

# MINNESOTA • REVENUE

## ALCOHOLIC BEVERAGE EXCISE TAX Rate Increases

April 12, 2005

	Yes	No
Separate Official Fiscal Note Requested	X	
<b>Fiscal Impact</b>		
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of S.F. 1926 (Murphy) / H.F. 2232 (Ellison) – Sections 10 through 15 Only

**Analysis Revised to Correct Calculation of Excise Tax Estimates**

	<b>Fund Impact</b>			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
	(000's)			
Net Impact of Excise Tax Rate Increase*	\$117,986	\$130,261	\$131,573	\$133,206
Sales Tax on Alcoholic Beverages	\$5,046	\$4,603	\$4,648	\$4,704
Appropriation to Corrections	(\$35,396)	(\$39,078)	(\$39,472)	(\$39,962)
Appropriation to Human Services / Health	<u>(\$82,590)</u>	<u>(\$91,183)</u>	<u>(\$92,101)</u>	<u>(\$93,244)</u>
<b>General Fund Net Impact</b>	\$5,046	\$4,603	\$4,648	\$4,704

\* Includes adjustments for refunds, small brewers credit, and miniatures

Assumed to be effective for taxes imposed after June 30, 2005.

### EXPLANATION OF THE BILL

The bill would increase the excise tax on beer, wine, and spirits (see chart). A county alcohol and chemical dependency costs account is created in the general fund. The funds from the alcoholic beverages excise tax rate increases are deposited in this new fund, with 30% annually appropriated to the Commissioner of Corrections for county probation services grants to increase supervision of offenders whose offenses involved alcohol or controlled substance abuse or dependency, and 70% appropriated to the Commissioners of Human Services and Health for specified treatment services, treatment support services, detoxification, and health assessments.

Summary of Excise Tax Rate Changes:

	<u>Current</u>	<u>Proposed</u>
3.2 Beer (per 31-gallon barrel)	\$2.40	\$18.86
Regular Beer (per 31-gallon barrel)	\$4.60	\$21.06
Cider (per liter)	\$.04	\$.32
Regular Wine (per liter)	\$.08	\$.36
Strong Wine (per liter)	\$.25	\$.53
Sparkling Wine (per liter)	\$.48	\$.76
Spirits (per liter)	\$1.33	\$3.03

### **EXPLANATION OF THE BILL (continued)**

Also, the small brewer's tax credit on 25,000 barrels per fiscal year is increased from \$4.60 to \$21.06 per barrel, with no change in the maximum credit of \$115,000. The tax on miniatures is increased from 14 cents per bottle to 19 cents per bottle.

### **REVENUE ANALYSIS DETAIL**

- Baseline revenues are the February 2005 forecast for the alcohol beverage excise taxes.
- Minnesota excise tax collection information provides quantities sold for each beverage type.
- The 9% sales tax on alcoholic beverages is reported separately. Minnesota retail sales of alcoholic beverages are derived from the forecast of the sales tax on alcoholic beverages.
- Retail sales by type are based on national retail sales information for beer, wine, and spirits.
- Elasticity factors were used as follows: -0.278 for beer, -0.680 for wine, and -0.571 for spirits. New sales and excise tax revenue amounts were calculated using price and quantity information resulting from the proposed additional excise tax rates.
- Indian alcohol tax refunds are assumed to grow at a proportional rate to the proposed additional tax.
- Because this law becomes effective July 1, 2005, 11 months of collections of the additional alcohol excise tax would be realized in fiscal year 2006.
- The credit to small brewers impacts approximately 140,000 barrels annually.
- The estimated effect for the increased sales tax from the additional excise tax on alcoholic beverages includes adjustments for the effective date of the proposal and current law rate change from 9% to 6.5% effective for sales and purchases after December 31, 2005.

**NUMBER OF TAXPAYERS AFFECTED:** 135 distributors of beer and 65 distributors of wine and distilled spirits.

Source: Minnesota Department of Revenue  
Tax Research Division  
[http://www.taxes.state.mn.us/taxes/legal\\_policy](http://www.taxes.state.mn.us/taxes/legal_policy)