

Alcoholic Beverage Taxes

Two special state taxes apply to alcoholic beverages: excise taxes and a gross receipts tax

Minnesota imposes two types of special taxes on alcoholic beverages:

- **Special excise taxes** are imposed on manufacturers or wholesalers of these products. These taxes are a fixed dollar amount per unit (per barrel or liter). The tax rates vary by beverage type. See the table below for tax rates.
- A **special gross receipts tax** of 2.5 percent applies to retailers making both on-sale (to be consumed in bars or restaurants) and off-sale (in liquor stores or by other sellers) sales. The tax is imposed on the retail price (receipts).

Excise tax rates are set as a dollar amount per volume of the beverage

Manufacturers of beer and wholesalers of distilled spirits and wines pay the special excise taxes. If the beer manufacturer doesn't pay, the wholesaler or importer is liable for the tax. The table shows the rates for the most common beverage categories. Higher rates apply to wines with alcoholic contents that exceed 21 percent and 24

percent, but little or none of these products are sold. A special "bottle tax" of one cent per bottle also applies to each wine and liquor bottle that is 200 milliliters or larger.

Because the excise taxes are fixed dollar amounts, they don't vary by the price of the product.

Higher priced products pay the same tax as lower priced products. Moreover, revenues grow only as more liters or barrels of the products are sold; revenues don't increase with inflation (price increases). For revenues to keep pace with inflation, the legislature must adjust the tax rates periodically. It has done this only sporadically (most recently in 1987). In inflation-adjusted terms, the excise tax rates in 2014 are less than half the amounts that they were in 1987.

Beverage Type	Excise Tax per	
	Gallon	Liter
Beer < 3.2% alcohol	\$.08	NA
Beer > 3.2% alcohol	.15	NA
Cider < 7% alcohol	.15	NA
Low-alcohol dairy cocktails	.08	\$.02
Wine < 14% alcohol	.30	.08
Wine > 14% alcohol	.95	.25
Sparkling wine	1.82	.48
Distilled spirits	5.03	1.33

Few exemptions apply

The law exempts the following from the excise tax:

- Sacramental wine
- Products sold to food processors and pharmaceutical companies
- The first 25,000 barrels of beer produced by a brewery with annual production of less than 250,000 barrels (A barrel is 31 gallons.)

- A microdistillery may take a tax credit of \$1.33 per liter on up to 100,000 liters of distilled spirits, per year.

Revenues go to the general fund

Revenues from both the excise taxes and the gross receipts tax go to the general fund. Fiscal year 2015 revenues from the excise taxes were about \$85 million and from the gross receipts tax, \$83.5 million. Thus, the gross receipts tax raises about half of alcohol tax revenues. The table to the right shows the collections by beverage type for the excise tax and for the additional gross receipts tax. The excise tax revenue from liquor reflects the higher rates imposed on these products, rather than their share of the market (measured by dollars spent). The sales tax imposes a much higher tax burden on wine and beer than the excise tax does.

Beverage Type	FY2015 Revenues (000)	% of Total
Beer	\$15,127	8.98%
Wine	6,548	3.89
Distilled Spirits	62,916	37.35
Excise tax total	84,591	50.22
2.5% gross receipts tax	83,327	49.58
Total	\$167,918	
Source: MN Department of Revenue		

Minnesota tax compared with other states

Minnesota’s wine and beer excise taxes are average or below average compared with most other states. Minnesota’s tax on distilled spirits (liquor) is among the higher taxes for states with excise taxes. A number of states (including Iowa) have state liquor monopolies and a portion of the price markup is a *de facto* tax; it is difficult to compare the tax burden with these states. The table compares Minnesota’s tax rates with its bordering states. However, only North Dakota imposes a gross receipts tax (at a 2 percent rate) similar to Minnesota’s. Thus, the total Minnesota alcohol tax burden is higher than suggested by simply comparing excise tax burdens.

Excise Tax Rates (per gallon) Bordering States			
	Strong Beer	Table Wine	Liquor
IA	\$.19	\$1.75	NA
MN	.15	.30	\$5.03
ND	.16	.50	2.50
SD	.27	.93	3.93
WI	.06	.25	3.25
Source: Federation of Tax Administrators			

Tax relative to alcohol content varies

The excise taxes are imposed on the volume of the beverage, not its alcoholic content. (The federal tax on distilled spirits, by contrast, is imposed explicitly on alcoholic content.) Since alcoholic content varies significantly within beverage type, it is difficult to generalize about the tax on alcohol content. But when looking at averages for beverage types, it is apparent that alcohol in beer and wine is lightly taxed compared with liquor. The excise tax per an ounce of alcohol in a typical liquor is about nine cents, while it is between two and three cents for wine and beer.

Tax is regressive

The alcohol taxes are regressive; they constitute a higher share of income for lower income families and individuals, on average. The Department of Revenue’s *Tax Incidence Study* indicates they are less regressive than the tobacco taxes but more regressive than the general sales tax.

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