

MINNESOTA • REVENUE

ALCOHOLIC BEVERAGE EXCISE TAX Rate Increases

April 28, 2005

| | Yes | No |
|---|-----|----|
| Separate Official Fiscal Note Requested | | |
| Fiscal Impact | | |
| DOR Administrative Costs/Savings | | |

Department of Revenue
Analysis of S.F. 2273 (Cohen) – Article 9, Sections 7 through 10 Only

| | Fund Impact | | | |
|---|--------------------|------------------|------------------|------------------|
| | <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* | \$24,082 | \$26,592 | \$26,850 | \$27,184 |
| Sales Tax on Alcoholic Beverages | <u>\$1,059</u> | <u>\$966</u> | <u>\$975</u> | <u>\$986</u> |
| General Fund Total | \$25,141 | \$27,558 | \$27,825 | \$28,170 |

* Includes adjustments for refunds and miniatures

Effective July 1, 2005.

EXPLANATION OF THE BILL

The bill would increase the excise tax on beer, wine, and spirits.

Summary of Excise Tax Rate Changes:

| | <u>Current</u> | <u>Proposed</u> |
|-------------------------------------|----------------|-----------------|
| 3.2 Beer (per 31-gallon barrel) | \$2.40 | \$5.69 |
| Regular Beer (per 31-gallon barrel) | \$4.60 | \$7.89 |
| Cider (per liter) | \$.04 | \$.10 |
| Regular Wine (per liter) | \$.08 | \$.14 |
| Strong Wine (per liter) | \$.25 | \$.31 |
| Sparkling Wine (per liter) | \$.48 | \$.54 |
| Spirits (per liter) | \$1.33 | \$1.67 |

Also, the small brewer's tax credit on 25,000 barrels per fiscal year is increased from \$4.60 to \$7.89 per barrel, with the maximum credit increased from \$115,000 to \$197,250. The tax on miniatures is increased from 14 cents per bottle to 15 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