



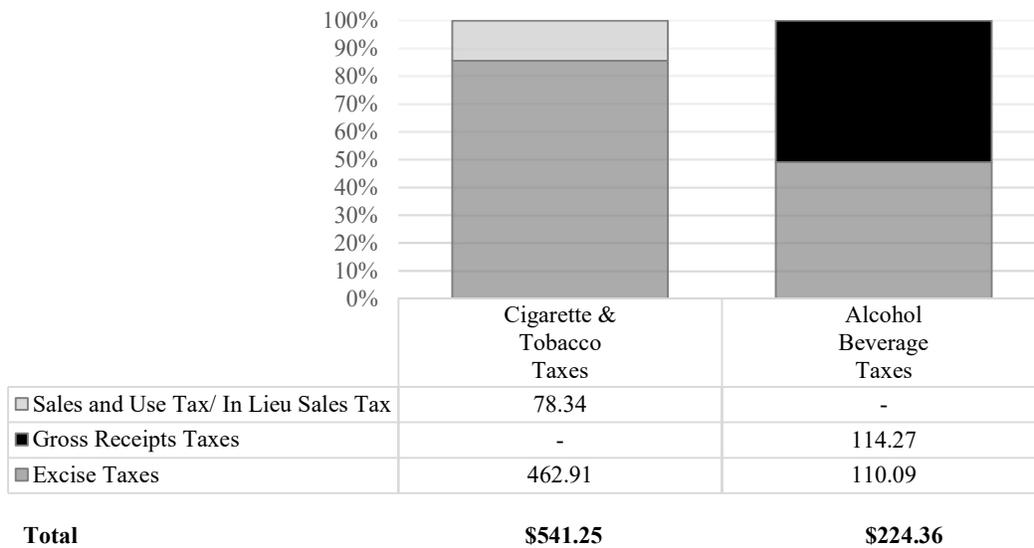
**ISSUE BRIEF**

**Alcohol, Tobacco, and Cannabis Taxes**

**October 2023**

Alcoholic beverages, cigarette and tobacco products are subject to various Minnesota state taxes such as: (1) state excise tax; (2) state sales and use tax; and (3) liquor gross receipts tax. For fiscal year 2023, Alcoholic beverage and tobacco taxes accounted for more than \$765 million, before cannabis taxes are added. Effective in FY 2024, adult-use cannabis and cannabis products are also subject to a gross receipts tax. This issue brief will summarize the tax rates for these state taxes, total collections from each tax and if any collections are dedicated for a special purpose.

**Graph 1: FY 2023 - Alcoholic Beverage Taxes & Cigarette/Tobacco Taxes**  
 Dollars in thousands



Source: MMB SWIFT Data Warehouse, Revenue Intergovernmental Payments by Revenue Source, October 27, 2023.

**Alcoholic Beverage Taxes – Excise Taxes**

The state excise tax on Alcoholic beverages is levied on a per unit basis.

- For distilled spirits, wine, and cider, the tax is imposed on a unit of measurement per liter (metric) or per gallon (standard).
- For beer, the tax is imposed on a unit of measurement per barrel of 31 gallons.

The state excise tax on Alcoholic is structured so that it is imposed at a higher per unit rate on distilled spirits relative to wine and beer. Also due to the structure of these excise taxes, any annual change in total tax receipts collected from these excise taxes is due to a change in consumption (by weight or volume). Graph 2 shows modest growth for state excise tax collections on Alcoholic beverages with excise tax revenue exceeding \$100 million in FY 2023. Approximately, three-quarters of total state tax excise collections in these years is derived from taxes on distilled spirits. Rates for Alcoholic excise taxes were last modified in 1987.

