

Information Brief

Joel Michael, Legislative Analyst
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Alcoholic Beverage Excise Taxes

Revenue Collections 1950 -- 1989

1989 revenue collections from the special taxes on alcoholic beverages (i.e., the excise taxes and additional 2.5 percent sales tax) are roughly equal to the 1950 revenues, when measured in constant dollars. If the collections are adjusted for population growth, however, the 1989 revenues are about 25 percent lower than the 1950 levels.

The share of state tax revenue provided by the alcoholic beverage excise taxes, including the special sales tax, has dropped significantly. In 1950 these taxes provided over 7 percent of state tax revenues. They now provide less than 2 percent of all state tax revenues.

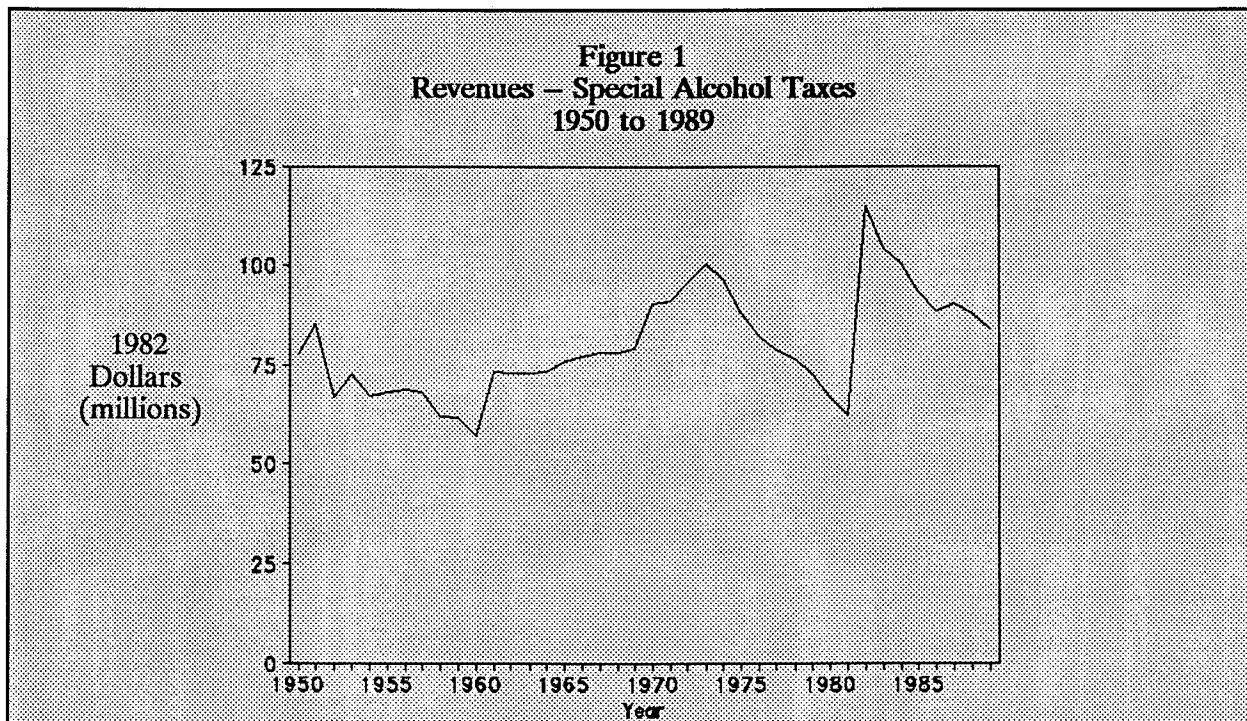
Minnesota's tax revenues from the alcoholic beverage excise taxes and the additional 2.5 percent sales tax are roughly equal to the 1950 revenues, when measured in constant dollars.

Measured in 1982 dollars, the state collected \$84 million (\$111 million in 1989 dollars) in tax revenues from the special excise and sales taxes on alcoholic beverages for fiscal year 1989. In fiscal year 1950, \$78 million (1982) dollars were received. The annual collections are plotted in the graph in Figure 1.

The excise taxes are imposed on a per volume basis. As a result, inflation decreases the tax rate and revenue yield of the tax, unless the Legislature increases the tax rate. During the 1950s and 1960s inflation gradually eroded the real excise tax burdens. (See separate Information Brief, **Alcoholic Beverage Excise Taxes, Inflation and Real Tax Burdens** (Dec., 1990).) Figure 1 shows the decline in real revenues.

This decline was partially offset by increases in both population and per capita consumption of alcohol. For example, between 1950 and 1970 annual per capita consumption of liquor in Minnesota rose from 1.4 gallons to 2.1 gallons. Since 1970 per capita consumption of liquor, particularly, has declined. By 1988, annual per capita consumption of liquor had declined to 1.7 gallons.

