

April 14, 2021

Preliminary Estimates

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 2064 (Bigham) / H.F. 2260 (Becker-Finn)

	Fund Impact			
	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>
		(000's)		
Credit for Liquor Spoilage	(\$3,400)	\$0	\$0	\$0
Credit for Protective Equipment	<u>(\$83,900)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
General Fund	(\$87,300)	\$0	\$0	\$0

Effective retroactively for tax years 2020 and 2021.

EXPLANATION OF THE BILL

To cope with the COVID-19 pandemic, the Governor of Minnesota issued multiple executive orders which require certain businesses to either close or operate at limited capacity.

The bill creates a temporary refundable credit against the individual income tax or corporate franchise tax for qualifying brewers, liquor retailers, and wholesalers whose business was subject to closure or limited capacity due to Executive Orders 20-04, 20-74, or related executive orders. Qualified taxpayers include licensed brewers or alcohol wholesalers, and on-sale liquor licensees that were subject to closure or limited capacity.

A qualified brewer, retailer or wholesaler may claim a credit that is equal to the amount of liquor spoilage in the tax year.

A qualified brewer or retailer may claim a credit equal to the amount of the taxpayer's purchases of protective equipment and COVID-19 regulation equipment in the tax year.

“Liquor spoilage” means:

- For a qualified brewer, the dollar amount of product purchased back from a liquor wholesaler or retailer, and the dollar amount of any product disposed of as unsalable due to closure or limited capacity;
- For a qualified retailer, the dollar amount of product returned without reimbursement to a liquor wholesaler or manufacturer, and the dollar amount of any product disposed of as unsalable due to closure or limited capacity; and
- For a qualified wholesaler, the dollar amount of product purchased back from a retailer, the dollar amount of product returned without reimbursement to a manufacturer, and the dollar amount of any product disposed of as unsalable due to closure or limited capacity.

EXPLANATION OF THE BILL (Cont.)

"Protective equipment" means any materials, supplies, or equipment purchased to comply with the guidance from Centers for Disease Control and Prevention and the Minnesota Department of Health related to COVID-19, including personal protective equipment, and items purchased to comply with limited capacity restrictions such as screening, furniture, signs, and floor markings.

"COVID-19 regulation equipment" means equipment used to comply with COVID-related requirements including reservation software; ultraviolet light upgrades to ventilation systems; and tents, umbrellas, and other similar equipment to make use of indoor and outdoor space.

The taxpayer is not allowed to claim any other credit or subtraction using the amount used to claim the credit.

For S corporations, limited liability companies, or partnerships, the credit is passed through to the entity's shareholders or partners.

REVENUE ANALYSIS DETAIL

Credit for Liquor Spoilage

- The total value of beer spoilage in 2020 is estimated at \$3 million, based on information from the beer wholesale industry. The estimate was increased by 5% to account for wine and liquor spoilage.
- It is assumed that most of the spoilage occurred in the first few months the executive orders were in place. The estimate was increased by 10% to account for additional spoilage in 2021.

Credit for Protective and Regulation Equipment

- The estimate is based on sales tax information for restaurants, bars, and other establishments with liquor sales.
- About 5,500 establishments were identified that would qualify for the credit.
- The average protective equipment expenses are estimated at \$13,800, based on fee amounts charged by restaurants to cover COVID-19 related costs.
- It is assumed that most expenses were incurred in 2020. The estimate was increased by 10% to account for additional expenses in 2021.
- Tax year 2020 and 2021 impacts were allocated to fiscal year 2022.

Minnesota Department of Revenue
Tax Research Division
www.revenue.state.mn.us/research/stats/Pages/Revenue-Analyses.aspx