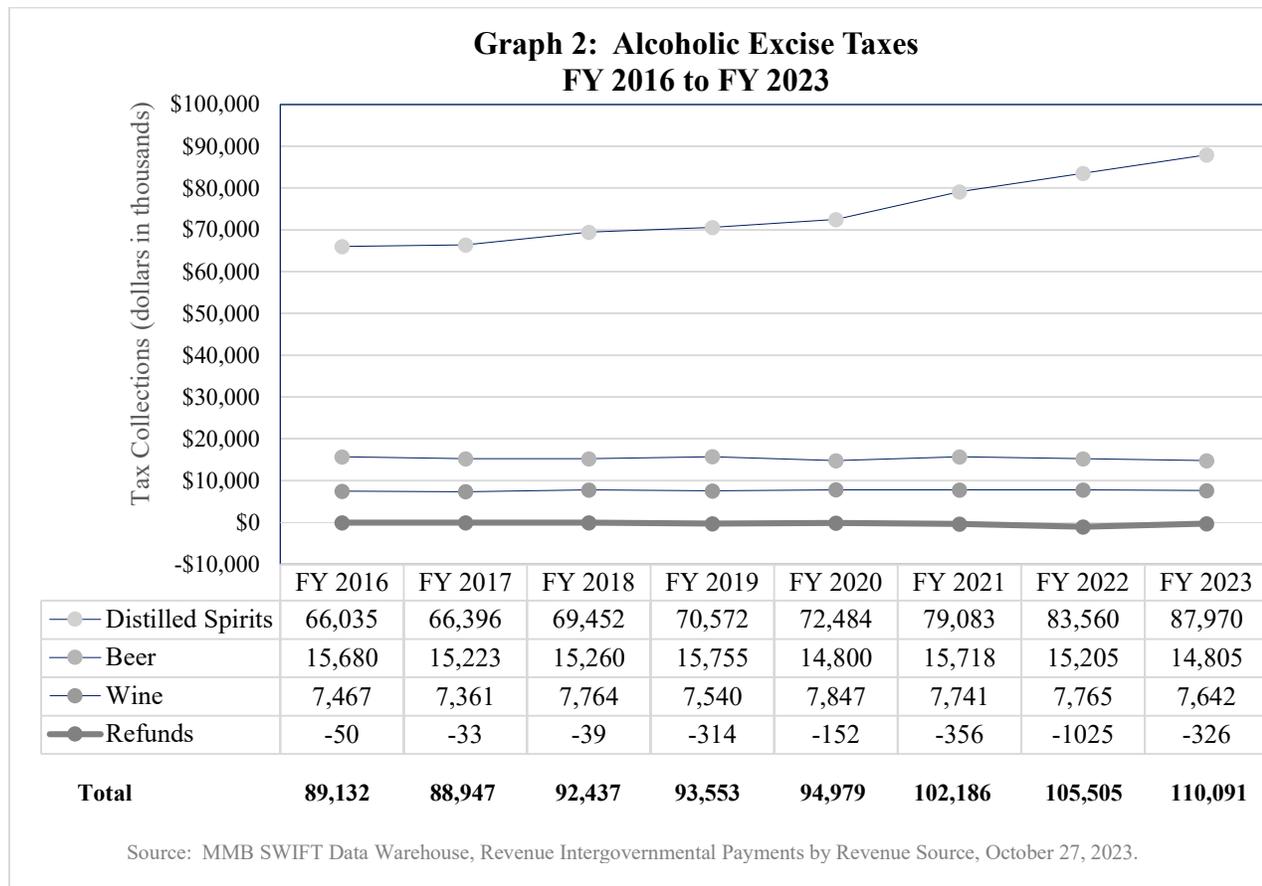


Table 1 below converts the current law excise tax to an approximate amount of the current law excise tax per drink (based on assumptions about the ounces per drink). The Minnesota excise tax on alcohol, however, is not directly paid by the consumer, but instead is remitted by licensed brewers, farm wineries, manufacturers, microdistillers, wholesalers, and importers. It is assumed that the tax is incorporated into the final price paid by consumers.

<b>Table 1: Alcoholic Beverage – Approximate State Excise Tax Rates Per Drink*</b>		
<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% Alcoholic 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% Alcoholic or less)	\$0.30	\$0.01
Wine (More than 14% to 21% alcohol)	\$0.95	\$0.04
Sparkling wine	\$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	\$0.06

