March 13, 2023

Chairman Aisha Gomez & Members of the House Taxes Committee
Minnesota House of Representatives
100 Reverend Dr. Martin Luther King Jr. Blvd.
Saint Paul, MN 55155

SENT VIA ELECTRONIC MAIL: Lauren.Sabes@house.mn.gov

Chairman Gomez and members of the Taxes Committee:

Today, we write to oppose H.F. 2558, a proposal to create a new category for liquor-based canned cocktails, named "low alcohol volume prepackaged beverages," and to significantly reduce the tax rate for all products in that category. We represent brewers, beer importers, and wholesalers of all sizes in Minnesota who produce and distribute beer products, as well as some of the country's leading liquor-based canned cocktails. The beer industry supports a tax and regulatory framework reflecting that liquor, wine, and beer are distinct categories. Every state and the federal government has done this since the repeal of Prohibition in 1933, and it is vital to maintain these distinct categories due to the notable differences in how these products are produced, prepared and consumed.

H.F. 2558 would take a group of liquor products under 14% ABV and arbitrarily reclassify them as "low-alcohol volume prepackaged beverages." This new classification would reduce the tax rate on canned cocktails from the current spirits rate of $5.03/gallon to $0.95/gallon – the current tax rate for wine products. The Beer Institute estimates a $42 million revenue loss for Minnesota over three (3) years if this tax reduction is implemented. This legislative change would blur the lines between distinctly different alcohol categories. Beer, wine, and liquor are different, and this legislation would send a confusing message to consumers.

As the Minnesota hospitality industry continues to recover from the COVID-19 pandemic, it is questionable how a deep tax cut to out-of-state liquor companies benefits the consumers or small businesses of the state. Minnesota small businesses and workers need all the help they can get as they struggle to recover from the pandemic, especially in the face of nearly 6.5 percent inflation. Will out-of-state liquor companies lower their prices to help consumers? Not likely.

Notably, more than a dozen states, including North Dakota, rejected similar proposals during the 2021-2023 legislative sessions. Last month, the Maryland Alcohol and Tobacco Commission released a report that reviewed the impact of previously passed legislation to redefine liquor-based and malt-based RTDs and to reduce excise tax rates associated with these products. Both states, Michigan and Nebraska, experienced a decrease in overall alcohol beverage tax revenue. The report found that Michigan lost out on an estimated $2.6 million in tax revenue by lowering the rate of liquor-based canned cocktail excise taxes. After reducing its tax on canned cocktails, Nebraska has realized a loss of nearly $2.3 million (CY21 - $404,573.37, CY22 - $1,877,942.17) in tax revenue. It's also important to note that neither of these states saw an increase in sales of these products to offset the loss in revenue, nor did the lowering of the tax rates benefit consumer prices.

Policy analysts at Public Sector Consultants found that the average price of ready-to-drink liquor-based cocktails went up 65 percent in Nebraska since the bill passed (from an average of $5.83 to $9.62), far more than the inflation rate during that period. The chair of the Nebraska Revenue Committee has already filed a bill returning the classification of these products to spirits.

Liquor, wine, and beer are distinctly different types of alcohol, and we encourage you to reject H.F. 2558 to maintain clear distinctions between these three categories.

Sincerely,

Brian Crawford
Beer Institute
President and CEO

Bob Pease
Brewers Association
President and CEO

Robert Galligan
Minnesota Craft Brewers Guild
Director of Government and Industry Relations

Craig Purser
National Beer Wholesalers Association
President and CEO