

Minnesota Tax Expenditure Evaluation: Heating Fuel and Utility Service

Prepared for the Tax Expenditure Review Commission

By the Legislative Budget Office

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Introduction

Minnesota law exempts residential heating fuels, residential water services, and sewer services from the state's general sales and use tax. A unique exemption is established in statute for each utility type. Residential heating fuels include coal, wood, steam, hot water, propane gas, fuel oil, and liquified petroleum gas. Natural gas and electricity used as the primary sources of residential heat are exempt for only six months out of the year, from November to April.

These tax exemptions have a shared objective, as established by the Tax Expenditure Review Commission, which is "to lessen the effective tax burden of lower-income households and reduce the regressivity of the sales and use tax." This shared objective was approved and adopted by the Tax Expenditure Review Commission on August 16, 2024, for the purpose of evaluating the tax exemptions for residential heating fuels, residential water services, and sewer services.¹

A regressive tax means that as an individual's income increases, the proportion of taxes paid in comparison to income decreases. In other words, low-income earners in Minnesota pay a higher share of their income to sales and use tax than higher-income earners do.

These tax expenditures reduce the tax burden and regressivity of sales and use taxes as lower-income households experience larger savings as a proportion of their income. This evaluation seeks to understand the degree to which these tax expenditures meet that objective for Minnesota households. Figure 7 within the report speaks to the impact these tax exemptions have on the regressivity of the sales and use tax. Figure 8 gives insights into the cumulative impact the three tax exemptions have on household tax burden.

To make that determination, this evaluation consists of an analysis of estimated forgone revenues, the incidence of the forgone revenues by population deciles, and the magnitude of these exemptions in comparison to the sales tax burden of the state.

In addition, the evaluation provides background material on the regressive nature of sales and use tax, insight into which Minnesotans are disproportionately affected by regressive tax policy, and an overview of Minnesota's utility usage and utility price burden compared to other states.

An estimate of the cumulative fiscal impact of other Minnesota and federal policies aimed at addressing the same activities is provided, along with a comparison of similar tax policies in other states across the U.S.

¹ Tax Expenditure Review Commission Meeting. August 16th, 2024.
[https://www.lbo.mn.gov/TERC/meetings/2024/09_18_2024/\(R\)TERCDraftMinutes_08_16_2024.pdf](https://www.lbo.mn.gov/TERC/meetings/2024/09_18_2024/(R)TERCDraftMinutes_08_16_2024.pdf).

Background

The sales tax exemption on residential heating fuels, residential water services, and sewer services applies to all Minnesota households. Sewer services are also exempt for businesses. This exemption is analyzed from the perspective of households for this evaluation. Consumption of these utilities by Minnesota households is exempt regardless of volume, location, household income, or any other qualifying characteristic. That applies to over 2.5 million households in 2024.² The estimated value of these exemptions is calculated and reported by the Department of Revenue Tax Research Division as forgone revenue. The latest estimates of forgone revenue are provided for each tax exemption for Fiscal Years 2024 through 2027 in Figure 1. An analysis of forgone revenue figures is provided in the Analysis section of this report.

Figure 1. 2024 Tax Expenditure Budget Forgone Revenue Estimates

Fiscal Year	2024	2025	2026	2027
Residential Heating Fuels	\$187,900,000	\$189,700,000	\$199,100,000	\$204,600,000
Residential Water Services	\$25,500,000	\$27,200,000	\$28,900,000	\$30,700,000
Sewer Services	\$107,300,000	\$111,600,000	\$116,100,000	\$120,800,000

Source: 2024 Department of Revenue Tax Expenditure Budget

The administration of these tax exemptions is relatively straightforward. A state sales tax is simply not charged, collected, or remitted to the state. A review of utility bills from six municipalities across the state are consistent in the charges they reflect for residential water and sewer services.³ Generally, municipal utility bills include a flat service charge and a utilization charge commensurate with a tiered utility rate schedule. No line items are displayed for a sales and use tax charge. Alternatively, electricity and natural gas utility providers operating in the state do itemize sales tax separately from fixed and metered charges. This speaks to the transparency of the application of the sales tax exemptions.

Analysis

The analysis of the tax exemptions for residential heating fuels, residential water services, and sewer services includes an analysis of forgone revenue estimates, tax incidence, and a comparison of these tax expenditures to the sales tax burden of the state as a whole.

All Minnesotans benefit from these tax exemptions to a different degree depending on which population decile a household falls within.⁴ In 2024, on average, across all population deciles,

² Minnesota State Demographic Center. Historical Estimates of Minnesota and its cities' and townships' population and households, 2000-2024. Accessed on August 4, 2025. <https://mn.gov/admin/demography/data-by-topic/population-data/our-estimates/>

³ Sample bills and rate sheets referenced on municipality utility webpages include the cities of Detroit Lakes, Duluth, Ely, Farmington, Minneapolis, and St. Paul.

⁴ Population deciles take all of Minnesota's households and divide them into ten equal segments, with the first decile including the ten percent of households with the lowest income and the tenth percentile including the ten percent of households with the highest levels of income. Income includes all cash income, nontaxable social security, interest, pension income, nontaxable worker's compensation, and cash assistance payments from the Minnesota Family Investment Program.

