Minnesota Tax Expenditure Evaluation: Credits for Small Brewers, Small Wineries, and Microdistilleries

Prepared for the Tax Expenditure Review Commission

By the Legislative Budget Office

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Prepared by the Legislative Budget Office on behalf of the Tax Expenditure Review Commission.

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Executive Summary

The Tax Expenditure Review Commission (TERC) is responsible for reviewing the effectiveness and efficiency of Minnesota's tax expenditure policies. The Tax Expenditure Review Commission has elected to review and evaluate Minnesota's tax credits for small brewers, microdistilleries, and small Wineries. These tax expenditures are bundled together for evaluation because they share an intended objective: to promote the development and survivorship of small breweries, microdistilleries, and small wineries, respectively. This report provides an evaluation of the credits with consideration to the first eight components of review required under Minnesota Statutes 2024, section 3.8855, subdivision 5. The Commission may consider the findings of this report to recommend whether the expenditure should be continued, repealed, or modified.

The Legislative Budget Office's (LBO) evaluation reveals that these credits likely positively impact the development and survivability of small breweries, small wineries, and microdistilleries in Minnesota. Data from the Minnesota Department of Public Safety (DPS) and responses to a survey of qualifying businesses suggest these credits contribute to survivability and positive development. An economic impact analysis speaks to the contributions of the credits to the alcohol manufacturing industries.

For purposes of this evaluation, survivorship is evaluated based on the number of years that a business holds an active license. According to DPS licensure data, Minnesota qualifying businesses have an average lifespan of 7.8 years, which is two years longer than the average lifespan of comparable small alcohol producers in the other states assessed in this evaluation. However, private businesses in Minnesota generally tend to have a higher survivability rate than the nation's average, meaning the magnitude of influence these tax credits have in supporting the survivability and growth of the impacted businesses is difficult to determine. It is likely other factors also influence the success of small alcohol producers who are using these tax credits.

Responses from the survey highlight that many of the newer qualifying businesses are not yet profitable, and most operate on narrow profit margins. These credits have supported qualifying businesses in maintaining operations, achieving small profit margins, and reinvesting in growth initiatives such as purchasing equipment, improving operations, and staffing logistics.

An economic impact analysis was conducted using IMPLAN modeling software to understand the impact of the tax credits on Minnesota's economy. The model attributes under $1 million dollars in labor income to the credits and suggests positive job growth. A combined forgone revenue estimate of $2.3 million is estimated to produce $1.6 million in total value-added to the brewery, distillery, and winery industries combined. The estimated amount of tax revenue forgone by the state is more than the estimated economic impact attributed to the tax credits. The economic impact analysis indicated that outside of the three industries, the tax credits had minimal effects on other industries in Minnesota's economy.

Overall, the analysis of available data supports the conclusion that these tax credits likely meet their intended objectives by contributing to the growth, sustainability, and development of Minnesota's small breweries, small wineries, and microdistilleries.

The LBO would like to extend its gratitude to the DOR Tax Research Division, the Department of Public Safety, the small business owners who participated in the survey, and other stakeholders for their cooperation and consultation in this evaluation.

Introduction

The Tax Expenditure Review Commission directed the LBO to evaluate a subset of tax expenditures in 2024 to meet the statutory requirements outlined in Minnesota Statutes 2024, section 3.8855, subdivision 5. Three of the tax expenditures selected for review are tax credits available to small breweries, microdistilleries, and small wineries for certain quantities of alcoholic beverages produced and sold. The Credit for Small Brewers was enacted in 1985, the Microdistillery Credit was enacted in 2014, and the Small Winery Credit was enacted in 2017. These tax credits help reduce excise tax liability for businesses that produce alcoholic beverages.[1] To be awarded these tax credits, small brewers, small wineries, and microdistilleries must report their annual production and sales totals to DOR. All three of the tax expenditures can be found in the 2024 Tax Expenditure Budget published by the DOR Tax Research Division.

This evaluation aims to determine whether each policy is meeting its respective objective as approved by the TERC on March 15, 2024.

All three of these tax expenditures have a shared objective, which is to promote the development and survivorship of small breweries, small wineries, and microdistilleries, respectively.

Components of Review

This evaluation is designed to understand the degree to which these credits promote the development and survivorship of small breweries, small wineries, and microdistilleries. The evaluation also addresses the minimum review components outlined in Minnesota Statutes 2024, section 3.8855, subdivision 5, and provides additional analysis. The findings are listed in the corresponding order as written in the statute.

Component 1. Estimate of the Annual Revenue Lost

A DOR Tax Research analysis provides forgone revenue estimates for each tax expenditure. The latest claims estimates for each credit are for calendar year 2023, resulting in 346 claims for the Credit for Small Brewers, 46 claims for the Microdistillery Credit, and 91 claims for the Small Winery Credit. Figure 1 provides the forgone revenue estimates for each tax expenditure for Fiscal Years 2024 through 2027.

Figure 1. 2024 Tax Expenditure Budget Forgone Revenue Estimates

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

Data Source: DOR 2024 Tax Expenditure Budget

[1] Excise taxes are distinct from general sales and use tax in that they focus on the consumption of a certain good or service and are often associated with the intention of modifying consumer behavior. Common examples are alcohol and cigarette taxes.

Component 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, small wineries, and microdistilleries, respectively.

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

Component 3. Estimating the measurable impacts and efficiency of the tax expenditure in accomplishing the purpose of the expenditure

The LBO found plausible evidence to suggest these credits likely contribute to the development and survivorship of their respective industries, although the extent of the contribution is not clear. Survey responses and business survival rates support this claim. Survey respondents emphasized that these credits helped their businesses remain price-competitive despite operating within tight profit margins. Of the survey respondents, 61 out of 81 reported the tax credits either had a *very positive* or *positive* impact on their business growth. Fourteen percent of respondents indicated that the tax credits had *no impact* on the ability to grow their business.

