the tax to the county treasurer's office in the lessee's county of residence.

Short-term rentals are subject to sales tax based on where the vehicle is picked up. Rented vehicles picked up in a city with a municipal sales tax are subject to the municipal sales tax of that city in addition to the state sales tax, motor vehicles gross receipts tax, and tourism tax.

Example:

Rusty Car Rental in Rapid City rents a car to John for seven days. John uses the car to tour the Black Hills and Badlands in South Dakota.

- All charges on the rental are subject to the same tax.
- The Collision Damage Wavier is not insurance.
- Rapid City tax applies because the car was picked up by John at the Rapid City airport.

7 Day Rental		
Full Size Car		\$ 375.00
GPS Navigation		50.00
Collision Damage Waiver		25.00
Airport Facility Fee		20.00
Sub Total		\$ 470.00
Tax	Rate	
State sales tax	4.5%	21.15
Rapid City sales tax	2%	9.40
Tourism Tax	1.5%	7.05
Motor Vehicle Gross Receipts Tax	4.5%	21.15
TOTAL DUE		\$ 528.75

Driving Services

Fees charged for driving a motor vehicle from one location to another are subject to sales tax or use tax. Sales tax applies based on the location to which the vehicle is driven.

For example, if a person drives a car from Highmore to Pierre, the state and Pierre municipal sales tax or use tax is due.

Towing Services

Receipts from towing services are subject to state and municipal tax at the location to which the vehicle is towed. Receipts for towing to a location outside South Dakota are not subject to South Dakota sales tax.

Repairs and Maintenance

Services such as auto repair, maintenance, body repair, oil changes, and customizing are subject to state and municipal sales tax. Sales tax applies to the full charge, including parts, labor, and delivery charges. Repairs and maintenance to rental vehicles are subject to sales tax or use tax whether the rental agency or the customer pays for the service.

- A rental business cannot buy repair parts or maintenance items for their rental fleet exempt from sales tax.

Warranties, Service Contracts, and Insurance

Manufacturer's Warranty

Parts and labor furnished to fulfill a warranty obligation of the manufacturer are not subject to sales tax. Receipts from the manufacturer for warranty work are not taxable. No tax is owed on parts taken from inventory to complete work under a manufacturer's warranty, this does not include warranty software.

Receipts from the customer or manufacturer for items not covered by the warranty are subject to sales tax.

Loaner/rental vehicle: A warranty may provide for a loaner or rental vehicle while a car is repaired.

If the manufacturer's warranty states:	Sales Tax or Use Tax Due
No cost to customer for parts	No sales tax or use tax due on the parts
Customer is responsible for a percentage of parts and labor	Sales tax due on the amount charged the customer
Customer pays a deductible for parts or labor	Sales tax due on the amount charged the customer
Customer is responsible for the repair labor	Sales tax due on the amount charged the customer
The manufacturer furnishes you the repair part at no charge	No sales tax or use tax due on the repair part
The manufacturer pays you for the repair part	No sales tax or use tax due on the repair part
The manufacturer pays you for the repair labor	No sales tax or use tax due on the repair labor

- When the manufacturer pays for the loaner/rental vehicle as provided under a warranty, the receipts are subject to the motor vehicle gross receipts tax, but are not subject to sales tax or tourism tax.
- If the customer pays for the rental vehicle, the receipts are subject to state and municipal sales tax, motor vehicle gross receipts tax, and tourism tax.

Extended Service Contracts (Extended Warranty)

Extended service contracts that cover unexpected repair costs are subject to the motor vehicle excise tax when sold at the time of the vehicle purchase.

Extended service contracts sold later are subject to sales tax. Sales tax applies where the extended service contract is delivered to the customer. If customer takes possession at the dealership, the tax rate is based on the dealer's location. If the extended warranty is mailed to the customer, the tax rate is based on the customer's mailing address.

Mechanical Breakdown Insurance

Insurance policies are not considered warranty or service contracts. Insurance premiums are not subject to sales tax; however, the premiums are subject to insurance premiums tax. All charges made to the insurance company for parts and labor are subject to sales tax.

If it is unknown if the service contract is insurance or not, contact the [South Dakota Department of Labor, Insurance Division](#) and ask if the company that sells the contract is a licensed insurance company, or call the Department of Revenue at 1.800.829.9188.

Implied Warranty

If there is no charge for repairs made to a customer's motor vehicle after the sale and those repairs are not covered by a written warranty, use tax is owed on the cost of all parts installed in the customer's vehicle. No use tax is owed on employee labor.

Contact Us

If you have any questions, please contact the **South Dakota Department of Revenue**.

Call toll-free: 1-800-829-9188

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