



ISSUE BRIEF – Alcohol Beverage Taxes

STATE TAXES IMPOSED ON ALCOHOL BEVERAGES:

Three state taxes are imposed on alcohol beverages: (1) excise tax; (2) state sales tax; and (3) liquor gross receipts tax.

Excise and Other State Taxes

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 dollar amount per liter (metric) or per gallon (standard). For beer, the tax is imposed on a fixed unit dollar amount per barrel of 31 gallons. The table below shows the application of the excise tax in current law and the approximate amount that tax equals per drink.

<i>STATE EXCISE TAXES BY TYPE OF ALCOHOL*</i>		
Beer Product (By Weight)	Tax (per barrel/31 gallons)	Tax Per 12 ounce drink
Beer (greater than 3.2% alcohol)	\$4.60	\$0.01
Beer (3.2% alcohol or less)	\$2.40	\$0.01
Wine Product (By Volume)	Tax (per gallon)	Tax Per 5 ounce drink
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
Other Product	Tax (per gallon)	Tax Per 1.5 ounce drink
Distilled Spirits	\$5.03	\$0.060

* State sales tax rate of 6.875%, liquor gross receipts of 2.5% and a separate tax of one cent per bottle of wine or distilled spirits that is 200 milliliters or larger are not included in this table.

In addition to the excise tax, the state sales tax of 6.875 percent and a liquor gross receipts tax of 2.5 percent are imposed on the price of alcohol beverages for both on-sale and off-sale purchases.¹ The total state sales tax and liquor gross receipts tax (6.875 percent plus 2.5 percent) on alcohol beverages is 9.375 percent. These taxes are paid by consumers at retail.

¹ Under [295.75, subd.1, paragraph \(d\)](#), 3.2 percent malt liquor is subject to the gross receipts tax if sold under an intoxicating liquor license.

The term “on-sale” or “on-premise” is defined as the sale of liquor for consumption at the licensed premise (e.g. restaurant, hotel or tavern). “Off-Sale” or “off-premise” is defined as the sale of alcohol in the original package for consumption off or away from the premises where sold (e.g. liquor store).

Other Alcohol Taxes Enacted by Legislature:

This issue brief focuses on state taxes on alcohol beverages. There are also local liquor taxes in current law that are not included in this issue brief. Legislative authorization is also required for a local government to impose a local liquor tax. Currently, there are 3 cities imposing a liquor tax: (1) Minneapolis Downtown at 3 percent; (2) Bloomington at 3 percent; and (3) St. Cloud at 1 percent. These local taxes are imposed in addition to the applicable state alcohol taxes.

TOTAL COLLECTIONS & DISPOSITION OF ALCOHOL BEVERAGE STATE TAXES:

Most of the tax revenue from Alcohol Beverage taxes is deposited into the state's General Fund. All of the excise taxes on alcohol beverages are deposited into the General Fund. All of the state sales tax revenue and the liquor gross receipts tax, except for the constitutionally dedicated state sales tax of three-eighths of one percent, is deposited into the General Fund.²

Total State Alcohol Beverage State Tax Collections

<i>All Dollars in Thousands by Fiscal Year</i>					
	2012	2013	2014	2015	2016
Excise Tax (levied on a fixed unit)					
Distilled Spirits	58,540	58,728	62,916	62,440	65,985
Beer	15,635	16,609	15,127	15,547	15,680
Wine	5,920	6,471	6,548	6,952	7,467
SubTotal	80,095	81,808	84,591	84,939	89,132
*State Sales Tax (6.875% x price)	205,970	213,191	221,136	229,699	244,186
Liquor Gross Receipts Tax (2.5% x price)	74,898	77,524	80,413	83,527	88,795
Total State Tax Collections	360,963	372,523	386,140	398,165	422,113
% Year-to-Year Change	5.74%	3.20%	3.66%	3.11%	6.01%
Source: Minnesota Tax Handbooks (January 2017)					
* State sales tax collection data inferred by House Fiscal Analysis Staff using liquor gross receipts data published in Minnesota Tax Handbook.					

TAX INCIDENCE OF ALCOHOLIC BEVERAGE STATE EXCISE 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

² 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.

as the amount of taxable income increases. A Suits Index of zero indicates that the tax system is proportional.

DOR's 2017 Tax Incidence Study lists the alcohol beverage excise tax as a regressive tax (-0.240) and the table below shows the Suits Index for this tax relative to all state taxes (0.032). Also, alcohol beverage taxes are borne mostly by Minnesota residents who pay 86 percent of total collections. For further reference, a full tax incidence analysis of state taxes is published in this study.

TAX INCIDENCE	Percentage By Taxpayer Category			Suits Index
	Resident	Non Resident	Business	Full Sample
2017 – Alcohol Excise Tax	86%	14%	0%	-0.240
2017 – All State Taxes	68%	5%	27%	0.032

Source: [2017 Tax Incidence Report, Tables 1-2 and Table 2-1.](#)

CURRENT LAW ALCOHOL EXCISE TAX EXPENDITURES:

The State of Minnesota, Tax Expenditure Budget by DOR defines *tax expenditures* as statutory provisions which reduce the amount of revenue that would otherwise be generated, including exemptions, deductions, credits or lower tax rates. Different types of tax expenditures provide different levels of tax savings for different taxpayers. For alcohol beverage taxes, there are nine tax expenditures. The type of tax expenditures and the revenue impact are listed below. For further reference, a full description of each tax expenditure is published every two-years in the DOR Tax Expenditure Budget Report.