The survivorship of small breweries, wineries, and microdistilleries in Minnesota tends to fare slightly better than small alcohol producers in other states.[2] Of the handful of identified states with comparable data, Minnesota's small alcohol producers tend to outlast small alcohol producers from other states by roughly two years. Small alcohol producers included in this evaluation have an average life expectancy of 7.8 years in Minnesota, while small alcohol producers in other states have a life expectancy of 5.8.

In the U.S., 48 percent of new businesses from all industries survive seven or more years, while in Minnesota, 51 percent of new businesses survive seven or more years. This indicates that all different types of businesses in the Minnesota market typically have a slightly higher survival rate than businesses in other states. It is undetermined if the tax credits in this evaluation help Minnesota's small alcohol producers outperform small alcohol producers from other states, or if they outperform them based on other elements of the Minnesota market.

An economic impact model attributes under one million dollars in labor income to the credits and suggests positive job growth. However, the estimated amount of tax revenue forgone by the state is larger than the estimated economic impact attributed to the tax credits.

Component 4. Comparing the effectiveness of the tax expenditure and a direct expenditure

Although no direct spending programs were identified for this policy objective, there are merits in policy design for both a tax expenditure and a direct spending program.

A tax expenditure can be more effective than a direct spending program for a few reasons. A tax expenditure in the form of a credit allows any eligible small alcohol producers to benefit from the tax preference; whereas direct spending programs may be limited by state or beneficiary resources. State appropriations for grants are typically capped, limiting the number of eligible recipients, and time-bound to an application and program time-window. Additionally, eligible businesses may not have the administrative resources to apply for grants and satisfy reporting

[2] See "Business Survivorship Data Analysis – Minnesota Compared to Other States" section for further detail

or outcome requirements. Elements typically associated with grant programs may limit the number of total beneficiaries.

On the other hand, it can be argued that direct expenditure programs reduce the barrier to entry for participants who are less favorably positioned to enter a market; whereas a tax expenditure may provide a benefit to a participant who was already planning to enter the market regardless of the tax expenditure. Additionally, a direct expenditure program may allow the legislature to more precisely target an intended behavior or industry outcome. For example, a grant program could be tied to the successful completion of a financial management course for small business owners, or to an investment threshold in capital equipment, or a job creation target.

Policymakers should consider the advantages and disadvantages in the program design chosen to meet the policy goal.

Component 5. Potential modifications to the tax expenditure to increase its efficiency or effectiveness

A small minority of survey responses mentioned the administrative burden associated with claiming the credits as a small business. Insights gathered from survey responses assisted the evaluation team in offering potential modifications for the administration of the tax credits so they can better meet the intended objective. The LBO offers three different potential modifications to increase the efficiency and effectiveness of the tax credits:

1. Issue tax credits based on other characteristics outside of alcohol production amounts. Numerous products and outputs from small alcohol producers are not necessarily captured by the number of barrels of liquor, wine, or beer that are produced. These small businesses would benefit from other outputs being incentivized by tax credits such as equipment upgrades, events being held, jobs created, etc.
2. Require quarterly production amount report filings instead of monthly filings. Numerous eligible small businesses reported that filing production amounts each month is burdensome, therefore doing so quarterly would reduce the burden on the staff members or owners who file these reports.
3. Increase awareness of the credits. Some respondents shared they were unaware of the applicable credits. Eligible alcohol producers could benefit from increased targeted advertising of these applicable tax credits. DOR Special Taxes Division’s Alcohol Unit previously provided presentations on alcohol excise tax issues, as well as information on these tax credits due to the significant tax liability for taxpayers when filing their applicable monthly fermented malt beverage, distilled spirits, and wine excise tax returns to DOR. It is understood that these presentations have not been given in the past few years. DOR’s Special Taxes Division relies on direct contact when issues related to a specific taxpayer filing arise, with direct customer service and education provided to assist the specific taxpayer. DOR also relies on the Department of Revenue Alcoholic Beverage web page to provide information on the credits and other filing issues.[3]

[3] Email conversation between LBO, DOR Tax Research Division, and DOR Special Taxes Division (Alcohol Unit) (8/5/2025)

Component 6. Estimating the amount by which the tax rate for the relevant tax could be reduced if the revenue lost due to the tax expenditure were applied to a rate reduction

DOR calculated the revenue-neutral tax rates for each tax expenditure as part of the 2024 Tax Expenditure Budget. A revenue-neutral rate is the tax rate necessary to raise approximately the same amount of revenue for the state of Minnesota if the tax expenditure were repealed and the tax rate were applied to a larger tax base. Figure 2 displays the revenue-neutral rate for the three different tax expenditures according to the level of alcohol by volume for each product type.

Figure 2. Revenue Neutral Rate for the Small Breweries, Microdistilleries, and Small Wineries Tax Credits [4]

Alcohol Type	Current Rate (per liter unless noted)	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

*Note: New Rate refers to the tax rate if the respective credit were to be repealed
**Rate per 31-gallon barrel
Data Source: DOR 2024 Tax Expenditure Budget

Component 7. The incidence of the tax expenditure and the effect of the expenditure on the incidence of the state's tax system

An incidence analysis was not conducted for the small breweries, microdistilleries, and small wineries tax credits. These tax credits are not classified as "significant tax expenditures," as defined under Minnesota Statutes 2024, section 270C.11, subdivision 6. Minnesota Statutes 2024, section 3.8855, subdivision 5(a)(7) mandates incidence analysis only for significant tax expenditures.

Component 8. Cumulative fiscal impacts of other State and Federal taxes providing benefits to taxpayers for similar activities

The LBO identified three different tax incentives that have potential overlap with recipients of the small brewery, small winery, and microdistillery credits: the Minnesota Capital Equipment Tax Exemption, the Minnesota Research and Development Tax Credit, and the Federal Tax Credit for Increasing Research Activities. It is estimated that $1.9 million will be received by small breweries, wineries, and microdistilleries in Fiscal Year 2025 under the Minnesota Capital Equipment Exemption. No detailed public information is available to estimate the cumulative

[4] Minnesota Department of Revenue, "Tax Expenditure Budget", (2024): 204-205, https://www.revenue.state.mn.us/sites/default/files/2025-01/2024-tax-expenditure-budget-162024-revision.pdf

fiscal impacts of the Minnesota Research and Development Tax Credit or the Federal Credit for Increasing Research Activities concerning small breweries, wineries, or microdistilleries in Minnesota. More discussion on this analysis is provided in the report.