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

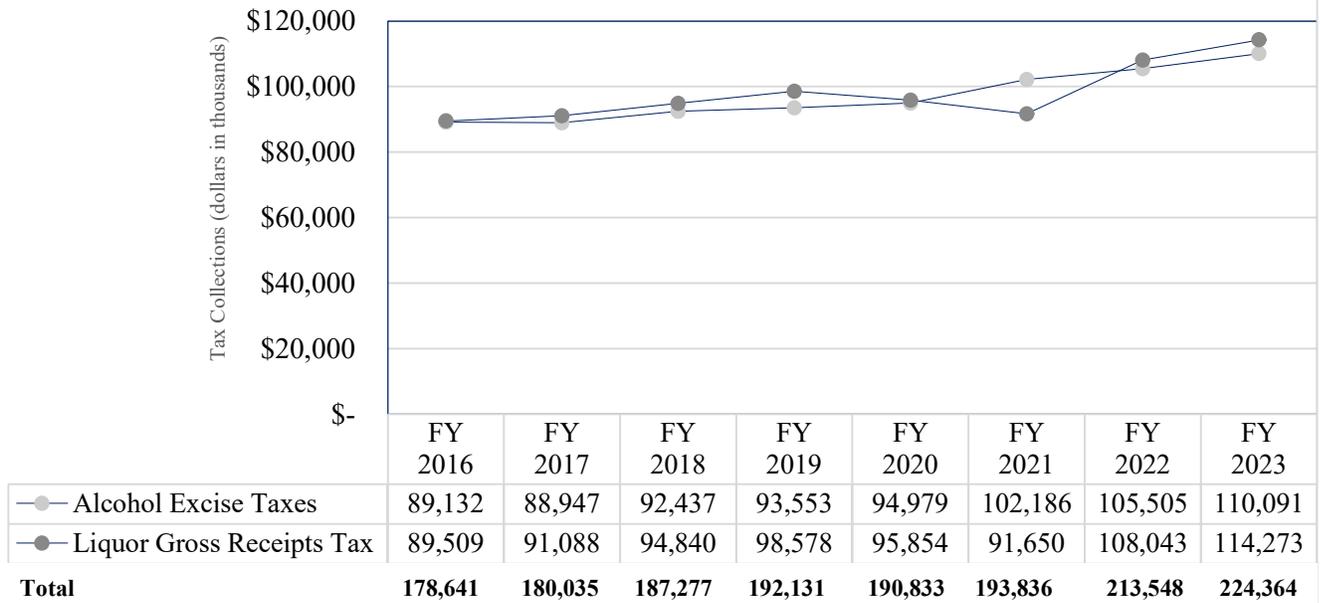
### ***Alcoholic Beverage Taxes – Liquor Gross Receipts Tax & Sales Tax***

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 Alcoholic beverages purchased by consumers at retail.<sup>1</sup> The liquor gross receipts tax was imposed in 2005 to replace an additional 2.5 percent sales tax that had expired.<sup>2</sup> Together, these taxes on sales of Alcoholic beverages at retail total 9.375 percent. State sales and liquor gross receipt tax revenues increase if total sales increase due to higher prices. Graph 3 below shows growth in tax collections for both Alcoholic excise taxes and liquor gross receipts taxes from a total of under \$200 million in FY 2016 to a total that exceeds \$200 million in FY 2023.

<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>Minnesota Tax Handbook, 2023 edition, page 23.

**Graph 3: Alcoholic Beverage Tax Revenue \* (Dollars in thousands)  
FY 2016 to FY 2023**



\* Collection data for the state sales tax on alcohol is not available and not included in the graph.

Source: MMB SWIFT Data Warehouse, Revenue Intergovernmental Payments by Revenue Source, October 27, 2023.

### ***Alcoholic Beverage Taxes – Dedications***

Total state collections on alcoholic beverages from the excise taxes and the liquor gross receipts tax exceeded \$200 million by FY 2022. Alcoholic 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 on alcoholic beverage purchases, 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>3</sup>

<sup>3</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.

### ***Cigarettes & Tobacco Products – State Excise Taxes***

State excise taxes are also imposed on cigarettes, tobacco, and tobacco products. The rate structure of the state excise tax varies by the type of tobacco product.

- **Cigarettes:** The excise tax on cigarettes is levied at a (dollar) rate per 20-pack of cigarettes. The rate was last modified in 2013. From 2014 through 2017, the excise tax rate was annually adjusted for inflation. In 2017, the Legislature repealed the annual adjustment for inflation on the tax rate. The rate has remained fixed at \$3.04 per pack of 20 cigarettes since 2017.
- **Tobacco & Tobacco Products:** The excise tax on tobacco, unlike the per pack tax on cigarettes, is levied as a percentage of the price. The excise tax is equal to 95 percent of the wholesale price. This excise tax also applies to vaping and e-cigarettes products. This rate was last modified in 2013.
- **Moist Snuff:** For each container of moist snuff, the tax is equal to 95 percent of the wholesale price with a minimum tax equal to the excise tax for 20-pack of cigarettes.<sup>4</sup> This rate was last modified in 2013.
- **Premium Cigars,** the tobacco tax is equal to the lesser of: (1) the rate of 95 percent of the wholesale sales price of premium cigars or (2) \$0.50 per premium cigar. This rate was last modified in 2017.