Minnesota households saved roughly \$109 due to these three tax exemptions. The average savings for households in the first six deciles (household income under \$73,668) was \$80.83, and the average savings for households in the seventh through tenth deciles (household income above \$73,668) was \$151.70. This indicates that higher-earning households benefit more from these tax exemptions than households earning less. Each analysis is described in further detail in the following sections.

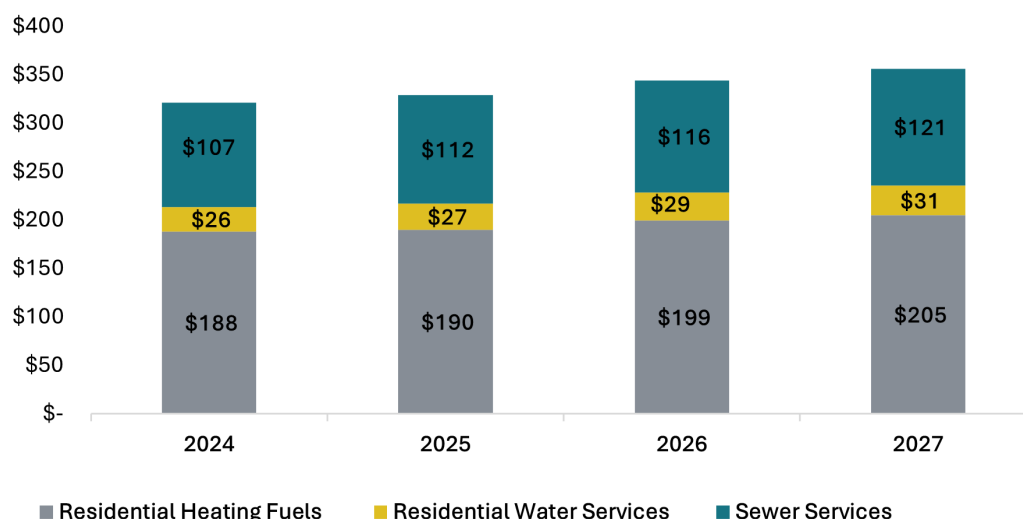
Analysis of Forgone Revenue Estimates

The forgone revenue estimates were evaluated individually and cumulatively to understand the benefits Minnesotans receive from these tax exemptions. Estimates are provided by the DOR Tax Research Division on a fiscal year basis from July 1 through June 30 of the following year. Estimates are driven by consumption projections from the Energy Information Administration and an energy price index provided by S&P Global Market Intelligence. A clear takeaway from the estimates of forgone revenue is anticipated growth in the cost of these tax expenditures.

The residential heating fuels sales tax exemption accounts for roughly 58 percent of the cumulative total, exemptions for sewer services account for 34 percent of the cumulative total, and exemptions for residential water services account for 8 percent of the cumulative total. This is the breakdown for Fiscal Year 2024, but these general proportions hold for each fiscal year ranging from Fiscal Year 2024 to Fiscal Year 2027. Overall, the analysis indicates that all three of these tax expenditures have anticipated growth for the foreseeable future. Figure 2 displays the magnitude of each tax exemption from Fiscal Years 2024 to 2027.

Between Fiscal Year 2024 through Fiscal Year 2027, forgone revenue for the exemption on residential heating fuels is estimated to grow by three percent, on average, year-over-year. Over the same time frame, the forgone revenue for the exemption on residential water services is estimated to grow by an average of over six percent year-over-year, and the estimates for sewer services grow by an average of four percent year-over-year.

Figure 2: Fiscal Impact of Residential Heating Fuels, Residential Water Services, and Sewer Services, Fiscal Years 2024 – 2027 (in millions).



Source: Department of Revenue 2024 Tax Expenditure Budget

Based on the DOR Tax Research Division estimates, these three exemptions equate to over \$1.3 billion cumulatively in forgone revenue for the state of Minnesota from Fiscal Year 2024 to Fiscal Year 2027. That is equal to an 11 percent increase in estimated forgone revenue from the baseline Fiscal Year 2024 to Fiscal Year 2027. Consumer demand for utilities is expected to rise, but costs for utilities are the main driver of estimates.⁵

Impact to Minnesota's Tax Structure - Tax Incidence

To better understand how these tax expenditures impact Minnesota households, an analysis by population decile was performed on tax incidence data from 2021. This analysis provides insight into how different households benefit at different levels from these tax expenditures. In turn, the distribution of tax savings by population decile can be used to inform findings about tax incidence; in other words, who ends up benefiting and who ends up paying the burden of a sales tax.