Background

Minnesota Alcoholic Beverage Taxes

In Minnesota, alcoholic beverages are subject to several types of taxes. Regardless of the type of beverage, all alcoholic drinks are subject to the state's general sales tax of 6.875 percent. In addition, a 2.5 percent gross receipts tax is imposed on retail sales of alcoholic drinks. This applies to producers making both on-sale (consumed on-site in a bar or restaurant) and off-sale (sold in liquor stores or by other sellers) transactions. Businesses may also be responsible for collecting and remitting applicable local or special local taxes.[5] Finally, different excise tax rates apply depending on the type of alcohol being sold, produced, imported, or possessed. Figure 3 outlines each beverage type along with its corresponding excise tax rate. In Fiscal Year 2025, the state of Minnesota collected over $109 million dollars in revenues from liquor, wine, and beer taxes out of over $30.5 billion dollars in total net non-dedicated revenues.[6]

Figure 3. Alcoholic Beverage Taxes – Excise Tax Rates

Beverage Type	Excise Tax Per Liter
Beer < 3.2% alcohol	$0.02
Beer > 3.2% alcohol	$0.03
Distilled Spirits *	$1.33
Cider <7% alcohol	$0.04
Low-alcohol dairy cocktails	$0.02
Wine < 14% alcohol	$0.08
Wine > 14% alcohol	$0.25
Wine 21%-24% alcohol	$0.48
Wine > 24% alcohol	$0.93
Sparkling Wine	$0.48

Data Source: Minnesota Statutes 2025, section 297G, sections 03 and 04.
*Unlike the tax at the federal level, the Minnesota tax on distilled spirits is imposed on the volume of the beverage sold, rather than its alcoholic content.

Small Winery Credit

As of September 2025, there were 121 wineries licensed by the Minnesota Department of Public Safety.[7] A credit is allowed to a winery that manufactures fewer than 75,000 gallons of wine or cider in the calendar year immediately preceding the fiscal year for which the credit is claimed. Qualifying wineries can claim the credit on the excise tax they owe on wine or cider

[5] Minnesota Sales – Beverages, "Liquor Sales", Minnesota Department of Revenue, (2025): https://www.revenue.state.mn.us/guide/sales-liquor
[6] Minnesota Management and Budget, "General Fund Financial Summaries Budget Close 2025", MMB (2025): https://mn.gov/mmb-stat/documents/budget/operating-budget/actual25/close25-gf-financial-summaries.pdf
[7] Minnesota Department of Public Safety AGED Public Data Access, License Search, https://app.dps.mn.gov/AGEDIS5/DataAccess/pages/license-search

sales the following fiscal year up to $136,275.[8] The Minnesota wine excise tax is due by the 18th of the month for production of the previous month, based on the tax rate for applicable alcohol content and types.

Claimants can apply for the credit in the fiscal year following the year of production. Form LB56F, the Farm Winery Tax Return, includes line 13, where qualifying claimants can enter the amount of credit they wish to claim based on Form LB56P, the Small Winery Production Report.[9] Form LB56P, the Small Winery Production Report, asks claimants to report wine produced (in gallons) for each month of the qualifying calendar year (January 1st - December 31st). Return paperwork is due January 18th the year following the reported production to receive the small winery credit. Wine production is categorized as the total of the following categories: wine 14 percent or less, wine 14 percent – 21 percent, wine more than 24 percent, sparkling wine, and cider. One important distinction of the form is that the focus is on production in gallons, not on sales. The credit is available to be utilized in the following fiscal year. For example, if a business produces 50,000 gallons of wine and cider during the 2020 calendar year (January 1 - December 31), they are eligible to utilize the credit the following fiscal year (July 1, 2021 - June 30, 2022).

DOR provides a yearly Small Winery Credit Report as required by Minnesota Statutes 2024, section 297G.03, subdivision 6. The report provides the number of Minnesota wineries and out-of-state wineries that claim the credit for Minnesota during the applicable fiscal year, as well as the total tax expenditure amount for the credit. In fiscal year 2023, 86 Minnesota small wineries claimed the credit, totaling $120,971 in tax credits.[10] Figure 4 displays the number of claimants of this tax credit by year from 2018 to 2023.

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[8] Minnesota Department of Revenue Small Winery and Annual Production Report, https://www.revenue.state.mn.us/small-winery-credit-and-annual-production-report

[9] Form LB56P, "Small Winery Production Report", Minnesota Department of Revenue: https://www.revenue.state.mn.us/sites/default/files/2022-05/lb56p_17.pdf ; Form LB56F, "Farm Winery Tax Return", Minnesota Department of Revenue: https://www.revenue.state.mn.us/sites/default/files/2022-05/lb56f.pdf

[10] Minnesota Department of Revenue, "*Small Winery Credit Report",* (2024): https://www.lrl.mn.gov/docs/2024/mandated/240309.pdf

Figure 4. Small Winery Credit Claims by Calendar Year

Calendar Year	Number of Claimants	Average Credit Amount Claimed per Claimant	State Revenue Loss
2018	66	$1,539	$101,543
2019	70	$1,622	$113,566
2020	71	$1,864	$132,371
2021	87	$1,517	$132,007
2022	87	$1,435	$124,812
2023	91	$1,297	$118,023
Averages	**79**	**$1,546**	**$120,387**

Data Source: Claims data provided by DOR

Credit for Small Brewers

As of September 2025, there were 195 microbreweries, 13 small breweries, and 21 large breweries licensed in Minnesota by DPS. The brewery license designation is determined by production limits. Microbreweries are limited to 2,000 barrels of production annually. Small breweries and brew pubs are limited to 3,500 barrels of production annually. A Minnesota brewery producing over 3,500 barrels annually is considered a large brewer for the purpose of licensure. All license designations are eligible for the credit for small brewers, as long as they produce less than 250,000 barrels annually.

