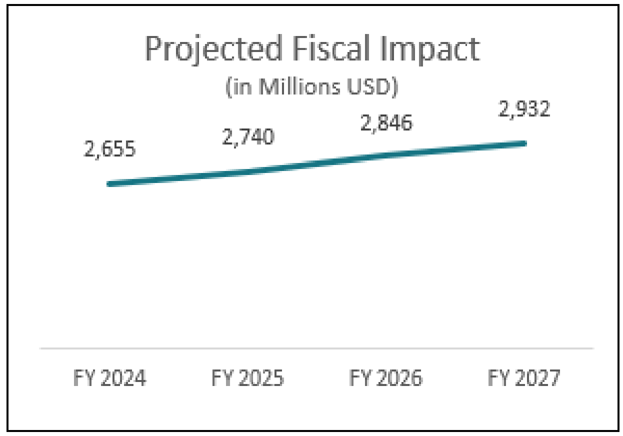
Tax Exemptions for Essential Tangible Goods

Tax Expenditure Initial Review - TEB 4.1.01 – 4.1.06, 4.1.08, 4.1.09

Tax Expenditure Facts

Year Enacted	1967
Statute	Minnesota Statutes 2025, section 297A.67, subdivisions 2, 7-10, 27 ; section 297A.68, subdivision 10
Tax Type	General Sales and Use Tax
Provision Type	Exemption - Particular Goods and Services
Latest Fiscal Impact Estimate	See Table 1 for each expenditure
Latest Claims Estimate	Direct measure of this estimate is not currently available
Expiration Date	None



Note: Cumulative foregone revenue estimates

Tax Expenditure Description

Certain tangible goods and services were explicitly exempted from the sales and use tax enacted in 1967. The exemptions included in this review are personal goods that can be reasonably deemed as essential life necessities. Exemptions included in this review were all enacted in the same bill as the 1967 sales and use tax.[i] Excerpts from the tax expenditure descriptions included in the 2024 Tax Expenditure Budget are provided in Table 1 for each respective exemption included in this review.

Table 1. Tax Exemptions for Essential Tangible Goods Enacted in 1967

TEB #	Tax Expenditure	Description	FY 27 Estimate
4.1.01	Food Products	Food and food ingredients for human consumption are generally exempt from the sales tax.	$1,554,900,000
4.1.02	Clothing and Wearing Apparel	Clothing for general use is exempt from the sales and use tax. The exemption does not apply to jewelry, handbags, billfolds, fur clothing, sports clothing sold for exclusive use in a sporting activity, or work-related safety articles.	$638,600,000
4.1.03	Drugs and Medicine	Drugs and medicine, insulin, and medical oxygen for human use are exempt from the sales and use tax. The exemption includes all prescription and over-the-counter drugs.	$612,000,000

4.1.04	Medical Devices	An exemption from the sales and use tax is allowed for durable medical equipment for home use, mobility-enhancing equipment, and prosthetic devices. The exemption also applies to repair and replacement parts for the devices.	$17,800,000
4.1.05	Prescription Eyeglasses	Prescription eyeglasses and contact lenses are exempt from the sales and use tax.	$72,400,000
4.1.06	Baby Products	Baby bottles and nipples, pacifiers, teething rings, infant syringes, and breast pumps are exempt from the sales and use tax.	$1,300,000
4.1.08	Caskets and Burial Vaults	Caskets and burial vaults for human burials are exempt from the sales and use tax.	$3,600,000
4.1.09	Publications	Publications regularly issued at average intervals not exceeding three months are exempt from the sales and use tax. However, magazines and periodicals sold over the counter are taxable.	$31,300,000

Additional Background Information

Consumer purchasers in Minnesota are the beneficiaries of the Sales Tax Exemptions for Essential Tangible Goods included in Minnesota Statutes 2025, section 297A.67. These exemptions are administered by the Department of Revenue. The Exemptions for Essential Tangible Goods reduce the amount of sales and use tax revenue that would otherwise be generated. The majority of revenue collected from the general sales and use tax is deposited in the state General Fund, with certain exceptions provided in Minnesota Statutes, chapter 297A and the Minnesota Constitution.

The Minnesota legislature debated enacting a sales and use tax for over 30 years before it was passed in 1967. The legislature overruled a governor's veto to enact the law with intentions of broadening the state's tax base, reducing property tax rates, and providing additional sources of revenue to local units of government. The tax bill enacted into law reduced property tax rates by 35% and directed 25% of sales and use tax revenues to schools and local units of government.[ii]

Proposed Tax Expenditure Objective for Consideration

The objective of the Exemption on Essential Tangible Goods is to reduce the regressivity of the sales and use tax for low-income households.

