STATE OF MINNESOTA
Legislative Budget Office

Tax Expenditure Evaluation:

Credit for Small Brewers, Small Wineries, and Microdistilleries

PREPARED FOR THE TAX EXPENDITURE REVIEW COMMISSION

DECEMBER 10, 2025

Agenda

- Tax Expenditure Objective
- Background
- Evaluation Findings
- Nine Components of Review

Tax Expenditure Objectives

- All three of these tax expenditures share the same objective statement (specific to their industry).
- ***Credit for Small Brewers***: "The objective of the Credit for Small Brewers is to **promote development and survivorship** among small brewers."
- ***Microdistillery Credit***: "The objective of the Microdistillery Credit is to **promote development and survivorship** of small producers in the craft distillery market."
- ***Small Winery Credit***: "The objective of the Small Winery Credit is to **promote development and survivorship** of small wineries."

These objective statements were approved by TERC on March 15, 2024.

Background: Small Brewers Credit

- Enacted in 1985
- Eligible beneficiaries: In-state and out-of-state brewers who produce fewer than 250,000 barrels of product annually
- Credit amount: $4.60 per barrel up to 25,000 barrels sold in a fiscal year (maximum = lesser of the brewer's tax liability or $115,000)
- How to claim: Brewer must file the Annual Beer Production Report form (form LB42) with their Excise Tax Return for Brewers (form LB41) by Jan 18th for the previous year claiming
- As of September 2025, there were 229 breweries in MN (licensed by DPS)

Background: Small Winery Credit

- Enacted in 2017
- Eligible beneficiaries: In-state and out-of-state wineries that manufacture fewer than 75,000 gallons of product annually
- Credit amount: Qualifying wineries can claim up to $136,275 on the excise tax that they owe on wine or cider sales the following fiscal year
- How to claim: Winery must file the Small Winery Production Report (form LB56P) with their Farm Winery Tax Return (form LB56F) by Jan 18th for the previous year claiming
- As of September 2025, there were 121 wineries in MN (licensed by DPS)

Background: Microdistillery Credit

- Enacted in 2014
- Eligible beneficiaries: In-state distillers that produce fewer than 40,000 proof gallons of premium distilled spirits
- Credit amount: $1.33 per liter on 100,000 liters sold to consumers at retail in a fiscal year (maximum = lesser of the distiller’s tax liability or $133,000)
- How to claim: The microdistillery must report the number of proof gallons produced during the calendar year as a part of their December Microdistillery Excise Tax Return
- As of September 2025, there were 49 distilleries in MN (licensed by DPS)

Latest Claimant Data (2018 – 2023 averages)

Tax Expenditure	Number of Claimants (2018 - 2023 average)	Average amount claimed (2018 - 2023 average)	Credit Sum (2018 - 2023 average)
Credit for Small Brewers	285	$6,505	$1,782,171
Small Winery Credit	79	$1,546	$120,387
Microdistillery Credit	39	$8,178	$321,953

Data Source: Claims data provided by DOR

Methodology of Evaluation

- Survey administered to small alcohol producers
  - 81 total businesses responded, out of 330 surveys sent
  - 24% response rate
- Licensee data from DPS and other states, BLS data
  - Small alcohol producers' survivorship rates (both MN and other states)
  - Survivorship rates of all businesses (both MN and other states)
- Economic Analysis to estimate the impacts on MN's economy
  - IMPLAN economic modeling software
  - To understand magnitude of economic impact of tax credits on MN economy

Evaluation Survey Findings

- Overall impact of the credit(s)
  - 78% of respondents described the credits' impact as "very positive"
  - 21% of respondents described the credits' impact as "positive"
  - 2% of respondents chose "no impact"
- Credits' Impact: open-ended questions
  - 45% cited ability to stay in operation
  - 31% cited business growth
  - 2% cited no effect
- Allows small producers to stay competitive with larger distributors
- On average, businesses have been claiming the credit(s) for 6 years
- Narrow margins that these businesses operate in - "every dollar matters"