Eligible beneficiaries of the small brewer's credit include out-of-state brewers who meet the same production thresholds and sell beer in Minnesota. The credit is $4.60 per barrel on up to 25,000 barrels sold in a fiscal year, with a maximum credit equaling the lesser of the brewer's tax liability or $115,000.

To claim the tax credit for small brewers, a producer must file form LB42, Annual Beer Production Report Form, along with form LB41, Excise Tax Return for Brewers, specific to the month of December.[11] Brewers report the total barrels of beer produced each month during the calendar year with Form LB42. Form LB41 is used to document inventory, calculate tax liability, and determine tax credit amounts for producers. Both forms are due January 18th of the year following the reported production to claim the credit. Beer production is categorized as the total of the following categories: more than 3.2 percent alcohol, and 3.2 percent or less alcohol, in barrels.

Figure 5 displays the number of annual small brewer credit claimants from 2012 to 2023.

[11] Form LB42, "Annual Beer Production Report", Minnesota Department of Revenue: https://www.revenue.state.mn.us/sites/default/files/2022-05/lb42.pdf ; Form LB41, "Excise Tax Return for Brewers", Minnesota Department of Revenue: https://www.revenue.state.mn.us/sites/default/files/2023-04/lb41.pdf

Figure 5. Credit for Small Brewers: Number of Claimants by Calendar Year

Calendar Year	Number of Claimants	Average Credit Amount Claimed per Claimant	State Revenue Loss
2012	99	$5,779	$572,106
2013	126	$8,438	$1,063,229
2014	149	$8,579	$1,278,228
2015	168	$8,372	$1,406,482
2016	178	$8,472	$1,508,035
2017	198	$8,433	$1,669,694
2018	219	$8,127	$1,779,917
2019	233	$7,835	$1,825,541
2020	235	$7,251	$1,704,019
2021	325	$5,626	$1,828,607
2022	352	$4,934	$1,736,779
2023	346	$5,255	$1,818,163
Averages	**219**	**$7,258**	**$1,515,900**

Data Source: Claims data provided by DOR

At the federal level, the brewery industry benefited from the Craft Beverage Modernization and Tax Reform Act as a part of the Federal Tax Cuts and Jobs Act (TCJA) passed in 2017, which lowered the federal excise tax rate to $3.50 per barrel on a brewer's first 60,000 barrels if producing fewer than two million barrels annually.[12] Before the Federal TCJA, small domestic brewers paid $7 per barrel for the first 60,000 barrels produced, if producing fewer than two million barrels annually.[13] The lowered federal excise tax rates became permanent in 2020.[14] Trends in the number of operating breweries showed an increased number of craft breweries, as well as craft brewery production, between 1991 and 2012.[15] Nationwide, the beer industry paid an estimated $4.9 billion in federal and state excise taxes in 2022.[16]

Overall, federal, state, and local excise taxes have a large impact on pricing within the brewery industry. State and federal production and distribution taxes combine to make up approximately 40 percent of the retail price of beer.[17] The impact of excise taxes on the brewery industry is offset at the state level through a variety of incentives across several states. Six states offer a

[12] Federal Excise Tax, "Federal Excise Tax – for Brewers and Beer Importers", Beer Institute, (2025): https://www.beerinstitute.org/policy-responsibility/policy/excise-tax/.

[13] Alcohol Excise Taxes, "Alcohol Excise Taxes: An Overview - A Brief History of Federal Alcohol Excise Tax Rates", Congress.Gov (2024): https://www.congress.gov/crs-product/R48181

[14] Federal Excise Tax, "Federal Excise Tax – for Brewers and Beer Importers", Beer Institute, (2025): https://www.beerinstitute.org/policy-responsibility/policy/excise-tax/.

[15] Sophie Mumford, "*An Empirical Analysis of the Impact of State Excise Taxes on Craft Breweries in the United States",* Montana State University, (2014): https://scholarworks.montana.edu/server/api/core/bitstreams/0e0798c0-f00d-44f7-beee-b6fe30e7a655/content

[16] "Beer Industry Economic Impact, "The U.S. Beer Industry's Economic Contribution in 2022", Beer Serves America, (2023): https://acrobat.adobe.com/id/urn:aaid:sc:VA6C2:a2966af0-3c8b-4138-b216-5fb00964534f

[17] Beer Taxes by State, 2024, "Beer Taxes: How do Beer Taxes in Your State Compare?", Tax Foundation, (2024): https://taxfoundation.org/data/all/state/state-beer-taxes-2024/.

tax credit for brewers, five offer a tax exemption or reduced tax rate, and one offers a tax rebate.[18]

Microdistillery Credit

As of 2025, 49 microdistilleries were licensed in Minnesota by the DPS. Some license holders maintain multiple licenses because they operate at more than one production location. A microdistillery producing fewer than 40,000 proof gallons of premium distilled spirits per calendar year is allowed a credit of $1.33 per liter on 100,000 liters sold to consumers at retail per fiscal year.[19] The total credit allowed may not exceed the lesser of the tax liability or $133,000.

Claimants can apply for the credit in the fiscal year following the calendar year of production using the Microdistillery Credit and Annual Production Report. Annual production reports are due in conjunction with the December Microdistillery excise tax return. For example, if a microdistillery produces 30,000 proof gallons during the 2022 calendar year (January 1st - December 31st), they are eligible to use the credit the following fiscal year (July 1st, 2023 - June 30th, 2024). Proof gallons are calculated by multiplying the gallons produced by the percentage of alcohol by volume, and multiplying the result by two and dividing by 100. Figure 6 displays the number of claimants of this tax credit by year from 2018 to 2023.