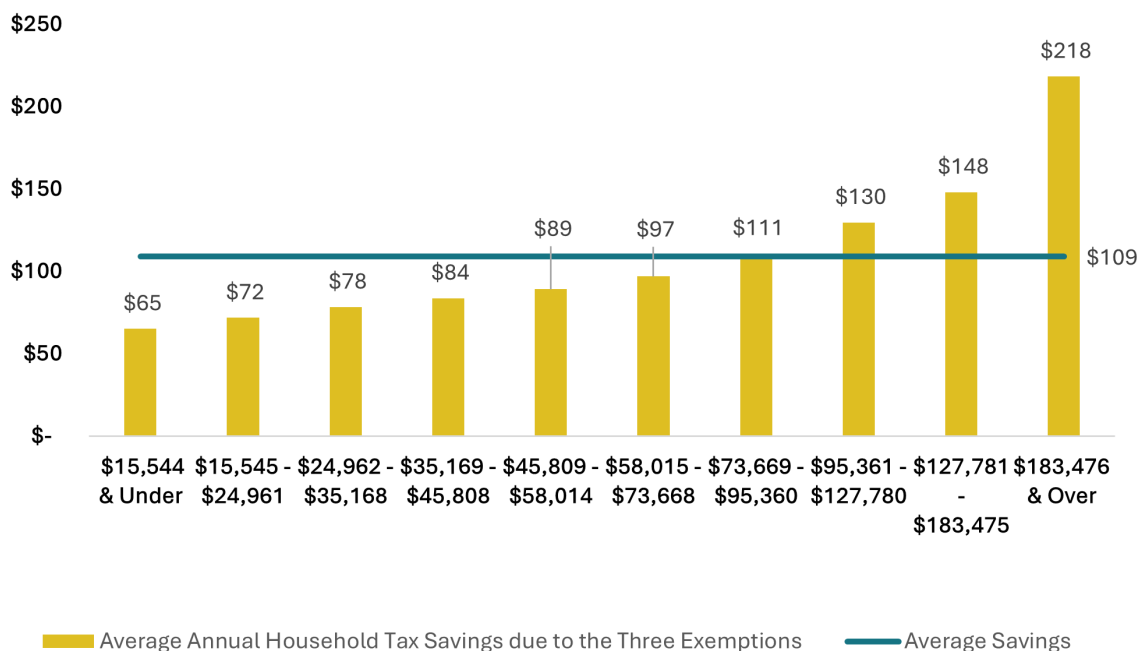
As described, ten population segments referred to as deciles were created, each containing approximately 293,739 households. Households in the first decile, those with annual incomes less than \$15,544, received \$65 on average in tax savings from the three sales tax exemptions in 2024, based on the effective sales tax rate of 2021. Households in the tenth decile, those with annual income over \$183,476, received \$218 on average in tax savings from all three tax expenditures. Households in the tenth decile received approximately 235% more in tax savings

⁵ Department of Revenue Tax Research Division, Email communication. December 2, 2025.

from these tax exemptions than households in the first decile. The distribution of tax savings by population decile speaks to utilization differences across different levels of income.

The 293,739 households in the tenth decile utilized higher levels of residential heating fuels, residential water services, and sewer services than the same number of households in each of the preceding nine deciles. A gradual upward trend in tax savings is observed starting at the first decile through the ninth decile, then a bigger jump from the ninth decile to the tenth decile. Figure 3 visualizes this trend, displaying the estimated average annual tax savings per household from the three tax exemptions by population decile. The average tax savings from the three tax exemptions was \$109 across all deciles in 2024. The overall average is also plotted on Figure 3 to illustrate how different population deciles fare in terms of tax savings.

Figure 3: Estimated Average Annual Household Combined Tax Savings for Fiscal Year 2024 from the Tax Exemptions for Residential Heating Fuels, Residential Water Services, and Sewer Services by Population Decile



Note: Tax savings estimates for Fiscal Year 2024

Source: Department of Revenue 2024 Tax Expenditure Budget; 2024 Tax Incidence Study

Below, Figure 4 displays the cumulative incidence analysis for the tax exemptions on residential heating fuels, residential water services, and sewer services, as well as the average annual household tax savings due to these tax expenditures. The first six deciles have an average estimated annual tax savings below the average household tax savings of \$109 in 2024. The last four deciles have an average estimated annual tax savings above the average household tax savings in 2024. Keep in mind the estimates for the exemption of sewer services does include exemptions provides to businesses, not just households, which explains some of the higher use in the top decile.

Figure 4: Cumulative Incidence Analysis and Average Household Tax Savings in Fiscal Year 2024 for the Residential Heating Fuels, Residential Water Services, and Sewer Services Tax Exemptions

Resident by Population Decile:	Sales and Use Tax:	Cumulative Tax Change:	Cumulative Share of Tax Change:	Combined Average Annual Household Tax Savings:
\$15,544 & Under	\$275,989,456	\$19,134,697	6.0%	\$65
\$15,545 - \$24,961	\$321,365,571	\$21,091,126	6.6%	\$72
\$24,962 - \$35,168	\$369,752,647	\$22,993,551	7.2%	\$78
\$35,169 - \$45,808	\$417,394,917	\$24,583,668	7.7%	\$84
\$45,809 - \$58,014	\$465,046,347	\$26,189,633	8.2%	\$89
\$58,015 - \$73,668	\$526,644,412	\$28,464,402	8.9%	\$97
\$73,669 - \$95,360	\$641,957,246	\$32,543,613	10.2%	\$111
\$95,361 - \$127,780	\$802,412,748	\$35,782,451	11.2%	\$130
\$127,781 - \$183,475	\$988,123,559	\$43,489,878	13.7%	\$148
\$183,476 & Over	\$2,041,065,136	\$64,131,400	20.1%	\$218
Non-Residents	\$1,605,124,031	\$0	0.0%	
All	\$8,454,876,070	\$318,404,419	100.0%	\$109

Note: Each Population Decile contains 293,739 households

Source: Department of Revenue 2024 Tax Expenditure Budget; 2024 Tax Incidence Study

Revenue-Neutral Tax Rate Reduction

The revenue-neutral tax rate reduction estimate indicates the level a tax rate could be reduced to if a particular tax expenditure was repealed and the tax base was expanded to collect the same level of revenue. DOR Tax Research calculated a revenue-neutral tax rate for each of the three tax expenditures, as displayed in Figure 5. DOR calculations for each tax expenditure are done in isolation from one another. The current sales and use tax rate in Minnesota is 6.875%.