ALCOHOL BEVERAGES TAX EXPENDITURES:	Tax Expenditures (Dollars in Thousands)				
	Enacted	2016	2017	2018	2019
<i>Exemptions</i>					
Consumer Purchases Made Out of State	1947	\$200	\$200	\$200	\$200
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	*	*	*	*
<i>Credits</i>					
Credit for Small Brewers	1985	\$1,200	\$1,200	\$1,200	\$1,200
Credit for Microdistilleries	2014	*	*	*	*
Credit for Small Wineries	2017			*	\$ 90

Note: "*"less than \$50,000

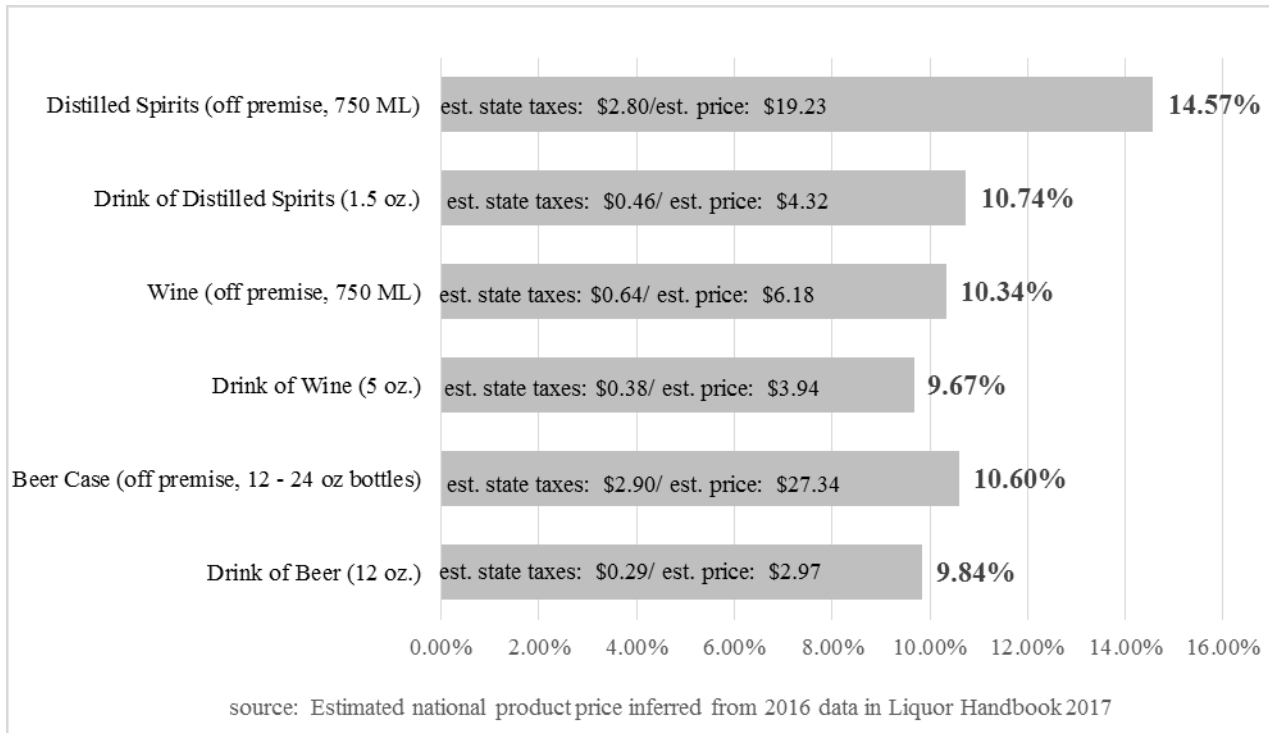
Source: 2016 State of Minnesota Tax Expenditure Report, and Minnesota Laws of 2017, First Special Session, Chapter 1, article 11, section 13.

STATE EXCISE TAXES COMPARED TO THE NEIGHBORING STATES:

This table compares the excise tax rate compared to bordering states. This table does not include any comparison of the application of sales tax or liquor gross receipts tax on alcohol beverages by bordering states.

	Table Wine Per Gallon	Beer Per Gallon	Distilled Spirits Per Gallon
Iowa	\$1.75	\$0.19	NA
Minnesota	\$0.30	\$0.15	\$5.03
North Dakota	\$0.50	\$0.16	\$2.50
South Dakota	\$0.93	\$0.27	\$3.93
Wisconsin	\$0.25	\$0.06	\$3.25
U.S. Median	\$0.72	\$0.20	\$3.75
Source: Federal of Tax Administrators (FTA) as of 1/1/2017			

ESTIMATED SHARE OF STATE (EXCISE, SALES & LIQUOR GROSS RECEIPTS) TAXES RELATIVE TO PRODUCT PRICE



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