Figure 6. Microdistillery Credit Number of Claimants by Calendar Year

Calendar Year	Number of Claimants	Average Credit Amount Claimed per Claimant	State Revenue Loss
2018	33	$8,084	$266,765
2019	29	$8,154	$236,462
2020	34	$6,565	$223,220
2021	42	$7,377	$309,843
2022	49	$8,869	$434,577
2023	46	$10,018	$460,849
Averages	**38.8**	**$8,178**	**$321,953**

Data Source: Claims data provided by DOR

Distilled spirits lead the U.S. in alcohol sales with an overall market share of 42 percent. This is a 13 percent increase in market share since 2000, and it is mainly due to the uptick in the production and sale of hard seltzers and ready-to-drink cocktails. While distilled spirits are the most sold alcohol products in the U.S., they are taxed at much different rates across the country, state by state.[20] As of January 1st, 2025, Minnesota ranked 19th highest in terms of distilled spirit taxes at $8.74 per proof gallon. Washington ranked the highest at $36.98 per proof gallon, and Missouri ranked the lowest at $2.00 per proof gallon. Minnesota's neighboring

[18] Pennsylvania Brewers' Tax Credit, "An Evaluation of Program Performance", Independent Fiscal Office, (2022): http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/TC_2022_Brewers.pdf

[19] A proof is a unit of measurement of the alcohol content in one gallon of spirits, where one proof gallon is one US gallon at 50 percent alcohol by volume.

[20] Distilled Spirits Taxes, "How Stiff are Your State's Distilled Spirits Taxes", Tax Foundation, (2025): https://taxfoundation.org/data/all/state/distilled-spirits-taxes/

states levy a distilled spirit tax rate as follows: Wisconsin at $3.25 per proof gallon, Iowa at $15.14 per proof gallon, North Dakota at $4.93 per proof gallon, and South Dakota at $4.93 per proof gallon. There is limited available literature on the impact of tax incentives on the distilled spirits industry. Most of the available literature on alcohol production-based tax incentives revolves around the brewery or the alcohol industry as a whole.

Industry Analysis

To understand the context in which the credits for small brewers, microdistilleries, and wineries work in, it is crucial to give an industry analysis of small alcohol producers in Minnesota and the U.S. as a whole.

Across the U.S. over the past couple of decades, the number of breweries, distilleries, and wineries has increased. According to data from the Bureau of Labor Statistics, from 2001 to 2024, the number of breweries increased from 396 to 6,044 (13 percent Compound Annual Growth Rate).[21] The number of distilleries increased from 66 to 1,873 (16 percent Compound Annual Growth Rate).[22] The number of wineries also increased from 1,066 to 5,801 (8 percent Compound Annual Growth Rate).[23]

The state of Minnesota matches the national trend of increased alcohol producers over the same period of time. The number of breweries in Minnesota increased from 8 to 134 (13 percent Compound Annual Growth Rate). The number of distilleries in Minnesota increased from less than five to 35 (roughly 17 percent Compound Annual Growth Rate). The number of wineries in Minnesota increased from less than five to 38 (roughly 17 percent Compound Annual Growth Rate).[24] Minnesota has a similar growth rate to the national rate for breweries and distilleries, and a higher rate for wineries over the 2001 – 2024 time period.

When evaluating the workforce that makes up the alcohol industry (breweries, wineries, and distilleries), it is worth noting how the overall employment numbers evolved in the U.S and in Minnesota from 2001 to 2024. During this time, the number of U.S. workers employed in the brewery industry increased from 27,805 to 108,309 (6 percent Compound Annual Growth Rate). The number of U.S workers in the distillery industry increased from 6,915 to 26,738 (6 percent Compound Annual Growth Rate), while the number of U.S workers in the winery industry increased from 25,363 to 77,034 (5 percent Compound Annual Growth Rate. Over the same time period, the number of Minnesotan workers in the brewery industry increased from 362 to 3,010 (10 percent Compound Annual Growth Rate). The number of Minnesotan workers in the distillery or winery industries from 2001 to 2024 is not displayed due to disclosure standards of the U.S. Bureau of Labor Statistics.[25]

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[21] Number of Establishments: "NAICS 31212 Breweries: 01' – 24'", U.S Bureau of Labor Statistics, (2025). Databases, Tables, & Calculators by Subject - BLS Employment and Wages Chart Creator

[22] Number of Establishments: "NAICS 31214 Distilleries": 01' – 24'", U.S Bureau of Labor Statistics, (2025). Databases, Tables, & Calculators by Subject - BLS Employment and Wages Chart Creator

[23] Number of Establishments: "NAICS 31213 Wineries: 01' – 24'", U.S Bureau of Labor Statistics, (2025). Databases, Tables, & Calculators by Subject - BLS Employment and Wages Chart Creator

[24] The Bureau of Labor Statistics' quarterly census of employment and wages data uses the North American Industry Classification System (NAICS) to assign establishments to industries and to report data at a highly detailed and aggregated level. For classification purposes, the NAICS classification of breweries, wineries, and distilleries is not the same as the Minnesota Department of Public Safety's classifications, resulting in different counts of small alcohol producers in Minnesota in 2024.

[25] Confidentiality and Disclosure, "Disclosure", U.S Bureau of Labor Statistics, (2025): https://www.bls.gov/rda/data-output-review-and-publication.htm

In terms of putting Minnesota in perspective with its neighboring states, as of 2024, Minnesota had the most breweries with134 (Wisconsin = 118, Iowa = 67, South Dakota = 19, and North Dakota = 9) and the most distilleries with 35 (Wisconsin = 28, Iowa = 14, South Dakota = 2, and North Dakota = 2). As of 2024, Wisconsin had the most wineries of all neighboring states, with 73 wineries (Minnesota = 38, Iowa =34, South Dakota = 7, and North Dakota = 8). When factoring in population, Minnesota is fairly similar in terms of the number of small alcohol producers compared to its neighboring states.