The Legislature significantly increased the tax rates in 1971 and this effect can be seen in the graph. However, the combined effects of inflation in the 1970s and the drop in per capita consumption again caused revenues to decline. In 1982, the Legislature imposed the special 2.5 percent additional sales tax, substantially increasing revenues (to the highest level ever in constant dollars, \$115 million or 48 percent above the 1950 level). Since 1982 inflation and declining consumption has again caused tax revenues to fall back to about their 1950 levels.



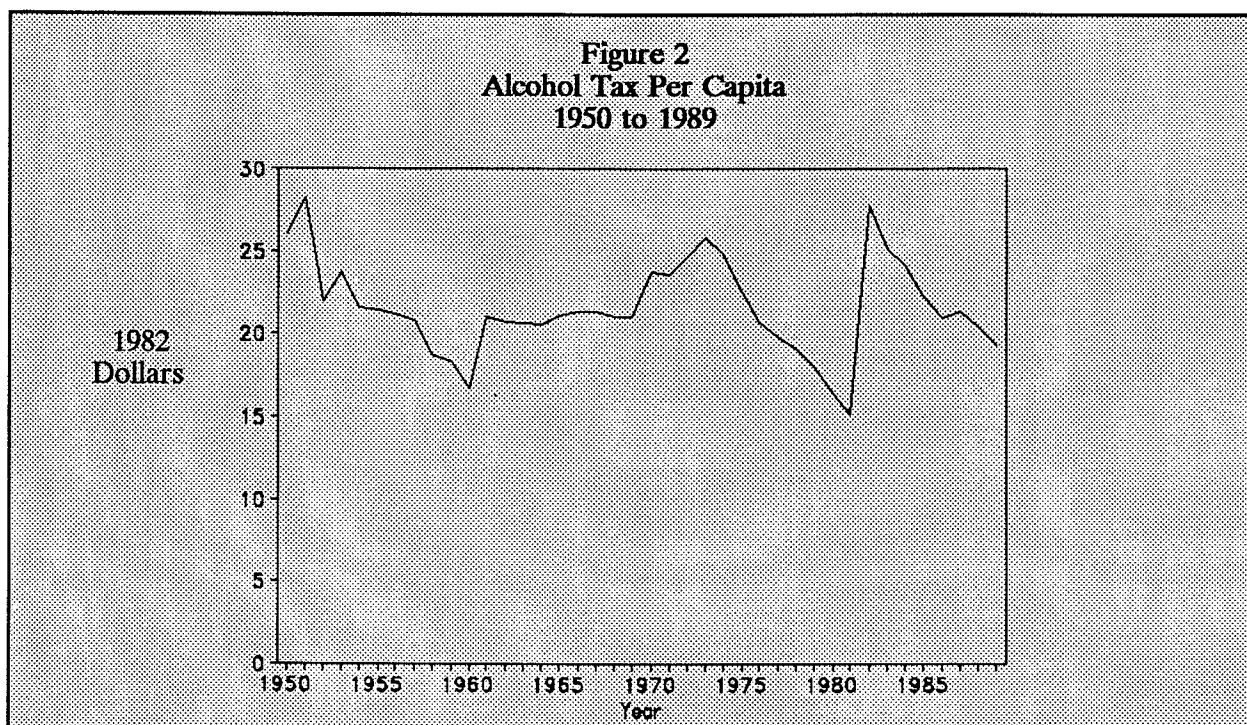
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Per capita tax revenues from the alcohol excise taxes and special sales tax are about 25 percent lower than their 1950 levels, when measured in constant dollars.

The graph in Figure 2 plots the per capita tax collections from the alcohol excise and special sales taxes from 1950 through 1989 in constant dollars. Per capita revenues have dropped from \$26 to \$19.

This drop is attributable to three factors:

- The Legislature did not increase tax rates to keep pace with inflation.
- Per capita consumption of alcoholic beverages, particularly liquor in the 1970s and 1980s, has declined.
- Consumption has shifted from high tax products (liquor and fortified wine) to lower tax products (particularly table wine). In addition, per capita consumption of sparkling wine has increased significantly since the 1950s. However, the Legislature reduced the tax on this commodity in the 1970s. Minnesota's tax on sparkling wine remains high compared with other states.



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The share of Minnesota's total tax revenue provided by special taxes on alcoholic beverages has dropped significantly, with the addition and increase of other major tax sources such as individual income and sales taxes.

The graph in Figure 3 shows the decline in the share of total Minnesota state tax revenue provided by the special taxes on alcoholic beverages. This share has declined from 7.1 percent in 1950 to 1.8 percent in 1989. While the special alcohol beverage taxes declined in real terms over this period, real total state tax revenues increased. During this period the Legislature enacted the general sales tax which provides over one-fifth of state tax revenue. The yield of the income tax increased with the rise in personal income, expansion of the tax base, and increases in the income tax rates.

The graph in Figure 4 plots the respective yields of the separate taxes on liquor, wine (including sparkling wine or champagne), and beer. This graph shows that the yield of the tax on liquor has declined relative to that from wine and beer. This pattern largely reflects the changes in consumption patterns for alcoholic beverages. Consumption of table wine has risen significantly, while beer consumption has held relatively constant and liquor consumption after rising in the 1950s and 1960s has gradually declined.

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