Sources

An explicit tax expenditure objective was not identified in the legislative record. Elected officials expressed concerns that low-income households would be disproportionately impacted by a statewide sales tax. These concerns date back to the mid-1930's and were shared by members of the legislature as well as by Governor Floyd B. Olson.[iii] Exemptions for certain tangible goods and services were drafted into sales and use tax bill proposals to address concerns of the tax's regressivity until the sales and use tax was eventually enacted in 1967.[iv]

Other states apply similar exemptions to those in Minnesota. Minnesota's tax exemptions are more encompassing of essential tangible goods when compared to neighboring states of Iowa, North Dakota, South

Dakota, and Wisconsin. A comparison across these states is detailed below, and a summary table is provided – see Table 2.[v]

Food

All neighboring states exempt food and food ingredients except for South Dakota.

Clothing

Clothing is subject to a sales tax in the four neighboring states while exempt in Minnesota.

Drugs and Medicines

Over-the-counter drugs sold without a prescription are exempt from sales tax in Minnesota, but not in any of the neighboring states. Over-the-counter drugs sold with a prescription are exempt from sales tax in Minnesota and all four neighboring states.

Medical Devices

Durable medical equipment is exempt in Minnesota; exempt under certain conditions in both North and South Dakota and in Wisconsin; and taxable in Iowa.

Prescription Eyeglasses

Corrective eyeglasses sold with a prescription are exempt in Minnesota and neighboring states.

Baby Products

Minnesota exempts several baby products; Iowa exempts only diapers; and Wisconsin exempts diaper services. North and South Dakota do not exempt diapers for babies. Breast pumps are exempt in Minnesota and exempt under certain conditions in Wisconsin and the Dakotas. Breast pumps are not exempt in Iowa.

Caskets and Burial Vaults

Minnesota and Wisconsin exempt caskets and urns while other neighboring states apply a sales and use tax. Analysis was not provided on burial vaults.

Publications

Subscription-based publications delivered within three-month intervals are tax exempt in Minnesota, North Dakota, and Wisconsin. Newspapers are tax exempt in neighboring states except South Dakota.

Table 2. Comparison of Sales and Use Tax Exemptions Across States that Neighbor Minnesota

Exemptions	**MN**	**WI**	**IA**	**ND**	**SD**
Food	X	X	X	X	
Clothing	X				
Over-the-counter Drugs	X				
Prescription Drugs	X	X	X	X	X
Medical Devices	X	*		*	*
Prescription Eyeglasses	X	X	X	X	X
Baby Products	*	*	*	*	*
Caskets and Burial Vaults	X	X			

Publications	X	X	*	X	

**Exempt under certain conditions or for certain products*

Potential Metrics and Performance Measures

The following are evaluation considerations with respect to administrative and enforcement actions.

Performance measurement:

- What are the latest estimates of forgone revenue in recent years?
- What are the retail consumption rates of eligible products across the state by income decile and by region?
- What are the resource requirements to administer this policy?

Performance attribution:

- What is the regressivity of the sales and use tax under a suits index analysis with and without these exemptions?
- How accurately are gross retail sales reported?
- What are consumer spending trends by income decile and region?

Performance appraisal:

- Compared to policy alternatives, such as a refundable credit program, is this exemption an effective means to reduce the regressive nature of the sales and use tax?
- Does the tax expenditure simplify the filing process or the administration of a sales and use tax?

Contact Information and Disclaimer

This tax expenditure review was prepared by the Legislative Budget Office for the Tax Expenditure Review Commission pursuant to Minnesota Statutes 2025, section 3.8855, subdivision 4.

Notice: Proposed Tax Expenditure Objective statements are not binding authority and should not be used as a legal interpretation of any tax expenditure statute.

For questions regarding this review, please contact the Legislative Budget Office at 651-297-7146 or lbo@lbo.mn.gov.

For more information, please visit the Tax Expenditure Review Commission website.

---

[i] Descriptions of deed tax exemptions in this review may differ slightly from the Tax Expenditure Budget for explanatory purposes.

[ii] Maeda, David. “Tax was a hard sell,” History, *Session Weekly* 17, no. 6, pg. 22. Minnesota House of Representatives Public Information Office. March 10, 2000.

[iii] Maeda, David. “Putting the tax before the sale,” It’s a Fact, *Session Weekly* 17, no. 12, pg 4. Minnesota House of Representatives Public Information Office. April 21, 2000.

[iv] A regressive tax structure requires a higher proportion of income to cover the cost of a liability from low-income earners than it does from high-income earners.

[v] Bloomberg BNA Tax Library. Sales & Use Tax Chart Builder Analysis. Tax Research. Accessed on May 22, 2023.