When evaluating the alcoholic beverage industry as a whole, it is important to note that in the last handful of years, alcohol consumption across the U.S. has taken a slight dip. Across the U.S. from the end of 2023 to the end of 2024, beer/cider sales were down 2.9 percent, spirit sales were down 2.3 percent, and wine sales were down 5.3 percent.[26] These decreased sales can be attributed to numerous reasons, including: a younger population not as interested in drinking, health concerns and wellness trends, and people choosing other recreational alternatives.[27]

Minnesota, like many other states, operates a regulatory framework referred to as a three-tiered system of regulation, which creates distinct roles and rules for producers, wholesalers, and retailers. Each tier is dependent on the other two under this system, as producers rely on wholesalers to distribute their products to retailers, who then sell to the final consumer. Exceptions to the three-tiered system have been enacted into law however, which provide advantages to producers. Examples include the ability for all wineries, all distilleries, and brewers of a certain size to sell their own product in a tap room for consumption or for off-site consumption; the ability of cideries producing under 2,500 gallons annually to self-distribute; and the ability of brewers of a certain size to sell product in growlers for off-site consumption. A brief on the three-tiered system of regulation is available from the Minnesota House Research Department for reference.[28] The exceptions to the three-tiered system of regulation likely play a role in the success of small producers in the state, potentially a larger role than the credits that are the subject of this evaluation.

Fiscal Impact to Minnesota

Estimates of Forgone Revenue

The Minnesota Department of Revenue's 2024 Tax Expenditure Budget provides estimates of forgone revenue for Fiscal Years 2024 through 2027 for the credits for small brewers, microdistilleries, and small wineries. In fiscal year 2026, $1.7 million is estimated as the forgone revenue for the Credit for Small Brewers, $600,000 for the Microdistillery Credit, and $100,000 for the Small Winery Credit. Figure 1 displays the forgone revenue estimates for each credit for fiscal years 2024 through 2027.

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[26] Alcoholic Beverage Trends 2025, "Consumption and Purchasing Trends", PennState Extension, (2025): https://extension.psu.edu/alcoholic-beverage-trends-2025
[27] Why Alcohol Sales are Declining, "The Rise of Mindful Drinking, Economic Pressures and Alternative Choices", Rival Group Company, (2025): https://www.reach3insights.com/blog/alcoholic-beverage-customer-research-2025
[28] Minnesota House Research Department, "Minnesota's Three-tier System of Liquor Regulation", MN House Research, (2023): https://www.house.mn.gov/hrd/pubs/ss/ss3tier.pdf

Revenue Neutral Tax Rate

The Minnesota Department of Revenue calculates revenue-neutral tax rates as part of the Tax Expenditure Budget. Revenue-neutral rates are the tax rates necessary to raise approximately the same tax revenue for the state of Minnesota if each respective tax expenditure were repealed and the excise tax of each alcohol type were applied to a larger tax base. The revenue-neutral tax rates are calculated in isolation from each other by alcohol type. The alcohol beverage tax could be reduced from $2.40 per liter to $2.14 for less than 3.2 percent alcohol beer and from $4.60 per liter to $4.11 for more than 3.2 percent alcohol beer. The impact from repealing the Microdistillery Credit and Small Wine Credit would have a minimal impact on the respective alcohol beverage tax rates. Figure 2 displays the revenue-neutral rates for the three different tax expenditures.[29]

Incidence

The incidence of a tax policy refers to the economic burden or benefit distribution across groups, such as employers, employees, or consumers, evaluating who ultimately gains or pays the cost and how impacts vary across income or business sectors. For the small breweries, microdistilleries, and small wineries tax credits, DOR does not conduct an incidence analysis since these tax credits are not classified as "significant tax expenditures" under Minnesota Statutes 2024, section 270C.11, subdivision 6, which mandates incidence reporting only for significant expenditures.[30]

Cumulative Fiscal Impacts of Other State and Federal Taxes

Three incentives were identified that could have potential overlap with recipients of the small brewery, small winery, and microdistillery credits. These include the Minnesota Capital Equipment Exemption[31], the Minnesota Research and Development Tax Credit[32], and the Federal Credit for Increasing Research Activities.[33]

The Minnesota Capital Equipment Exemption provides an up-front sales tax exemption on eligible capital equipment purchases. DOR Tax Research Division estimates $277,300,000 in forgone revenue for this tax exemption across all different beneficiaries of the incentive. Small breweries, wineries, and microdistilleries are estimated to account for 0.69 percent or $1.9 million of the total exemption dollars provided in fiscal year 2025.[34]

The Minnesota Research and Development Tax Credit provides a tax credit for qualifying organizations and research-related expenses in Minnesota. Neither DOR nor the Minnesota Department of Employment and Economic Development (DEED) have data available on the level of participation by breweries, wineries, and distilleries.

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[29] Minnesota Department of Revenue, "Tax Expenditure Budget: 204-205", DOR Tax Research Division, (2024): https://www.revenue.state.mn.us/sites/default/files/2025-01/2024-tax-expenditure-budget-162024-revision.pdf

[30] Minnesota Statutes 270C.11, Subdivision 6 – Significant Tax Expenditures

[31] Minnesota Capital Equipment Exemption, Minnesota Department of Revenue: https://www.revenue.state.mn.us/capital-equipment-exemption

[32] Credit for Increasing Research Activities (R&D Credit), Minnesota Department of Revenue: https://www.revenue.state.mn.us/credit-increasing-research-activities-rd-credit

[33] Federal Credit for Increasing Research Activities, "About Form 6765", Internal Revenue Service (IRS): https://www.irs.gov/forms-pubs/about-form-6765

[34] Estimate Prepared by the Minnesota Department of Revenue Tax Research Division

The Federal Credit for Increasing Research Activities can also help small breweries, wineries, and microdistilleries survive. According to the most recent publicly available data on this credit, the IRS awarded $4.54 billion in credits in tax year 2014 across all business types for research activities. The IRS separates these business types into 14 categories.[35] There is no specific category for alcohol producers, so the "manufacturing" category was selected as the most adequate fit. The IRS credited $2.5 billion to this select industry for research activities. It is uncertain how much of these funds were utilized by small breweries, microdistilleries, and small wineries in Minnesota due to the lack of industry-specific data. Businesses may be motivated to innovate or invest in development knowing that they may be able to offset some of the costs with the state and federal research credits.