DPS Licensee, Other States and BLS Data

- Small alcohol producers in MN have stayed active in business for an average of 7.8 years
- Small alcohol producers in other states: 5.8 years
- BLS data: in general, MN businesses tend to have higher survivorship rates than other businesses across the country

Economic Impact Analysis

- IMPLAN economic modelling software
  - Widely used regional impact analysis and tax expenditure evaluations
  - Input-output modeling software
- Economic impact of tax credits in FY 2025 (forgone revenues)
  - Gain of 14 jobs
  - $1.7 million in economic output
- Repeal tax credits and increase government spending
  - Gain of 23 jobs
  - $2.5 million in economic output

Component of Review #1:
Estimate of Annual Revenue Lost

Tax Expenditure	2024	2025	2026	2027
Credit for Small Brewers	$1,700,000	$1,700,000	$1,700,000	$1,800,000
Credit for Microdistilleries	$500,000	$500,000	$600,000	$600,000
Credit for Small Wineries	$100,000	$100,000	$100,000	$100,000

Note: Estimates from the Department of Revenue 2024 Tax Expenditure Budget

Component of Review #2:
Objective of the Tax Expenditure

The objective of the small brewery, small winery, and microdistillery tax credits is to **promote the development and survivorship** of small breweries, microdistilleries, and small wineries.

This objective was approved and adopted by the TERC on March 15, 2024, for the purposes of evaluation.

Component of Review #3:
Impacts and Efficiency in Accomplishing Objective

- These tax credits likely contribute to the development and survivorship
  - Survey responses and business survival rates support this claim
  - The extent of the contribution is not clear
- Almost all of the survey respondents said the tax credits had a *very positive* or *positive* impact on their business’s growth
- MN small alcohol producers seem to out-survive small alcohol producers from other states (see appendix slide for further detail)
  - Unable to determine if this is because of the tax credits, or other elements of the MN market

Component of Review #4:
Compare to Direct Expenditure with the Same Objective

- No direct spending programs were identified with the same policy objective
- Benefits of a tax expenditure:
  - Allows any eligible producer to benefit
  - Direct spending programs generally are capped, limiting the number of recipients
- Benefits of a direct expenditure:
  - Reduces barrier to entry for participants
  - Allows the legislature to more precisely target an intended behavior or industry outcome

Component of Review #5:
Potential Modifications to Increase Efficiency or Effectiveness

- Issue tax credits that are based on other characteristics outside of alcohol production amounts
- Require quarterly production amount filings instead of monthly filings
- Increase the awareness of the credits

Component of Review #6:
Revenue Neutral Tax Rate Reduction

Alcohol Type	Current Rate (Per liter unless noted otherwise)	New Rate*
Beer - Less than 3.2%	$2.40**	$2.14
Beer - More than 3.2%	$4.60**	$4.11
Distilled Spirits	$1.33	$1.32
Wine - 14% or less	$0.08	$0.08
Wine 14% - 21%	$0.25	$0.25
Wine 21% - 24%	$0.48	$0.47
Wine 24% or more	$0.93	$0.92
Sparkling Wine	$0.48	$0.47

*New rate refers to the tax rate if the credit were to be repealed
**Per 31-gallon barrels
Estimates from the Department of Revenue 2024 Tax Expenditure Budget

Component of Review #7:
Incidence of the Tax Expenditure and Effect on State Tax System

- An incidence analysis is not available for the tax credits for small breweries, microdistilleries, and small wineries
- These tax credits are not classified as "significant tax expenditures"
  - Minnesota Statutes 2024, section 3.8855, subdivision 5(a)(7) mandates incidence analysis only for significant tax expenditures

Component of Review #8: Cumulative Fiscal Impacts of Other State and Federal Policies

- Minnesota Capital Equipment Tax Exemption
  - Estimated $1.9 million claimed in FY25 by small alcohol producers
- Minnesota Research and Development Tax Credit
  - No detailed public information on the benefit to small alcohol producers
- Federal Tax Credit for Increasing Research Activities
  - No detailed public information on the benefit to small alcohol producers

Component of Review #9: Recommendation to the Legislature

The Commission may choose to consider these findings in preparing a recommendation to the legislature to **continue, repeal, or modify the tax expenditure**, as is required of the Commission under Minnesota Statutes 2024, section 3.8855, subdivision 5.

