

*Confidential Request
Estimates Revised for Additional
Change to the Small Brewer Credit*

**Alcoholic Beverage Excise Tax Rate Increases 7¢ Per Drink
Small Brewer Credit and Small Winery Credit Modified**

	FY 2014	FY 2015	FY 2016	FY 2017
			(\$000s)	
Alcoholic Beverage Excise Tax Rate Increase	\$160,200	\$178,200	\$181,700	\$185,300
Liquor Gross Receipts Tax	\$2,200	\$2,400	\$2,500	\$2,500
Sales Tax on Alcoholic Beverages (6.5%)	\$5,700	\$6,300	\$6,400	\$6,500
Small Brewer Credit	(\$3,900)	(\$3,900)	(\$4,000)	(\$4,000)
Small Winery Credit	(\$260)	(\$260)	(\$260)	(\$260)
General Fund Net Impact	\$163,940	\$182,740	\$186,340	\$190,040
Sales Tax on Alcoholic Beverages (0.375%)	<u>\$330</u>	<u>\$360</u>	<u>\$370</u>	<u>\$380</u>
Natural Resources and Arts Funds	\$330	\$360	\$370	\$380
Total – All Funds	\$164,270	\$183,100	\$186,710	\$190,420

Assumed effective July 1, 2013.

The proposal would increase the excise taxes on beer, wine, and spirits equivalent to 7¢ per drink. Assuming that a drink equals twelve ounces for beer, five ounces for wine, and 1.5 ounces for distilled spirits, the tax rates would be changed as follows:

	<u>Current</u>	<u>Proposed</u>
3.2 Beer (per 31-gallon barrel)	\$2.40	\$25.55
Strong Beer (per 31-gallon barrel)	\$4.60	\$27.75
Cider (per liter)	\$.04	\$.51
Regular Wine (per liter)	\$.08	\$.55
Strong Wine (per liter)	\$.25	\$.72
Sparkling Wine (per liter)	\$.48	\$.95
Spirits (per liter)	\$1.33	\$2.91

The small brewers' tax credit is increased from the first 25,000 to **the first 50,000 barrels** and from \$4.60 to \$27.75 per barrel, with the maximum credit increased from \$115,000 to \$1,387,500. The maximum production threshold for a small brewer is increased from 100,000 barrels to 200,000 barrels.

The proposal creates a small winery credit. A winery that produces less than 100,000 gallons of wine in the previous calendar year would be eligible for a credit of \$2.09 per gallon on 50,000 sold in any fiscal year. The credit may not exceed the liability for tax or \$104,500. The small winery credit of \$2.09 per gallon is equivalent to 55¢ per liter.

Liquor Excise Taxes

- Baseline revenues are the February 2013 forecast for the alcohol beverage excise taxes.
- Minnesota excise tax collection information provides quantities sold for each beverage type.
- The 2.5% gross receipts tax on alcoholic beverages is reported separately. Minnesota retail sales of alcoholic beverages are derived from the forecast of the gross receipts 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 increase in excise tax rates.
- Indian alcohol tax refunds are assumed to grow at a proportional rate to the additional excise tax.
- Because this change would become effective July 1, 2013, eleven months of collections of the additional revenue would be realized in fiscal year 2014.

Small Brewers Credit

- Brewers claimed \$430,000 in credits in fiscal year 2012.
- Based on data from the Special Taxes Division of the Department of Revenue, there are a small number of brewers who are not currently qualified brewers that would become qualified brewers under this bill.
- There are several additional brewers who currently produce nearly 100,000 barrels or may soon have the capacity to produce more than 100,000 barrels.
- Between 2003 and 2010 the number of qualified barrels grew at an average rate of 2.1%. This growth rate is used to project the number of barrels of beer produced by producers who would become eligible for the credit.
- The bill would be effective beginning with determinations based on calendar year 2012 production, so the impact on collections would first occur in fiscal year 2014.

Small Winery Credit

- Small wineries reported approximately 124,000 gallons as taxable in calendar year 2012. No Minnesota winery currently produces more than 100,000 gallons or has sales of more than 50,000 gallons.

Minnesota Department of Revenue
Tax Research Division
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