Figure 5: Revenue-Neutral Sales and Use Tax Rates with Repeal of Tax Expenditures

Tax Expenditure	Current Sales and Use Tax Rate	Revenue Neutral Tax Rate	Percentage Point Decrease
Residential Heating Fuels	6.875%	6.726%	0.145
Residential Water Services	6.875%	6.854%	0.025
Sewer Services	6.875%	6.789%	0.085

Source: Department of Revenue 2024 Tax Expenditure Budget

Cumulative Fiscal Impacts of Other Minnesota and Federal Programs

There are additional overlapping local, state, and federal incentives that try to work towards the same objective as the tax exemptions for the essential services of residential heating fuels, residential water services, and sewer services. Four federally funded programs were identified that assist community members with covering the costs of essential utility services. Three of these programs are the Energy Assistance Program (EAP), the Weatherization Assistance Program, and the Low-Income Households Water Assistance Program (LIHWAP), which are all funded by the U.S. Department of Health and Human Services and administered by the Minnesota Department of Commerce Energy and Utilities Division. The fourth program is the Minnesota Family Investment Program (MFIP), which is funded through the Temporary Assistance for Needy Families (TANF) federal block grant, the Supplemental Nutrition Assistance Program, and state appropriations. This program is administered by the Minnesota Department of Children, Youth, and Families.

The EAP is supported by the federal grant as part of the Low-Income Home Energy Assistance Program.⁶ Beneficiaries of this program (who meet certain eligibility criteria) receive payments that go directly to the household's energy company or their provider of propane, fuel oil, or wood. From October 2023 to the end of September 2024, the Department of Commerce awarded \$95,922,054 to households across Minnesota. These funds impacted 129,837 households during that program year, with an average of \$740 in assistance per household. Furthermore, this assistance helped prevent 42,833 different electricity disconnections due to non-payment.⁷

The Weatherization Assistance Program collaborates closely with the EAP, with the overarching goal of helping low-income Minnesotans permanently reduce their energy bills.⁸ This program has eligibility criteria based on income and household size. The program provides home energy upgrades, such as exterior wall and attic insulation, air leakage reduction, furnace, boiler, and water heater repairs and replacement, in an effort to help reduce a household's energy use. Weatherization services can help reduce a household's annual energy costs by up to 40

⁶ Energy Assistance Program, "The Energy Assistance Program helps pay energy bills for eligible Minnesotans", Minnesota Department of Commerce, (2025): <https://mn.gov/commerce/energy/consumer-assistance/energy-assistance-program/>

⁷ Energy Assistance Program Dashboard, "10/1/23 – 9/30/24 Historical Program Data", Minnesota Department of Commerce Energy & Utilities, (2024): <https://mn.gov/commerce/energy/policy-data-reports/energy-assistance-dashboard/>

⁸ Weatherization Assistance Program, "Energy Upgrades", Minnesota Department of Commerce, (2025): <https://mn.gov/commerce/energy/consumer-assistance/wap/>

percent. Dating back to 2005, 60,826 households have received weatherization assistance from this program, with an average one-time investment of \$8,497 per household.⁹ From July 1st, 2021, to June 30th, 2022, the Weatherization Assistance Program provided \$16,145,162 in assistance funds to 4,122 different households.¹⁰ The program is administered by 22 local service providers statewide and utilizes over 300 different local contractors to perform the weatherization work.

The LIHWAP is administered through different county services across the state to provide eligible recipients with one-time payments up to \$2,000 to help reduce their water or wastewater charges.¹¹ In Fiscal Year 2022, \$6,169,353 was utilized to assist 11,550 different households in the state of Minnesota through this program. This financial assistance helped prevent 4,668 water disconnections and helped restore water services to 607 different homes. The average benefit was just under \$340 dollars per participant.¹²

In Fiscal Year 2023, MFIP had \$157.6 million dollars in expenditures on the cash-assistance and housing assistance portions of program,¹³ with 66,671 households, on average per month, in Minnesota receiving some form of assistance.¹⁴ MFIP is designed to provide income assistance for eligible low-income families through cash assistance, food assistance, housing assistance, training, and employment services with funding from state and federal resources. The cash assistance portion of the program is to be used for “basic needs” of the household, which include utility service charges. To receive this assistance, MFIP has eligibility requirements related to income and asset limits. The cash assistance portion of this program is awarded to households once a month based on the number of people living in the household. More recent figures on the cash assistance portion of MFIP show that in the month of September 2025, 21,276 families were enrolled in the program with an average cash grant of \$545.¹⁵

Outside of these federally funded programs, the state of Minnesota has some additional protections for households struggling with utility payments. Households are protected from service shut-off due to non-payment from October 1st to April 30th.¹⁶ This is known as the “Cold

