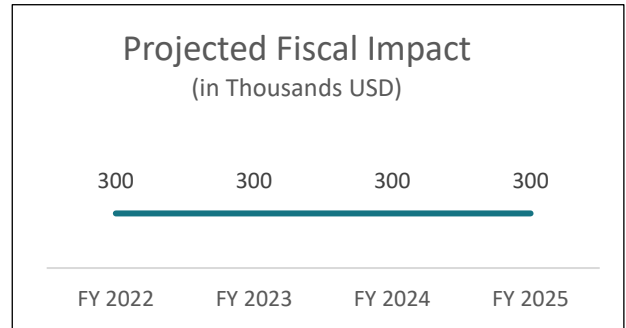


# Microdistillery Credit

## Tax Expenditure Initial Review - TEB 7.08

### Tax Expenditure Facts

Year Enacted	2014
Statute	Minn. Stat. § 297G.03, subd. 5
Tax Type	Alcoholic Beverages Taxes
Provision Type	Credits
Latest Fiscal Impact Estimate	\$300,000 – Fiscal Year 2024
Latest Claims Estimate	Latest figure of claims filed is not available
Expiration Date	None



### Tax Expenditure Description

A microdistillery, operating in the state, producing less than 40,000 proof gallons of premium distilled spirits, is allowed a credit of \$1.33 per liter on 100,000 liters sold to consumers at retail per fiscal year. The total credit allowed may not exceed the lesser of the tax liability or \$133,000.

The exemption was enacted in 2014.

In fiscal year 2020, 35 microdistilleries claimed this credit.

### Additional Background Information

Beneficiaries of the tax exemption include in-state microdistilleries that meet specific production requirements. This exemption is administered by the Department of Revenue and the Department of Public Safety. The Microdistillery Credit reduces the amount of excise tax revenue that would otherwise be generated. State alcohol excise tax collections are deposited in the state General Fund except as provided in the Minnesota Constitution or Statutes 297G.10.

### Proposed Tax Expenditure Objective for Consideration

The objective of the microdistillery credit is to promote development and survivorship of small producers in the craft distillery market.

### Sources

The language for the tax credit was introduced under HF1826 during the 2013 Regular Session. Discussion to the tax credit, in a 2014 House Tax Committee hearing, compares the tax credit's function to that of the small brewer's credit, "to provide space through the tax code for small brewers to develop."<sup>i</sup>

A purpose statement for this policy was included in the third engrossment of the 2014 omnibus supplemental tax bill (H.F. 3167-3E). Most recently, similar language was included in the second engrossment of H.F. 991 in

the 2021 Regular Session, proposing to retroactively introduce a purpose statement. The objective statement proposed in this review expands on the language found in these previously introduced bills.

Surrounding states do not have a similar tax credit.

### **Potential Metrics and Performance Measures**

The following are evaluation considerations with respect to administrative and enforcement actions.

Performance measurement: Statistical analysis of claims to assess counts, regional distribution, and trends in claims over time.

Performance attribution: Calculate the effective tax rate and differential as a result of the tax credit. Perform a financial analysis of participating distillers to assess free cash flow trends.

Performance appraisal: Conduct an operating ratio analysis to understand the impact of the tax credit on a producer's budgetary solvency. Assess whether budgetary solvency has improved over time as a result of the tax credit.

### **Contact Information and Disclaimer**

This tax expenditure review was prepared by the Legislative Budget Office for the Tax Expenditure Review Commission pursuant to Minnesota Statutes 2023, section 3.8855, subdivision 4.

Notice: Proposed tax expenditure objective statements are not binding authority and should not be used as a legal interpretation of any tax expenditure statute.

For questions regarding this review, please contact the Legislative Budget Office at 651-297-7146 or [lbo@lbo.mn.gov](mailto:lbo@lbo.mn.gov).

For more information, please visit the [Tax Expenditure Review Commission website](#).

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<sup>i</sup> Minn. H., Hearing on H.F. 1826 before the H. Comm. on Taxes, 88<sup>th</sup> Minn. Leg., Reg. Sess. (March 13, 2014), available at <https://www.lrl.mn.gov/audio/house/2014/taxes031314.mp3>.