



## ISSUE BRIEF – STATE ALCOHOL BEVERAGE TAXES

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Alcohol beverages such as beer, wine and distilled spirits are subject to three Minnesota state taxes. These state taxes are: (1) excise tax; (2) state sales and use tax; and (3) liquor gross receipts tax. This issue brief will summarize the tax rates for each state tax, provide recent tax collection totals for each tax and touch on the tax incidence of the excise tax.

### EXCISE TAX

The excise tax on alcohol beverages is levied on a fixed unit basis and is paid by wholesalers and manufacturers. For distilled spirits, wine, and cider, the tax is imposed on a fixed unit of measurement per liter (metric) or per gallon (standard). For beer, the tax is imposed on a fixed unit of measurement per barrel of 31 gallons. By design, any annual change in total tax receipts collected from these excise taxes is due to a change in consumption (by weight or volume). The table below shows the application of the excise tax in current law and the approximate amount the current law tax equals per drink.

<i>ALCOHOLIC BEVERAGE &amp; STATE EXCISE TAX RATES*</i>		
<b>Beer Product (By Weight)</b>	<b>Tax (per barrel/31 gallons)</b>	<b>Tax Per 12 oz. Can</b>
Beer (greater than 3.2% alcohol)	\$4.60	\$0.01
Beer (3.2% alcohol or less)	\$2.40	\$0.01
<b>Wine Product (By Volume)</b>	<b>Tax (per gallon)</b>	<b>Tax Per 5 ounce drink</b>
Wine (14% alcohol or less)	\$0.30	\$0.01
Wine (More than 14% to 21% alcohol)	\$0.95	\$0.04
Sparkling	\$1.82	\$0.07
Cider (0.5% to 7% alcohol)	\$0.15	\$0.01
<b>Product</b>	<b>Tax (per gallon)</b>	<b>Tax Per 1.5 ounce drink</b>
Distilled Spirits	\$5.03	\$0.060

\* Bottle Tax in [Minnesota 297G.03, subdivision 4](#) is not included in this table.

## STATE SALES TAX AND LIQUOR GROSS RECEIPTS TAX

In addition to the excise tax, the state sales and use tax of 6.875 percent and a liquor gross receipts tax of 2.5 percent are directly imposed on the price of alcohol beverages purchased by consumers at retail.<sup>1</sup> Together, these taxes on sales of alcohol beverages at retail total 9.375 percent. If total sales increase due to increases in price, the amount of tax revenue collected by the state from both the state sales tax and liquor gross receipts tax also increases.

## HISTORY OF STATE ALCOHOL TAX BEVERAGE COLLECTION

Most of the tax revenue from alcohol beverage taxes is deposited as non dedicated revenue into the state's General Fund. Specifically, alcohol beverage excise taxes and the liquor gross receipts tax are deposited as non dedicated revenue into the General Fund. The revenue raised from state sales and use tax from alcohol beverage transactions, however, is partially dedicated. The amount collected by the constitutionally dedicated sales tax rate equal to three-eighths of one percent (0.375 percent) is deposited into the Legacy funds, with the amount collected from the remaining 6.5 percent tax rate to be deposited as non dedicated revenue into the General Fund.<sup>2</sup>

<b>Alcoholic Beverage Excise Tax Revenue Collection History, FY 2014 to FY 2020</b>							
<i>Dollars in thousands</i>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b><i>Excise Tax</i></b>							
Distilled Spirits	62,992	62,608	66,035	66,396	69,452	70,572	72,484
Beer	15,127	15,547	15,680	15,223	15,260	15,755	14,800
Wine	6,535	6,952	7,467	7,361	7,764	7,540	7,847
Refunds	-76	-167	-50	-33	-39	-314	-152
<b>Net Excise Tax</b>	<b>84,578</b>	<b>84,940</b>	<b>89,132</b>	<b>88,947</b>	<b>92,437</b>	<b>93,553</b>	<b>94,979</b>
<b>State Sales Tax (inferred)</b>	<b>220,842</b>	<b>232,309</b>	<b>246,150</b>	<b>250,492</b>	<b>260,810</b>	<b>271,090</b>	<b>263,599</b>
<b>Liquor Gross Receipts Tax</b>	<b>80,306</b>	<b>84,476</b>	<b>89,509</b>	<b>91,088</b>	<b>94,840</b>	<b>98,578</b>	<b>95,854</b>
<b>Grand Total *</b>	<b>385,726</b>	<b>401,725</b>	<b>424,791</b>	<b>430,527</b>	<b>448,087</b>	<b>463,221</b>	<b>454,432</b>
<b>% Year-to-Year Change</b>	<b>3.36%</b>	<b>4.15%</b>	<b>5.74%</b>	<b>1.35%</b>	<b>4.08%</b>	<b>3.38%</b>	<b>-1.90%</b>