⁹ Minnesota’s Low-Income Weatherization Assistance Program, “A one-Time Quality Investment”, Minnesota Department of Commerce, (2025): Data Provided by Justin Lindall – MN Dept of Commerce, Weatherization Field Monitor

¹⁰ Weatherization Program All Cost Center Totals/All Events, “Total All Funds”, Minnesota Department of Commerce, (2025): Data Provided by Justin Lindall – MN Dept of Commerce, Weatherization Field Monitor

¹¹ Low Income Household Water Assistance Program, “Minnesota Department of Commerce LIHWAP Water Bill Pay Assistance”, LIHWAP, (2025): <https://www.lihwap.us/state/minnesota>

¹² Low-Income Household Water Assistance Program LIHWAP, “How Federal Aid for High Water Costs Helps Struggling Families”, Administration for Children and Families, (2022):

https://acf.gov/sites/default/files/documents/ocs/COMM_LIHWAP_Minnesota%20Fact%20Sheet_FY2022.pdf

¹³ The MFIP program also receives funding from the federal Supplemental Assistance Nutrition Program, estimated at \$154,792,105 for Fiscal Year 2023.

¹⁴ Minnesota Family Investment Program, “What are MFIP’s funding streams and expenditures?”, MN House Research (2025): https://www.house.mn.gov/hrd/pubs/pap_mfip.pdf

¹⁵ Minnesota Department of Children Youth and Families. MFIP Monthly Report Dashboard. Accessed November 28, 2025. <https://mn.gov/dhs/partners-and-providers/news-initiatives-reports-workgroups/economic-supports-cash-food/>

¹⁶ Cold Weather Rule; Public Utility, “2024 Minnesota Statutes”, Office of the Revisor of Statutes; <https://www.revisor.mn.gov/statutes/cite/216B.096>

Weather Rule” (CWR). All natural gas and electric utility providers in Minnesota must offer CWR protection. There is also the “Extreme Heat Law” that protects customers from utility shut-off when the National Weather Service issues an excessive heat watch, heat advisory, or excessive heat warning.¹⁷ When customers utilize either of these shut-off protections, they must make and follow a fair payment plan that is agreed upon with their utility provider.¹⁸

On top of these household protection laws, some utility providers in Minnesota offer additional assistance programs for community members. *Xcel Energy*, the state’s largest utility company, offers a “Senior Discount Program” that provides \$15 each billing period to income-qualified customers over the age of 62. *Xcel Energy* also promotes the “Heat Share” program that is administered by the *Salvation Army* – the goal of this program is to help those in need survive long winters by providing funds for heating bills and heating-related repairs.¹⁹ *Minnesota Power* offers income-based assistance called the “Customer Affordability of Residential Electricity” (CARE) program, which provides discounts to eligible customers who are already receiving assistance from the Energy Assistance Program.

For visualization purposes, the four public direct expenditure programs described above are tabulated in Figure 6. The expenditure estimates are not totaled as program information is available for different fiscal years.

Figure 6. Comparable Direct Expenditure Programs

Alternative Direct Expenditure Programs	Program Expenditures	Number Households Impacted	Data Year
EAP	\$95,922,054	129,837	*FFY 2024
MFIP ²⁰	\$313,191,770	66,671	**FY 2023
LIHWAP	\$6,169,353	11,550	FY 2022
Weatherization Assistance Program	\$16,145,162	4,122	FY 2022

*FFY represents a federal fiscal year spanning October 1 to September 30

**FY represents a state fiscal year spanning July 1 to June 30

Comparison to a Direct Expenditure Program

The four public direct expenditure programs described in the section above represent variations in the program design of a direct payment alternative to these tax exemptions. These programs

¹⁷ Disconnection During Extreme Heat Conditions, “2024 Minnesota Statutes”, Office of the Revisor of Statutes; <https://www.revisor.mn.gov/statutes/cite/216B.0975>

¹⁸ Shut off Protection Year Round, “The Cold Weather Rule and the Extreme Heat Weather Rule”, Minnesota Public Utilities Commission, (2025); <https://mn.gov/puc/consumers/shut-off-protection/>

¹⁹ Xcel Energy Assistance Programs, “Senior Discount Program and HeatShare”, (2025); <https://mn.my.xcelenergy.com/s/billing-payment/energy-assistance/state-resources>

²⁰ Expenditure estimate includes TANF expenditures of \$90,606,466; State of Minnesota General Fund expenditures of \$67,793,199; and Supplemental Nutrition Assistance Program expenditures of \$154,792,105. Estimate of households represents participation of all MFIP benefits; however, families can choose to opt out of cash assistance benefits. Some households may only receive employment services, food assistance, child care assistance, or a combination of these.

can be tied to income thresholds, job requirements, limited grant funding, or require the beneficiary to opt-in. These characteristics can result in a smaller count of total beneficiaries, but the benefit per beneficiary tends to be higher. In contrast, the tax expenditures covered under this evaluation apply to all Minnesota residents without limit to consumption or funding, and provide a lower benefit per beneficiary. Ultimately, program design should consider the intended outcome of a policy. If behavior change is desired, perhaps a direct payment program with a larger benefit per beneficiary would incentivize participation, which could ultimately lead to behavior change. If the goal of the policy is to provide a larger societal benefit accessible to all Minnesotans, then a tax exemption may be the most efficient design from an administrative perspective. Policymakers should consider the advantages and disadvantages in program design to meet their ultimate policy goal.