Unlike the pattern of modest growth for Alcoholic excise tax revenue, state tax collections on cigarettes and tobacco show a bit more volatility with modest growth in some years and modest declines in other years from FY 2016 to FY 2023. Graph 4 reflects how state excise taxes on cigarette and tobacco have ranged from \$600 million to \$400 million with the most recent fiscal years showing the most downward trend.

### ***Cigarette & Tobacco Taxes – Sales Tax and an In Lieu Sales Tax***

All tobacco products are also subject to state sales and use taxes or an in-lieu sales tax. Cigarettes are subject to an in-lieu sales tax. Effective January 1, 2023, the in-lieu sales tax is \$0.69 cents for each 20-pack of cigarettes (or 3.46 cents per cigarette). The in-lieu sales tax is annually adjusted for the change in the average retail price of cigarettes. For 2021, the total state tax rate (excise tax plus sales tax) per pack of 20 cigarettes is \$3.73. The Sales Tax on cigarettes is collected from distributors when they purchase cigarette tax stamps from the Minnesota Department of Revenue.<sup>5</sup> Sales tax is collected from customers at the time of purchase for all other tobacco products.

### ***Cigarette and Tobacco Products – Other Taxes and Fees***

An additional fee of 50 cents per pack is imposed on cigarette manufacturers that were not a part of a settlement agreement with the state of Minnesota (i.e., companies other than Philip Morris USA and RJ

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<sup>4</sup> If the moist snuff container is more than 1.2 ounces, the tax is 15 percent of the wholesale price of the moist snuff container or \$3.04 multiplied by the ounces and divided by 1.2, whichever is greater.

<sup>5</sup> A cigarette or tobacco tax stamp is a stamp that, may be applied adhesively or via another mechanism, provides evidence of payment of a cigarette or tobacco tax.

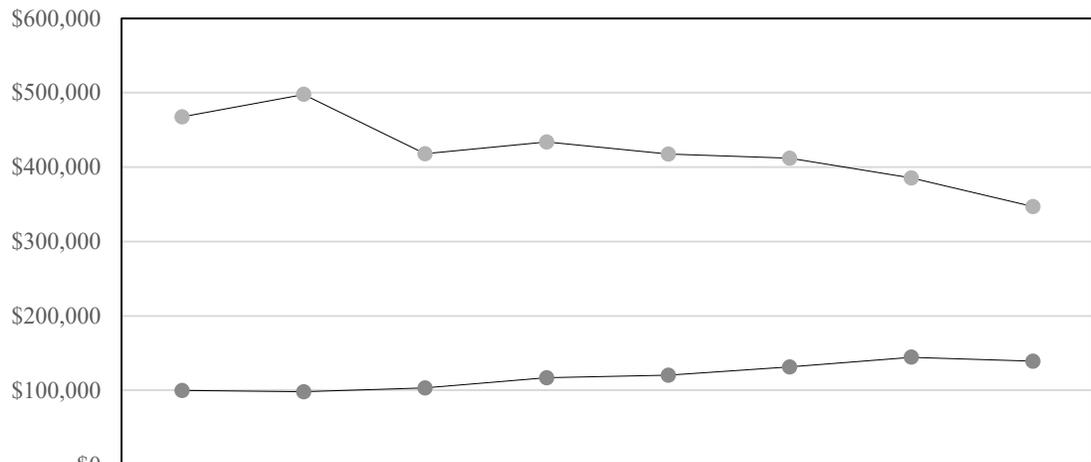
Reynolds). For those manufacturers, the total state tax rate per 20-pack is \$4.23 (\$3.04 excise tax +\$0.69 in lieu sales tax +\$0.50 non settlement fee = \$4.23) after the non-settlement fee is imposed. This fee substitutes for the tobacco settlement monies that are being paid by Philip Morris USA and RJ Reynolds to the State of Minnesota<sup>6</sup>.

