

**SALES AND USE TAX
Residential Heating Fuels**

March 1, 2001

	Yes	No
Separate Official Fiscal Note Requested		X
Fiscal Impact		
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 290 (Milbert) / S.F. 455 (Metzen)
Identical Bill: H.F. 397 (Koskinen) / S.F. 589 (Foley)

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>FY2005</u>
		(000's)		
General Fund	(\$18,730)	(\$23,080)	(\$23,960)	(\$24,930)

Effective for sales made after June 30, 2001.

EXPLANATION OF THE BILL

Current Law: Sales of residential heating fuels have a sales tax exemption. A full exemption is allowed for all fuel oil, coal, wood, steam, hot water, propane gas, and LP gas sold to residential customers for residential use. Natural gas sold to customers who use it as their primary source of residential heat have a full exemption for natural gas billed for the months of November through April. Similarly, electricity sold to customers who use it as their primary source of residential heat have a full exemption for electricity billed for the months of November through April.

Proposed Law: The time period for the exemption for natural gas sold to customers using it as their primary source of residential heat would be expanded from six months to twelve months. The exemption for customers using electricity as their primary source of residential heat would also be expanded from six months to twelve months. Residential electricity would remain taxable except for those households that used electricity as their primary source of residential heat.

REVENUE ANALYSIS DETAIL

- The Minnesota Department of Commerce, Energy Division provided historical information and projections of nominal prices and residential demand for natural gas and electricity for calendar years 1998-2003.
- Current *Standard & Poors DRI* price growth projections were applied through fiscal year 2005.

REVENUE ANALYSIS DETAIL (cont.)

- Based on industry information and modeling results from the Energy Division, it is assumed that 75% of total annual consumption of natural gas for residential use is for heating use and 14% of total annual consumption of electricity for residential use is for heating use.
- Based on information from the Energy Division, it is estimated that 62% of households in Minnesota use natural gas and 8% of households use electricity for their primary source of residential heat.
- Since having access to natural gas pipelines is a requirement for having natural gas in the household, it is assumed that nearly all of non-heating natural gas expenditures, for the months of May through October, are attributable to households with natural gas as their primary heat source.
- It is assumed that 8% of the non-heating electricity expenditures, for the months of May through October, are attributable to households with electricity as their primary heat source.
- An adjustment was made to account for natural gas and electricity used for heating during the months of May through October.
- The fiscal year 2002 estimate was reduced to reflect the impact for 5 months of collections of the normal 6 months of collections (May – October).

Number of Taxpayers Affected: It is estimated that 62% of Minnesota households use natural gas as their primary heating source and 8% of Minnesota households use electricity as their primary heating source.

ADMINISTRATIVE/OPERATIONAL IMPACT:

There will be no significant administrative or operational costs or savings to DOR in administration of this bill.

Source: Minnesota Department of Revenue
Tax Research Division
<http://www.taxes.state.mn.us/polic.html#analyses>