Regressivity of Sales and Use Tax

The sales and use tax is a regressive tax, meaning that the cost of the tax reduces as a proportion of income as income increases. This is a result of the fact that the sales and use tax rate is a flat rate applied to the price of the item or service being purchased. The sales and use tax rate in Minnesota is 6.875%. This rate is paid by all purchasers of the specific good, unless the good or service is explicitly exempt from taxation.²¹

On top of the general state sales and use tax, the DOR also administers many local sales and use taxes. These local sales and use taxes apply to the same items and services as the general sales and use tax; the local sales tax rate is then added to the state general sales and use tax rate of 6.875%. Depending on the county or city a good or service is purchased in, an additional 0.5% to 3% is added to the general sales and use tax.

DOR Tax Research Division publishes an Incidence Study, which is a report that highlights how Minnesota's tax structure impacts households and businesses in the state. The Incidence Study provides a Suits Index for a sample of state and local sales taxes together, indicating whether the tax category is regressive or progressive. The Suits Index is displayed by a numerical range from -1 to +1. A proportional tax has a Suits Index equal to zero, a progressive tax has a positive index number between 0 and +1, and a regressive tax has a negative index number between 0 and -1.²² The latest Incidence Study in 2024 provided a Suits Index of -0.221 for state and local sales taxes, indicating that state and local sales taxes tend to be regressive.²³ In other words, low-income earners in Minnesota pay a higher share of their income to sales and use tax than higher-income earners do. These tax exemptions are designed to address the regressive nature of the sales and use tax. If any of these tax exemptions were repealed, the regressive nature of the sales and use tax would increase. Figure 7 displays the hypothetical

²¹ [Minnesota Statutes 2024](#), section 297A.62, subdivision 1 and 1a.

²² 2024 Tax Incidence Study, "Tax Progressivity and the Suits Index", Department of Revenue Tax Research Division, (2024): https://www.revenue.state.mn.us/sites/default/files/2024-03/2024-tax-incidence-study-final-online-revision_0.pdf

²³ Department of Revenue Tax Research Division. 2024 Minnesota Tax Incidence Study. Table 1-3. Page 11. Available at https://www.revenue.state.mn.us/sites/default/files/2024-03/2024-tax-incidence-study-final-online-revision_0.pdf

Suits Index for the sales and use tax if these expenditures were repealed individually and cumulatively.

Figure 7. Suits Index if Tax Expenditures are Repealed

Tax Expenditure	Suits Index
Residential Heating Fuels	-0.232
Residential Water Services	-0.227
Sewer Services	-0.227
All Three Utility Tax Expenditures	-0.234

Source: Department of Revenue Tax Research Division, November 2025.

Another way to analyze these savings is to understand their impact on household tax burden. Figure 8 estimates the change in tax burden if these three policies were to be repealed as a percentage of household income by population deciles. The calculated changes in tax burden indicate that repealing these tax expenditures would increase the tax burden to households in the first six population deciles marginally more than households in the top four population deciles as a percentage of their income.

Figure 8. Changes in Tax Burden by Population Decile if Residential Heating Fuels, Residential Water Services, and Sewer Services Tax Expenditures are All Repealed

Population Decile	Income Range	Change in Tax Burden
First	\$15,544 & Under	0.63%
Second	\$15,545 - \$24,961	0.36%
Third	\$24,962 - \$35,168	0.26%
Fourth	\$35,169 - \$45,808	0.21%
Fifth	\$45,809 - \$58,014	0.17%
Sixth	\$58,015 - \$73,668	0.15%
Seventh	\$73,669 - \$95,360	0.13%
Eighth	\$95,361 - \$127,780	0.12%
Ninth	\$127,781 - \$183,475	0.10%
Tenth	\$183,476 & Over	0.05%
Total	-	2.16%

Source: Department of Revenue Tax Research Division, November 2025

Minnesota - Utility Usage and Utility Price Burden

The consumption of certain utility services varies by region, primarily due to the stark contrast in climate, which can significantly impact household cost burdens for these essential services.

Minnesota consumes more site energy²⁴ than households in warmer states, but it has cheaper residential water prices than many other states.²⁵

In 2020, the average American household consumed 76.8 million BTUs in energy usage. The average household in Minnesota consumed 100.3 million BTUs during this same period.²⁶ While the average Minnesotan household utilizes more energy than the average American household, the amount of money that Minnesota households spend on energy is very similar to the national average. In 2020, on average, households across the U.S. spent \$1,884 on energy charges. In Minnesota, the average household spent \$1,833 on energy charges. In terms of residential water service usage, Minnesota falls on the other end of the spectrum in terms of usage compared to energy usage. As of 2010, Minnesota had the 5th least residential per capita water use (gallons per capita, per day). Minnesotans used roughly 60 gallons of water per day, which is about 20 gallons less than the national average.²⁷ In terms of sewer service usage and costs, they vary from city to city (individual cities set their sewer rates). Generally, it is safe to say that households that consume more water will typically pay more in sewer service charges.²⁸

