

Heating Fuel and Utility Service Tax Expenditure Evaluation Summary

Objective

The shared objective is to lessen the effective tax burden of lower-income households and reduce the regressivity of the sales and use tax.

Background

The state of Minnesota exempts the essential utility services of residential heating fuels, residential water services, and sewer services from the state's general sales and use tax. 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 from November to April. Consumption of these utilities by Minnesota households is exempt regardless of volume, location, household income, or any other qualifying characteristic; this applied to over 2.5 million Minnesotan households in 2024. The administration of these tax exemptions is relatively straightforward in that sales and use tax is simply not charged, collected, or remitted to the state when purchasing these services.

Key Findings

- By mere existence, these tax expenditures do reduce the regressivity of the sales and use tax in Minnesota
- Higher-income households receive more financial benefit from these tax exemptions than lower-income households
- On average, across all household population deciles, in 2024, Minnesotans saved roughly \$109 (per household) as a result of these three tax exemptions.
- Forgone revenue for all three expenditures is expected to grow over time due to numerous factors (population, increased prices, etc.)

Summary Information

Years Enacted	Residential Heating Fuels – 1978 Residential Water Services – 1979 Sewer Services – Never been subject to sales and use tax
Statute	Minnesota Statutes 2024, section 297A.67, subdivisions 15 and 16; Minnesota Statutes 2024, section 297A.61, subdivision 3(g)
Tax Type	General Sales and Use Tax
Provision Type	Exemption – Particular Goods and Services
Latest Fiscal Impact	See Figure 1 Below
Expiration Date	None

Potential Modifications

Exempt utility usage up to a certain threshold amount. The objective specifically targets low-income households, but the current tax exemptions provide unlimited tax relief to all households. The result is a higher monetary benefit to higher-income households. A cap on the tax exemptions would equalize the benefit across all households emphasizing the focus of regressive tax relief to the lower-income households. For example, Maine exempts the first 750 kilowatt hours of electricity purchased for residential use.

Figure 1. Fiscal Impact of Residential Heating Fuels, Residential Water Services, and Sewer Services, Fiscal Years 2024 – 2027 (in millions)

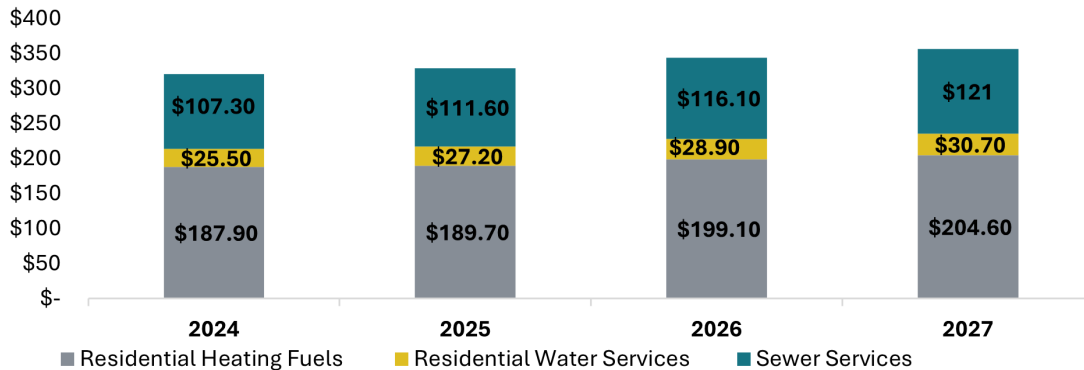


Figure 2. Estimated Average Annual Household Tax Savings from all Three Expenditures by Population Deciles*



*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. Each decile contains approximately 293,739 households.

Contact Information and Disclaimer

- This tax expenditure evaluation was prepared by the Legislative Budget Office for the Tax Expenditure Review Commission.
- For more information, please visit the [Tax Expenditure Review Commission website](#). For the complete report, visit the [TERC report page](#).
- Contact the Legislative Budget Office at 651-297-7146 or lbo@lbo.mn.gov with questions