MINNESOTA · REVENUE

ALCOHOL EXCISE TAXES
Farm Wineries Bulk Purchases

May 6, 2014

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 2346 (Metzen) Second Engrossment, ***Tax Provisions Only***

	Fund Impact			
	F.Y. 2014	**F.Y. 2015**	**F.Y. 2016**	**F.Y. 2017**
		(000's)		
General Fund	$0	(Negligible)	(Negligible)	(Negligible)

Tax provisions effective July 1, 2014.

EXPLANATION OF THE BILL

This bill would provide an exemption from the alcohol beverage excise taxes for shipments to Minnesota farm wineries of bulk distilled spirits or bulk wine. The wineries would still collect the alcohol beverage excise taxes when the final product is removed from inventory for sale.

The bill provides that farm wineries shall be treated as wholesalers for the excise tax imposed on certain wines. The farm wineries will be responsible for tax payments on samples given and in relation to sale of wine on the farm winery premises. This provision reflects how tax payments by farm wineries are currently administered by the Department of Revenue.

The bill also makes a number of regulatory changes relating to how alcoholic beverages are produced, distributed, and sold in Minnesota.

REVENUE ANALYSIS DETAIL

- In most cases, Minnesota farm wineries purchase bulk distilled spirits to blend with their wine in order to produce a wine with a higher alcohol content, commonly referred to as fortified wine.
- Minnesota farm wineries produce about 30,000 liters of wine between 14% and 20% alcohol per year. The vast majority of this wine is naturally fermented and not fortified with distilled spirits.
- Minnesota farm wineries produce only about 100 liters of wine over 20% alcohol per year. Wine over 20% alcohol is most likely fortified with a distilled spirit.
- Most port wine has a final alcohol content of between 19% and 23% and requires the base wine to be blended with between 30% and 40% distilled spirits. The actual distilled spirits blend ratio will depend on the alcohol content of the base wine and the desired alcohol content of the final product.

REVENUE ANALYSIS DETAIL (Cont.)

- It is unlikely that Minnesota farm wineries will produce more than a few hundred liters of fortified wine. Therefore the revenue loss is estimated at less than $5,000, or negligible.
- In order for the revenue loss to be more than $5,000, the exemption would need to apply to at least 3,800 liters of distilled spirits (3,800 liters x $1.33 tax = $5,054). The 3,800 liters of distilled spirits would be enough to produce approximately 11,000 liters of final blended product.
- There are approximately 50 farm wineries in Minnesota.

Source: Minnesota Department of Revenue
Tax Research Division
www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx

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