Minnesota's residential electricity and water prices are below the national average. Minnesotans pay an average of 14.05 cents per kilowatt-hour for residential electricity. The average rate across the United States is 16.26 cents per kilowatt-hour.²⁹ For residential water prices based on average monthly water bills for families, in 2024, Minnesota ranked as the 14th cheapest state at \$30 per month. West Virginia was the most expensive state at an average of \$105 per month, and North Carolina was the cheapest state for average household water bills at \$20 per month. When looking at average monthly water bill prices and the trend across the U.S., prices tend to be lower in the Midwest and Southeast regions of the country.³⁰

Review of Other States

Of the 45 states that had sales and use tax in 2024, state sales and use tax rates varied, from the lowest being 2.9 percent in Colorado to the highest being 7.25 percent in California;

²⁴ Site Energy – The amount of heat and electricity consumed by a building as reflected in one's utility bill. (2025): <https://www.energystar.gov/buildings/benchmark/understand-metrics/source-site-difference>

²⁵ Site Energy Consumption per Household versus Average State Temperature, "U.S. households in warmer states consume less site energy than households in colder states", U.S. Energy Information Administration, (2023): [https://www.eia.gov/todayinenergy/detail.php?id=56380&src=%E2%80%B9%20Consumption%20%20%20%20%20%20Residential%20Energy%20Consumption%20Survey%20\(RECS\)-b4#](https://www.eia.gov/todayinenergy/detail.php?id=56380&src=%E2%80%B9%20Consumption%20%20%20%20%20%20Residential%20Energy%20Consumption%20Survey%20(RECS)-b4#)

²⁶ Annual Household Consumption and Expenditures in U.S. homes by State, "Site Energy Consumption and Energy Expenditures", 2020 Residential Energy Consumption Survey, (2023): <https://www.eia.gov/consumption/residential/data/2020/state/pdf/ce1.1.st.pdf>

²⁷ Water Use Trends Report, "Residential Per Capita Water Use, by State", Pacific Institute, (2015): <https://pacinst.org/wp-content/uploads/2015/04/Water-Use-Trends-Report.pdf>

²⁸ Measuring Household Affordability for Water and Sewer Utilities, "Basic monthly water and sewer costs", American Water Works Association, (2018): <https://awwa.onlinelibrary.wiley.com/doi/full/10.5942/jawwa.2018.110.0002>

²⁹ Electric Power Monthly, "Average Price of Electricity to Ultimate Customers", U.S. Energy Information Administration (2024): https://www.eia.gov/electricity/monthly/epm_table_grapher.php?t=epmt_5_6_a

³⁰ World Population Review, "Water Prices by State 2025", Cost of Water Bills by State (2025): <https://worldpopulationreview.com/state-rankings/water-prices-by-state>

Minnesota's sales and use tax rate ranked as the 6th highest in the U.S. at 6.875 percent.³¹ Five states do not have a sales or use tax.

Some states, such as Illinois, have utility services like electricity and natural gas that are not subject to sales and use tax because electricity is taxed under the Electricity Excise Tax Law, and natural gas is taxed under the Gas Revenue Tax Act or the Gas Use Tax Law in that state. In Washington state, certain services are not taxed under the sales and use tax; rather, they are subject to the public utility tax.³² Below, Figure 8 displays how many states pay tax on residential heating fuels, electricity, natural gas, and water and sewer, as well as whether Minnesota's neighboring states are paying these taxes.

Figure 8: Taxation of Utility Services in Other States as of Fall 2025

Essential Service:	Number of states that pay tax on this service:	Neighboring States (North Dakota, South Dakota, Iowa, and Wisconsin):
Residential Heating Fuels	22	All Neighboring States do not pay tax on this service
Electricity	22*	South Dakota and Wisconsin pay tax on this service
Natural Gas	21	South Dakota and Wisconsin pay tax on this service
Water and Sewer	13**	North Dakota pays tax on these services

Note: There is no sales tax in Alaska, Delaware, Montana, New Hampshire, and Oregon

*Some states exempt electricity with certain exceptions. These are not included in this count.

** Includes Washington D.C.

Source: Bloomberg Tax Research, Sales and Use Tax Chart Builder: All Jurisdictions – Utilities, Fuel, Mining and Natural Resource Extraction, Production, Sale

In some states around the U.S., utilities are subject to reduced tax rates; such is the case in Michigan. As of 2023, the sales tax rate in Michigan is 6 percent, but the sale of gas, electricity, and steam is taxed at a reduced rate of 4 percent for residential use.³³

In the state of Maine, the sale of electricity is subject to sales and use tax, except for the first 750 kilowatt-hours purchased for residential use; these first 750 kilowatt-hours are tax-exempt, and anything on top of that is subject to Maine sales and use tax.³⁴ Currently, 18 different U.S. states do not collect tax on any utility services, including Minnesota.