Other tax incentives that are slightly outside the scope of the objective of these tax expenditures but are available to these small producers in their respective industries include the Federal Insurance Contributions Act (FICA) Tip Credit for Employers, the federal Fuel Tax Credit, Section 179 expense deductions, and the Minnesota tax exemption for Utilities Used in Production.[36]

The FICA Tip Credit for Employers allows businesses to claim a credit equal to the employer's share of FICA taxes paid on tips received by employees that exceed the amount needed to bring their pay to minimum wage. This evaluation is a lookback, so it is unclear how this tax credit will interact with the provisions made in H.R.1 (Public Law 119-21) that was signed into law on July 4th, 2025, which made tips non-taxable (effective 2025 through 2028) up to the maximum annual deduction amount of $25,000. After this threshold is met, taxes are then levied on tip wages, which is when businesses utilize the FICA Tip Credit.[37]

The federal Fuel Tax Credit allows business owners to receive a refundable tax credit for "off-highway" business fuel uses, such as fuel used to operate a generator or fuel used in the production (brewing, winemaking, distillation) of a product.

The Minnesota tax exemption for Utilities Used in Production allows a sales tax exemption for the use of electricity, water, and natural gas when they are utilized to produce a product. Though these tax incentives are not specifically aimed at small alcohol producers, these broader tax incentives still offer financial support to these select businesses.

Under Section 179 of the federal tax code, businesses can deduct the cost of eligible property in the year that it was first put into service. Types of eligible properties are real property and tangible property. Real property can include modifications to a facility such as roofs, heating, ventilation, and air-conditioning equipment. Tangible property may include telecommunication

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[35] SOI Tax Stats, "Credit for Increasing Research Activities", Internal Revenue Service (2025): https://www.irs.gov/statistics/soi-tax-stats-corporation-research-credit

[36] Citation One, FICA Tip Credit, "FICA Tip Credit for Employers", Internal Revenue Service, (2024): https://www.irs.gov/businesses/small-businesses-self-employed/fica-tip-credit-for-employers ; Citation Two, Fuel Tax Credit, "Types of fuels and uses", Internal Revenue Service, (2025): https://www.irs.gov/credits-deductions/businesses/fuel-tax-credit ; Citation Three, Utilities Exemption, "Utilities Used in Production", Minnesota Department of Revenue, (2020): https://www.revenue.state.mn.us/sites/default/files/2025-08/fs129_0.pdf

[37] H.R.1 One Big Beautiful Bill Act: Tax Deductions for Working Americans and Seniors, "No Tax on Tips", Internal Revenue Service, (2025): https://www.irs.gov/newsroom/one-big-beautiful-bill-act-tax-deductions-for-working-americans-and-seniors

equipment, equipment used in manufacturing and production, and a storage facility. The maximum Section 179 expense deduction is $1,220,000.[38]

Apart from the Minnesota Capital Equipment Exemption, there is limited accessible data available to confidently assess the cumulative fiscal impacts of other state and federal tax programs that target similar objectives and populations as the small brewer, small winery, and microdistillery tax credits.

Federal Excise Taxes

The U.S Department of the Treasury Alcohol Tax and Trade Bureau (TTB) regulates and collects excise taxes on distilled spirits, wine, and beer at the federal level.

Federal excise taxes paid by breweries, wineries, and distilleries were significantly reduced in 2017 under the Tax Cuts and Jobs Act, with most provisions included within the Craft Beverage Modernization Act made permanent in 2020.[39] These permanent provisions included:

- Reduced tax rates on beer and distilled spirits
- Certain tax credits for wine
- Adjusted alcohol content for certain still wine tax classes from 14 percent to 16 percent alcohol by volume
- Lower tax rates for certain meads (honey wine) and low-alcohol wines
- Exemption from the federal excise tax on transfers of beer between brewers who are not of the same ownership at the time of the transfer[40]

Excise tax revenue from alcoholic beverages amounted to $10.2 billion in 2022, 12 percent of total excise receipts.[41] There are different tax rates for distilled spirits, wine, and beer. The alcohol content of beer and wine is taxed at a much lower rate than the alcohol content of distilled spirits.[42] Distilled spirits are federally taxed at $13.50 per proof gallon.[43] Tax rates on wines vary based on type and alcohol content, ranging from $1.07 per gallon for wines with 16 percent alcohol or less to $3.40 per gallon for sparkling wines. Lower rates apply for the first 750,000 gallons in a given year. Beer is typically taxed at $18.00 per barrel, although reduced rates apply for breweries producing less than two million barrels.[44]

Production tax incentives are available to wineries at the federal level, but similar incentives were not identified for brewers or distillers. Under Section 24.278 of Title 27 of the Code of

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[38] Form 4652, "Instructions for Form 4562 Depreciation and Amortization", Internal Revenue Service, (2024): https://www.irs.gov/pub/irs-pdf/i4562.pdf

[39] Craft Beverage Modernization Act, "Summary of CBMA Provisions for Distilled Spirits, Wine, and Beer", U.S Department of the Treasury, Alcohol and Tobacco Tax and Trade Bureau, (2023): https://www.ttb.gov/alcohol/craft-beverage-modernization-and-tax-reform-cbmtra

[40] Craft Beverage Modernization Act (CBMA), "The Temporary CBMA Provisions that are now Permanent", U.S. Department of the Treasury – Alcohol and Tobacco Tax and Trade Bureau, (2023): https://www.ttb.gov/alcohol/craft-beverage-modernization-and-tax-reform-cbmtra

[41] "What Are the Major Federal Excise Taxes, and How Much Money Do They Raise?" Tax Policy Center, (2024): https://taxpolicycenter.org/briefing-book/what-are-major-federal-excise-taxes-and-how-much-money-do-they-raise.

[42] "What Are the Major Federal Excise Taxes, and How Much Money Do They Raise?" Tax Policy Center, (2024): https://taxpolicycenter.org/briefing-book/what-are-major-federal-excise-taxes-and-how-much-money-do-they-raise.

[43] "What Are the Major Federal Excise Taxes, and How Much Money Do They Raise?" Tax Policy Center, (2024): https://taxpolicycenter.org/briefing-book/what-are-major-federal-excise-taxes-and-how-much-money-do-they-raise.

