



ISSUE BRIEF – STATE ALCOHOL BEVERAGE TAXES

UPDATED NOVEMBER 2019

STATE TAXES ARE IMPOSED ON ALCOHOL BEVERAGES

Three state taxes are imposed on alcohol beverages: (1) excise tax; (2) state sales and use tax; and (3) liquor gross receipts 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. 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 & STATE EXCISE TAX RATES*</i>		
Beer Product (By Weight)	Tax (per barrel/31 gallons)	Tax Per 12 oz. Can
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
Product	Tax (per gallon)	Tax Per 1.5 ounce drink
Distilled Spirits	\$5.03	\$0.060

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

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 imposed on the price of alcohol beverages. The total state sales and use 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

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 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.²

<i>ALCOHOL BEVERAGE TAXES HISTORY - All Dollars in Thousands by Fiscal Year</i>								
	2012	2013	2014	2015	2016	2017	2018	2019
<i>Excise Tax</i>								
Distilled Spirits	58,561	60,168	62,992	62,608	66,035	66,396	69,452	70,572
Beer	15,635	16,609	15,127	15,547	15,680	15,223	15,260	15,755
Wine	5,920	6,471	6,535	6,952	7,467	7,361	7,764	7,540
Refunds	-246	-1,419	-76	-167	-50	-33	-39	-314
Net Excise Tax	79,870	81,829	84,578	84,940	89,132	88,947	92,437	93,553
State Sales Tax (6.875%)	206,030	213,667	220,842	232,309	246,150	250,492	260,810	269,737
Liquor Gross Receipts Tax	74,920	77,697	80,306	84,476	89,509	91,088	94,840	98,086
Grand Total	360,820	373,193	385,726	401,725	424,791	430,527	448,087	461,376
Grand Total – Year-to-Year Change		3.43%	3.36%	4.15%	5.74%	1.35%	4.08%	2.97%

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 2019 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.

TAX INCIDENCE OF ALCOHOLIC 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 represented as a value between -1 and +1. A progressive tax has a positive Suits index in the

¹ 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.

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.

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 2019 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 (86.2 percent) and with a smaller share of the tax exported to nonresident households (13.8 percent).

<i>TAX INCIDENCE</i>	<i>Percentage By Taxpayer Category</i>			<i>Suits Index</i>
	Households	Non Resident	Business	Full Sample
2014 – Alcohol Excise Tax	86.2%	13.8%	0%	-0.217
2014 – All State Taxes	70.3%	4.9%	24.8%	0.033

Source: [2019 Tax Incidence Report](#), pages 9, 26

STATE ALCOHOL TAX EXPENDITURES

The State of Minnesota, Tax Expenditure Budget defines *tax expenditures* as a 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 eight tax expenditures. The type of tax expenditures and the revenue impact are listed below.

ALCOHOL BEVERAGE EXCISE TAX EXPENDITURES:	Tax Expenditures (Dollars in Thousands)				
	Enacted	2018	2019	2020	2021
<i>Exemptions</i>					
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	*	*	*	*
<i>Credits</i>					
Credit for Small Brewers	1985	\$1,600,000	\$1,600,000	\$1,700,000	\$1,700,000
Credit for Microdistilleries	2014	\$200,000	\$300,00	\$300,000	\$300,000
Credit for Small Winery	2017	*	\$100,00	\$100,00	\$100,000

Source: [State of Minnesota, 2018 Tax Expenditure Report](#), Note: "*"less than \$50,000

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