A use tax is imposed on cigarettes that are also used in Minnesota on which the sales tax had not been previously paid.

Floor stock taxes have also been imposed on a one-time tax basis as a transition to a new cigarette tax rate. The floor stocks tax is applied to inventories, and it equals the difference between the old and the new rate for cigarettes. A floor stocks tax was last imposed in FY 2013.

**Graph 4: Cigarette & Tobacco Excise Tax Collections,**

FY 2016 to FY 2023  
Dollars in thousands



	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
—●— Cigarette Excise Tax**	467,387	497,850	418,005	433,723	417,548	412,002	385,258	346,966
—●— Tobacco Excise Tax	99,747	98,166	103,339	116,666	120,472	131,561	144,534	139,227

**Total** **567,134** **596,016** **521,344** **550,389** **538,020** **543,563** **529,792** **486,193**

\*\*Note: The cigarette tax rate in FY 2016 was \$3.00/pack and the rate in FY 2017 to current is \$3.04/pack.

Source: MMB SWIFT Data Warehouse, Revenue Intergovernmental Payments by Revenue Source, October 27, 2023

### ***Cigarette & Tobacco Taxes – Dedications***

Cigarette excise, in-lieu sales, floor stock taxes and non settlement fees are all paid by about 43 cigarette distributors and about 274 tobacco distributors that remit these taxes to the state when the products are

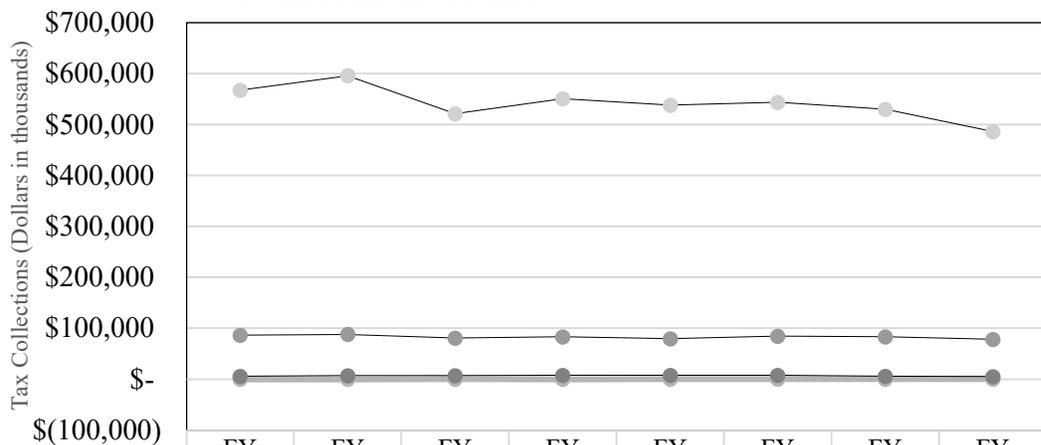
<sup>6</sup> State v. Philip Morris Inc., No. C1-94-8565, Minnesota District Court Judicial District.

received in Minnesota for sale.<sup>7</sup> Graph 5 shows total revenue for cigarette and tobacco from excise taxes and from in lieu taxes and fees. Total tax revenues in graph 5 have hovered between \$500 million to \$700 million in a fiscal year with two consecutive years of tax revenue declines in FY 2022 and FY 2023.

Most of total tax revenue from cigarette and tobacco is deposited into the unrestricted general fund. However, the following dedications are made to non general fund accounts on a fiscal year basis:

- \$22.250 million each fiscal year to the University of Minnesota Academic Health Center.
- \$3.937 million each fiscal year to the Commissioner of Health for Medical Education and Research Costs (MERC). Prior to FY 2023, the amount dedicated was \$3.788 million.
- In FY 2014 only, \$26.5 million dedicated to the stadium reserve allocation for stadium financing of U.S. Bank Stadium.

**Graph 5: Total Cigarette/Tobacco Tax Revenue, FY 2016 to FY 2023**  
Dollars in thousands



	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Net Excise Tax - Cig./Tobacco	567,134	596,016	521,344	550,389	538,020	543,563	529,792	486,193
Floor Stocks Tax on Cigarettes	(46)	2	-	2	-	-	-	-
In Lieu Sales Tax (6.875%)	86,475	87,978	80,630	83,025	79,527	84,570	82,997	78,338
Non Settlement Fee (\$0.50)	5,654	7,332	7,019	7,724	7,836	7,407	5,679	5,205
<b>Total</b>	<b>659,217</b>	<b>691,328</b>	<b>608,993</b>	<b>641,140</b>	<b>625,383</b>	<b>635,540</b>	<b>618,468</b>	<b>569,736</b>

\*Note: Sales tax collections on tobacco is not available and not included on this graph.

