

March 24, 2022

	<b>Yes</b>	<b>No</b>
<b>DOR Administrative Costs/Savings</b>	<b>X</b>	

Department of Revenue  
Analysis of H.F. 2675 (Kotyza-Witthuhn) As Proposed to be Amended (H2675A3)

	<b>Fund Impact</b>			
	<b><u>F.Y. 2022</u></b>	<b><u>F.Y. 2023</u></b>	<b><u>F.Y. 2024</u></b>	<b><u>F.Y. 2025</u></b>
		(000's)		
Wine Excise Tax	\$0	\$140	\$180	\$220
Small Winery Credit	<u>\$0</u>	<u>(negl.)</u>	<u>(negl.)</u>	<u>(negl.)</u>
General Fund – Total	\$0	\$140	\$180	\$220

Effective for sales and purchases occurring on or after July 1, 2022.

**EXPLANATION OF THE BILL**

**Current Law:** Wine is subject to the alcoholic beverage excise tax at various rates. Sake is currently subject to the wine excise tax.

An exemption from the excise tax on wine may be granted for certain shipments of wine under the following conditions: 1) the winery is licensed in their own state; 2) the wine will be used for personal use and not for resale; 3) no more than two cases of wine will be shipped in any calendar year, with a maximum of nine liters per case; and 4) the shipping container must be clearly labeled to indicate that the package cannot be delivered to a person under the age of 21 years.

Qualified wineries are entitled to a credit equal to the excise tax due on wine or cider sold not to exceed the lesser of the tax liability or \$136,275 in any fiscal year. A qualified winery is defined as a winery, whether or not located in the state, manufacturing fewer than 75,000 gallons of wine and cider annually.

**Proposed Law:** The bill, as proposed to be amended, would remove the exemption on wine shipped into the state for personal use and require wineries to collect and remit any wine excise tax, sales tax, and liquor gross receipts tax due on shipments into Minnesota. The limit on wine shipped into the state for personal use is increased from two cases to 12 cases, with a maximum of nine liters per case, in any calendar year.

Out-of-state wineries who ship wine directly into Minnesota must be licensed in their own state, apply for a direct ship license from the Minnesota Department of Public Safety, and register with the Minnesota Department of Revenue to pay all taxes due on wine shipped to Minnesota.

The bill, as proposed to be amended, would also tax sake as a fermented malt beverage, as long as the establishment producing the sake was in Minnesota prior to March 1, 2012, and operates under a brew pub license. This provision would take effect the day following final enactment.

## REVENUE ANALYSIS DETAIL

- Data from Direct-to-Consumer Wine Shipping Reports were used to estimate wine shipments of 130,000 cases directly to Minnesota residents in 2020.
- The annual growth of wine shipped to Minnesota is assumed to be 20% for the forecast period.
- It is assumed that direct wine shippers will claim the small winery credit at the same rate as currently claimed and that rate will remain constant over the forecast period.
- It is assumed that direct wine shipments into Minnesota will increase but statewide wine consumption will not be impacted.
- It is assumed that only one taxpayer is impacted by taxing sake as a fermented malt beverage.
- The impacted taxpayer would qualify for the small brewer's credit.
- The amendment would result in a negligible decrease overall to state tax revenues. Wine excise tax revenue would decrease and fermented malt beverage revenue would increase but is expected to be netted out by an equal increase in brewer's credit claims.
- The fiscal year 2023 estimates are adjusted for eleven months of impact.

Minnesota Department of Revenue  
Tax Research Division  
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