\*Source: Excise tax data from MMB's Data Warehouse, Non-Dedicated Receipts Report - G90 Revenue; Liquor Gross Receipts Tax Data from MMB based on the 2021 February Forecast; State sales tax collection data at the 6.875% rate inferred by House Fiscal Analysis Staff using liquor gross receipts data from MMB.

## STATE ALCOHOL BEVERAGE TAX EXPENDITURES

The State of Minnesota, Tax Expenditure Budget defines *tax expenditures* as statutory provisions which reduce the amount of revenue that would otherwise be collected. Tax expenditures may include tax provisions that exempt income, provide a deduction from income, or offset tax liability with a tax credit. In general, different types of tax expenditures provide different levels of tax savings for different taxpayers. For alcohol beverage excise taxes, there are nine tax expenditures. The estimated revenue impact to the General Fund of these tax expenditures is listed below.

<sup>1</sup> Local sales tax may also apply. For alcohol beverages are purchased out-of-state or out-of- the country, a use tax may be assessed if certain conditions are met.

<sup>2</sup> The receipts from the constitutionally dedicated sales tax rate of three-eighths of one percent are deposited into four funds: (1) Outdoor Heritage Fund; (2) Clean Water Fund; (3) Parks and Trails Fund; (4) Arts and Cultural Heritage Fund.

ALCOHOL BEVERAGE EXCISE TAX EXPENDITURES:	Tax Expenditures (Dollars in Thousands)				
	Enacted	2020	2021	2022	2023
<b>Exemptions</b>					
Consumer Purchases Made Out of State	1947	\$200,000	\$200,000	\$200,000	\$200,000
Home Production and Use	1957	*	*	*	*
Sales to Food Processors and Pharmaceutical Firms	1988	*	*	*	*
Consumption on Brewery Premises	1941	*	*	*	*
Wine for Sacramental Purposes	1937	*	*	*	*
Shipments of Wine for Personal Use	1993	*	*	*	*
<b>Credits</b>					
Credit for Small Brewers	1985	\$1,800,000	\$1,900,000	\$1,900,000	\$2,000,000
Credit for Microdistilleries	2014	\$300,000	\$400,000	\$400,000	\$400,000
Credit for Small Winery	2017	*	\$100,000	\$100,000	\$100,000

Source: [State of Minnesota, 2020 Tax Expenditure Report](#), Note: “\*”less than \$50,000

### TAX INCIDENCE OF ALCOHOL BEVERAGE TAXES

The Minnesota Department of Revenue (DOR) computes the Suits Index for state taxes every two years in its Minnesota Tax Incidence Study. The Suits Index is defined as a summary measure of regressivity and progressivity and is represented as a value between -1 and +1. A progressive tax has a positive Suits index in the range of 0 and +1, with +1 being the most progressive. A progressive tax is a tax in which the tax rate increases as the amount of taxable income increases.

A regressive tax has a negative Suits index in the range of 0 and -1, with -1 being the most regressive. A regressive tax is a tax in which the tax rate decreases as the amount of taxable income increases. A Suits Index of zero indicates that the tax system is proportional.

DOR’s 2021 Tax Incidence Study lists the alcohol beverage excise tax as a regressive tax and the table below shows the Suites Index for this tax relative to all state taxes.

Data from this study also shows that the state alcohol excise tax burden is mostly borne by Minnesota households (89.7 percent) and with a smaller share of the tax exported to nonresident households (10.3 percent).

TAX INCIDENCE	Percentage By Taxpayer Category			Suits Index
	Households	Non Resident	Business	Full Sample
<b>2018 – Alcohol Excise Tax</b>	89.7%	10.3%	0%	-0.160
<b>2018 – All State Taxes</b>	69.4%	4.9%	24.9%	0.049

Source: [2021 Tax Incidence Report](#), pages 8, 24

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