Source: MMB SWIFT Data Warehouse, Revenue Intergovernmental Payments by Revenue Source, October 27, 2023

<sup>7</sup> Minnesota Tax Handbook, 2022 Edition, January 2023, p. 33

### ***Cannabis – New Gross Receipts Tax***

Starting July 1, 2023, a 10 percent gross receipts tax is imposed on the retail sales of taxable cannabis and cannabinoid products. The gross receipts tax is also imposed on low-potency, hemp-derived edible cannabinoid products. Medical cannabis and products are exempt from the gross receipts tax.

### ***Cannabis – New State and Local Sales & Use Taxes***

The state general sales tax of 6.875 percent also applies to cannabis and cannabis products. Medical cannabis and products are also exempt from the state sales tax.

### ***Cannabis – Dedications***

All sellers of taxable cannabis products must register with the Minnesota Department of Revenue to remit the new gross receipts tax. Proceeds from the gross receipts tax on cannabis are partially dedicated. The general fund receives 80 percent of the proceeds from gross receipts tax and a special revenue fund for local cannabis aid receives the remaining 20 percent of the proceeds from the tax to be distributed as a local aid payment. Beginning with aid payable in 2024 (FY 2025), the total amount available for distribution as aid equals the balance in the special revenue fund at the close of the previous fiscal year (FY 2024). Of the amount made available as local cannabis aid, fifty percent of the local cannabis aid must be distributed to counties and fifty percent must be distributed to cities.

The revenue raised from state sales and use tax on cannabis and cannabis purchases is also 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>8</sup>

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<sup>8</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.

## Matrix of Tax Rates on Alcohol, Tobacco, and Cannabis

The table below summarizes the taxes that apply to Alcoholic beverages, cigarettes, tobacco, and cannabis.

Matrix of Special Taxes	Excise Tax Rates	Gross Receipts Tax Rates	State Sales and Use Tax Rates **	Total Rates
<b>Alcohol - Beer &lt;3.2% alcohol (per 31 gallons)</b>	\$4.60/per barrel	2.50%	6.875%	Excise Tax + 9.375%
<b>Alcohol - Beer &gt;3.2% alcohol (per 31 gallons)</b>	\$2.40/per barrel	2.50%	6.875%	Excise Tax + 9.375%
<b>Alcohol - Wine (&lt;=14% alcohol)</b>	\$0.3 per gallon	2.50%	6.875%	Excise Tax + 9.375%
<b>Alcohol - Wine (&gt;= 14% alcohol to 21%)</b>	\$0.95 per gallon	2.50%	6.875%	Excise Tax + 9.375%
<b>Alcohol - Spirits</b>	\$5.03 per gallon	2.50%	6.875%	Excise Tax + 9.375%
<b>Alcohol - Cider (0.5% to 7%)</b>	\$0.15 per gallon	2.50%	6.875%	Excise Tax + 9.375%
<b>Cigarettes</b>	\$3.04 / pack of 20 cigarettes	Not Applicable	69.2 cents/ pack of 20 cigarettes	\$3.73 per pack/cigarettes
<b>Tobacco *</b>	95% of the wholesale price	Not Applicable	6.875%	Excise Tax + 6.875%
<b>Moist Snuff</b>	The greater of 95% of the wholesale price or \$3.04 (for containers weighing less than 1.2 oz.)	Not Applicable	6.875%	Excise Tax + 6.875%
<b>Premium Cigars</b>	The lesser of 95% of the wholesale price or \$0.50 per cigar (minimum tax)	Not Applicable	6.875%	Excise Tax + 6.875%
<b>Cannabis &amp; Cannabis Products</b>	Not applicable	10%	6.875%	16.875%
* Tobacco also includes cigars, vapor products, pipe tobacco, snuff and chewing tobacco. Non settlement fees not listed in table.				
** All local sales taxes in Minnesota would apply and the rates are not included in this matrix.				

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