Thank you

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Appendix

Appendix: Survivability – Licensee Data from Other States

- LBO received data from nine other states; five states had comparable data (47 states were contacted)
  - Data received from: Connecticut, Iowa, Michigan, Missouri, Montana, New Hampshire, North Dakota, Pennsylvania, and Vermont
- Some slight inconsistencies in data between states
  - Not all data goes back to 2001 like MN DPS data
  - Cutoff date for all data, across all states, is September 2025
- Average survivorship:
  - MN small alcohol producers = 7.8 years
  - Five comparable states small alcohol producers = 5.8 years

Appendix: Survivability Continued – Licensee Data from Other States

State	Survivorship Rate (years)	Data Clarification / Notes
Connecticut	3.4	For manufacturer licenses issued 2001 or later, either active or inactive
Missouri	5.3	For manufacturer licenses issued 2001 or later, either active or inactive
New Hampshire	6.5	For manufacturer licenses issued 2001 or later, either active or inactive
North Dakota	6.1	For manufacturers with registered start dates on 01/01/2005 or later, whether active or closed
Pennsylvania	5.3	For manufacturer licenses issued 2002 or later, either active or inactive
Vermont	8.1	For manufacturer licenses issued 2002 or later, either active or inactive
Iowa	*4.2	For manufacturer licenses issued in 2017 or later that are active
Michigan	*3.4 **4.1	*For manufacturer licenses issued 1/1/2017 or later that are no longer active (business closed) // **For manufacturer licenses issued 1/1/2017 or later that are currently active
Montana	*5.9	For manufacturer licenses issued in 2006 or later that are active

Note: Iowa, Michigan, and Montana have partial data, which is not comparable to MN's survivorship rate calculations. MN, as well as CT, MO, NH, ND, PA, and VT, include both active and inactive licenses in their calculations. IA, MI, and MT only have calculations for active or inactive licenses (calculations done separately, not together).
Data Source: Data gathered from alcohol regulatory agencies of respective states

Appendix: Best Practices to Evaluate Tax Expenditures

- At minimum, evaluations should include:
  - A description of the incentive, including its history and goals
  - An assessment of the program's design and administration
  - Estimates of the expenditure's economic and fiscal impacts
  - Policy recommendations

Best Practices presented to TERC August 11, 2022, by PEW Charitable Trusts

Appendix: Minnesota Statutes 2024, section 3.8855, subdivision 5

Tax expenditure review must include:

1. **Annual revenue lost** as a result of the expenditure
2. **Objective** of the tax expenditure
3. **Impacts and efficiency** in accomplishing its objective
4. **Compare the effectiveness** of a tax expenditure and a direct expenditure with the same objective
5. **Potential modifications** to the tax expenditure to increase efficiency or effectiveness
6. **Amount the tax rate could be reduced** if the revenue lost due to the tax expenditure were applied to a rate reduction

Appendix: Minnesota Statutes 2024, section 3.8855, subdivision 5 (continued)

7. **Incidence** of the tax expenditure and the effect of the expenditure on the incidence of the state's tax system (if tax expenditure is significant)
   - A significant tax expenditure, as defined in [Minnesota Statutes 2024, section 270C.11, subdivision 6], is a tax expenditure but excludes any tax expenditure that:
     a) is incorporated into state law by reference to a federal definition of income;
     b) results in a revenue reduction of less than $10,000,000 per biennium; or
     c) is a business tax credit
8. **Fiscal impacts of other state and federal taxes** providing benefits to taxpayer for similar activities
9. **Recommend** whether the tax expenditure be continued, repealed, or modified

Appendix: General Tax Principles

I. Allocative Efficiency (Neutrality)

II. Fairness and Equity

- Horizontal Equity – Equal treatment of equals

III. Simplicity

- Transparency
- Ease of compliance and administration

May conflict with each other or with policy goals (vertical equity, maintaining state competitiveness, promoting economic development)