

# Fiscal Analysis Department

## Minnesota House of Representatives



### 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 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.

<b>ALCOHOLIC BEVERAGE &amp; STATE EXCISE TAXES*</b>		
<b>Beer Product (By Weight)</b>	<b>Tax (per barrel/31 gallons)</b>	<b>Tax Per 12 ounce drink</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

\* 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.

#### Ad Valorem Taxes

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.<sup>1</sup> 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.

<sup>1</sup> 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 also 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.<sup>2</sup>

**Total State Alcohol Beverage State Tax Collections**

<i>All Dollars in Thousands by Fiscal Year</i>						
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Excise Tax (levied on a fixed unit)</b>						
Distilled Spirits	53,886	54,993	57,287	58,540	58,728	62,916
Beer	16,656	15,786	15,615	15,635	16,609	15,127
Wine (includes cider)	5,526	4,791	5,520	5,920	6,471	6,548
<b>Subtotal</b>	<b>76,068</b>	<b>75,570</b>	<b>78,422</b>	<b>80,095</b>	<b>81,808</b>	<b>84,591</b>
<b>*State Sales Tax (6.875% x price)</b>	<b>182,606</b>	<b>185,925</b>	<b>192,822</b>	<b>205,970</b>	<b>213,191</b>	<b>221,136</b>
<b>Liquor Gross Receipts Tax (2.5% x price)</b>	<b>66,402</b>	<b>67,609</b>	<b>70,117</b>	<b>74,898</b>	<b>77,524</b>	<b>80,413</b>
<b>Grand Total</b>	<b>325,076</b>	<b>329,104</b>	<b>341,361</b>	<b>360,963</b>	<b>372,523</b>	<b>386,140</b>
Grand Total - Year-to-Year Change		1.24%	3.72%	5.74%	3.20%	3.66%

\*Source: DOR MN State Tax Collections. The State Sales Tax Collection Data imposed on alcohol is inferred by House Fiscal Staff using DOR MN State Tax Collection data.

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

DOR’s 2015 Tax Incidence Study lists the alcohol beverage excise tax as a regressive tax (-0.248) and the table below shows the Suites Index for this tax relative to all state taxes(-0.006). Also, alcohol beverage

<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.

taxes are borne mostly by Minnesota residents who pay 89 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
2012 – Alcohol Excise Tax	89%	11%	0%	-0.248
2012 – All State Taxes	68%	5%	27%	-0.006

Source: [2015 Tax Incidence Report, Pages 26 & 116](#).

### 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 eight 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	2014	2015	2016	2017
<b>Exemptions</b>					
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	*	*	*	*
<b>Credits</b>					
Credit for Small Brewers*	1985	\$900	\$900	\$900	\$900
Credit for Microdistilleries*	2014		\$60	\$60	\$60

Source: [State of Minnesota Tax Expenditure Report, page 156](#), Note: “\*”less than \$50,000. \*Estimate for microdistilleries based on a 2014 revenue estimate and estimate for small brewers does not reflect the 2013 law change to small brewer qualifications.

### 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
<b>Minnesota</b>	<b>\$0.30</b>	<b>\$0.15</b>	<b>\$5.03</b>
North Dakota	\$0.50	\$0.16	\$2.50
South Dakota	\$0.93	\$0.27	\$3.93
Wisconsin	\$0.25	\$0.06	\$3.25
<b>U.S. Median</b>	<b>\$0.72</b>	<b>\$0.20</b>	<b>\$3.75</b>

Source: [Federal of Tax Administrators \(FTA\)](#) as of 1/1/2015

**EXAMPLES OF HOW MUCH ALCOHOL BEVERAGE STATE TAXES COSTS TAXPAYERS:**

<b>Examples of State Taxes on Alcohol Products by Type of Sale</b>			
	<b>On-Premise</b>	<b>Off-Premise</b>	<b>Total</b>
<b>National Average Price Per Case of Beer (24 - 12 oz bottles)</b>	<b>\$67.93</b>	<b>\$25.84</b>	<b>\$93.77</b>
State Excise Tax Per Case of Beer (\$4.60 per barrel/13.778 cases)	\$0.33	\$0.33	\$0.33
State Sales Tax Per Case of Beer (6.875%)	\$4.67	\$1.78	\$6.45
State Liquor Gross Receipts Tax Per Case of Beer (2.5%)	\$1.70	\$0.65	\$2.34
Total State Taxes (Excise + Sales & Use + Liquor Gross Receipts Taxes)	\$6.70	\$2.76	\$9.12
Total State Taxes as a % of Price	9.87%	10.67%	9.73%
<b>National Average Price Per 750ML bottle - Wine</b>	<b>\$17.58</b>	<b>\$5.38</b>	<b>\$22.96</b>
State Excise Tax Per Bottle [(\$0.3) * (25.4oz./128oz.)]	\$0.06	\$0.06	\$0.06
State Sales Tax Per Bottle of Beer (6.875%)	\$1.21	\$0.37	\$1.58
State Liquor Gross Receipts Tax Per Bottle of Beer (2.5%)	\$0.44	\$0.13	\$0.57
Total State Taxes (Excise + Sales & Use + Liquor Gross Receipts Taxes)	\$1.71	\$0.56	\$2.21
Total State Taxes as a % of Price	9.71%	10.48%	9.63%
<b>National Average Price Per 750ML bottle - Distilled Spirits</b>	<b>\$70.63</b>	<b>\$18.60</b>	<b>\$89.23</b>
State Excise Tax Per Bottle [(\$5.03) * (25.4oz./128oz.)]	\$1.00	\$1.00	\$1.00
State Sales Tax Per Bottle of Beer (6.875%)	\$4.86	\$1.28	\$6.13
State Liquor Gross Receipts Tax Per Bottle of Beer (2.5%)	\$1.77	\$0.47	\$2.23
Total State Taxes (Excise + Sales & Use + Liquor Gross Receipts Taxes)	\$7.62	\$2.74	\$9.36
Total State Taxes as a % of Price	10.79%	14.74%	10.49%

*Conversion notes for calculations listed above:* 13.778 cases = 1 barrel, 750 ML = 25.4 fluid ounces, 128 fluid ounces = 1 gallon

*Source:* National average prices for alcohol products inferred from Preliminary 2013 Liquor Handbook Retail and Case Sales Data published by the Beverage Information Group.

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