³¹ 2024 Sales Tax Rates, "State and Local Sales Tax Rates, 2024", Tax Foundation, (2024):

<https://taxfoundation.org/data/all/state/2024-sales-taxes/> ;

Note: Alaska, Delaware, Montana, New Hampshire and Oregon do not administer a sales and use tax

³² Sales and Use Tax Exemptions, "Sales and Use Tax exemptions for Heating oils, Electricity, Natural Gas, and Water and Sewer", Bloomberg Tax Research, (2025):

<https://go.bloombergtax.com/product/tax/bbna/chart/2/10071/4857bd3d21fc2657c0a26f22fdf4fcd2>

³³ Michigan Sales and Use Tax Information, "Sales Tax", Michigan Department of Treasury, (2023):

<https://www.michigan.gov/taxes/business-taxes/sales-use-tax/information>

³⁴ Maine Sales of Fuel and Utilities, "Sales, Fuel & Special Tax Division", Maine Revenue Services, (2022):

https://www.maine.gov/revenue/sites/maine.gov/revenue/files/inline-files/IB13%20FINAL%20Sales%20of%20Fuel%20and%20Utilities%202022_11_15_0.pdf

Many states in the U.S. offer tax exemptions for some essential utility services, but not all. For example, in Arkansas, residential water usage is subject to sales tax, but sewer services are tax-exempt.³⁵ In Nebraska, sewer services are subject to sales tax, and residential water usage is tax-exempt.³⁶ Only seven states, not including the District of Columbia, levy a sales and use tax on all of the different essential utility services. These states are Arizona, Hawaii, Kansas, Michigan, Mississippi, Missouri, and New Mexico.

Limitations

There are several limitations in evaluating the effectiveness of the tax exemptions for residential heating fuels, residential water services, and sewer services. While all Minnesotans receive these tax exemptions, it is unclear how purchases of these essential services vary by region within the state. This evaluation includes the average tax savings per household due to these tax exemptions, but it only takes into account a household's income level, not where the household is located.

There could potentially be different purchasing behaviors related to where a household is located in the state; or varying utility prices, for example, it is unclear if an average household in Ramsey County that is in the 7th population decile would receive more or less benefit than an average household in Koochiching County that is in the 7th population decile as well. This could be useful information in future evaluations to determine which areas of the state benefit the most from these tax exemptions.

This evaluation did not examine the number of properties a certain individual or household owns. Hypothetically, owners of more than one property get to benefit from these exemptions more than a household that only owns or rents one property.

Another limitation of this evaluation is that data of federal, state, and local programs that provide benefits to taxpayers for similar activities, have published data from different years. The most recent data obtained for each program is used to show how these programs affect different households in Minnesota.

Conclusion

The state of Minnesota administers exemptions from the sales and use tax for residential heating fuels, residential water services, and sewer services. The objective is to lessen the effective tax burden of lower-income households and to reduce the regressivity of the sales and use tax.

These tax expenditures do reduce the regressivity of the sales and use tax in Minnesota. A calculation of the Suits Index indicates that if these policies were repealed, individually or all together, the regressivity of the state's sales and use tax would increase. As a proportion of

³⁵ Arkansas State and Local Taxes for Water Utility Bills, "Utility Service and Sewer Charges", State of Arkansas Department of Finance and Administration, (2019): <https://www.ark.org/dfa-act896/index.php/api/document/download/20190516.pdf>

³⁶ Nebraska Sales Tax Exemptions, "Consumer Goods and Services", Nebraska Department of Revenue, (2021): <https://revenue.nebraska.gov/about/information-guides/nebraska-sales-tax-exemptions>

income, lower income population deciles receive a reduction in tax burden that is marginally higher than higher income populations resulting from these three tax expenditures, which also points to a reduction in the regressivity of the state's sales and use tax.

While these tax exemptions help reduce regressivity in Minnesota, the amount that households receive in benefits due to these tax preferences varies across population deciles. Generally, higher-income households receive more monetary benefit from these tax exemptions than lower-income households and a larger percentage of the change in tax share.

Appendix A – Literature Review

To evaluate the effectiveness of the Minnesota general sales and use tax exemptions for residential heating fuels, residential water services, and sewer services, a review of published literature was performed on sales tax exemptions for essential goods and services. The literature review included scholarly articles, professional papers, official reports, and publicly available data from national databases published between 2010 to 2025. The literature gathered covered policy-based topics around sales and use tax exemptions for essential goods and services specific to the state of Minnesota, other states, and the U.S. as a whole. The key takeaways from the literature review included the regressive nature of sales and use tax and the disproportionate impact of regressive taxes on certain demographics. The findings from the literature review informed the analysis of these tax expenditures in addition to the components of review required by statute.

Regardless of income level, certain goods and services, like food, prescription drugs, water utilities, or electric utilities, are considered essential. They are consumed and utilized by taxpayers across all income levels as a necessity of life. It is widely understood and accepted that a sales and use tax on essential goods and services is a regressive tax. To clarify, the notion of regressivity applies to any application of a sales and use tax on the consumption of goods, not limited to just essential goods. Discussion of the regressive nature of the sales and use tax in literature aligns with the intended objective of the exemptions on residential heating fuels, residential water services, and sewer services as determined by the Tax Expenditure Review Commission. In other words, the legislature designed these exemptions to directly address the concern of regressivity that is discussed in the literature and widely accepted with respect to sales and use taxes.

Overall, literature and data from the past decade point to the conclusion that the taxation of essential goods and services is regressive and that it negatively affects low-income households disproportionately. The objective of these tax expenditures is to lessen the effective tax burden of lower-income households and reduce the regressivity of the sales and use tax. Literature indicates that exempting essential goods and services like residential heating fuels, residential water services, and sewer services from sales and use tax aligns with efforts to reduce regressivity in the Minnesota tax code.