[44] "What Are the Major Federal Excise Taxes, and How Much Money Do They Raise?" Tax Policy Center, (2024): https://taxpolicycenter.org/briefing-book/what-are-major-federal-excise-taxes-and-how-much-money-do-they-raise.

Federal Regulations, the Domestic Wine and Hard Cider Producer Credit is available to domestic producers.[45] This credit gives wine producers $1.00 per gallon on the first 30,000 gallons of wine produced, $0.90 per gallon on the next 100,000 gallons of wine produced, and $0.54 per gallon on the next 620,000 gallons of wine produced. For hard cider producers, this credit gives $0.06 per gallon on the first 30,000 gallons of cider produced, $0.056 per gallon on the next 100,000 gallons of cider produced, and $0.03 per gallon on the next 620,000 gallons of cider produced.

Based on research of the evaluation team there are no federal production credits for breweries and distilleries, but there are a few different tax preferences that assist these targeted producers. For example, these producers can file a claim with the TTB for a partial refund of the tax paid on imported alcohol. Wine and beer producers can also claim a refund for taxes paid on products that were lost, returned, or destroyed due to natural disasters.[46]

Review of Other States

A majority of states offer some sort of tax incentive to breweries, wineries, and distilleries. Currently, 47 states offer either a tax credit or a refund to these targeted businesses.[47] Many states offer tax refunds to alcohol producers for destroyed or defective products. Numerous states also offer tax incentives to manufacturers that sell their products outside of the state where they were manufactured. This is due to the Dormant Commerce Clause, which declares that states are prohibited from having state laws that unduly restrict interstate commerce.[48] Several states have credits for businesses that sell their products to the armed forces or other businesses or groups that qualify as 'serving the community' (churches, non-profits, etc.).

Eight states have tax credits based on alcohol production amounts like those offered in Minnesota. For example, California offers a tax credit to wine producers who subsequently export their products outside of the state.[49] New York offers a tax credit to liquor and distilled spirit producers who produce up to 800,000 gallons of liquor.[50] Ohio offers an exemption, which was previously administered as a tax credit, for beer producers who produce 9.3 million gallons of beer or fewer.[51]

Fewer states offer tax credits specifically for brewery start-ups and their production. Pennsylvania is one of six states, including Minnesota, that offer a tax credit to encourage

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[45] 27 CFR § 24.278, "Tax credit for certain small domestic producers", National Archives – Code of Federal Regulations, (2007): https://www.ecfr.gov/current/title-27/chapter-I/subchapter-A/part-24/subpart-N/subject-group-ECFRf46c2f6b3f10052/section-24.278

[46] Citation one: Claim – Alcohol, Tobacco and Firearms Taxes, "TTB Form 5620.8 Claim", Department of the Treasury, (2014): https://www.ttb.gov/media/70414/download?inline; TTB, "Filing Claims for Taxes on Losses Causes by Natural Disasters", U.S. Department of the Treasury, (2024): https://www.ttb.gov/public-information/when-disaster-strikes

[47] Alcoholic Beverages Excise Tax, "Credits and Refunds", Bloomberg Tax Research, (2024): https://pro.bloombergtax.com/

[48] Dormant Commerce Clause, "Article I, Section 8, Clause 3", Constitution Annotated, (2025): https://constitution.congress.gov/browse/essay/artI-S8-C3-7-1/ALDE_00013307/

[49] Tax Credits Allowed, "Tax Guide for Alcoholic Beverage Tax", California Department of Tax and Fee Administration, (2025): https://www.cdtfa.ca.gov/taxes-and-fees/alcoholic-beverage-tax/industry-topics.htm#tax-credit

[50] Alcoholic Beverage Production credit," Who is eligible? How Much is the Credit?", New York State Department of Taxation and Finance, (2024): https://www.tax.ny.gov/pit/credits/beer_prod_credit.htm

[51] Alcoholic Beverage Tax, "Who qualifies for the beer exemption (previously a credit)?", Ohio Department of Taxation, (2021): https://tax.ohio.gov/business/ohio-business-taxes/alcoholic-beverage-tax

brewery start-ups and production.[52] The Commonwealth of Pennsylvania's Independent Fiscal Office conducted an evaluation of the credit in 2022. While the evaluation reported that in 2020, 28 brewers received a combined total of $2.1 million in tax credits, over half of the tax credits were awarded to brewers meeting the definition of 'large brewer'. This was in part due to very small brewers not being able to utilize tax credits before their expiration date at the end of four years.[53] The report recommended changes to target small brewers by limiting it to those with lower annual production amounts.[54]

The state of Washington's Joint Legislative Audit and Review Committee conducted a tax preference performance review on their state's tax exemption on beer sales. This tax preference is for breweries that produce fewer than two million barrels annually. If the brewery's production amounts fall under this threshold, the first 60,000 barrels of beer sold receive a tax exemption. Without the tax exemption, beer sales are taxed at $4.78 per barrel, and with the tax exemption, beer sales are taxed at $1.48 per barrel. Findings from this review reveal that 89 percent of Washington's breweries utilize this tax preference, but that the impacts are fairly small in terms of helping the businesses' bottom line.[55]

Minnesota's neighboring states offer varying tax preferences to assist alcohol producers. Wisconsin offers the Eligible Producer tax credit that is open to any brewer that produces less than 300,000 barrels of malt beverage per year. This tax credit awards $1.00 to brewers on every barrel for the first 50,000 barrels subject to the Wisconsin fermented malt beverage tax.[56] North Dakota offers a tax credit to beer wholesalers who purchase or produce beer that cannot be sold in the state.[57] Neither Iowa nor South Dakota has any tax credits or refunds for alcohol producers based on the manufacturing or production of alcohol. Minnesota is the only state in the upper Midwest to offer targeted tax preferences to multiple types of alcohol producers (breweries, distilleries, and wineries).

Methodology of Evaluation

The evaluation of the small brewers, small wineries, and microdistillery tax credits included a literature review, an analysis of available alcohol production and license data, an economic impact analysis, and the administration of a credit participant survey.

The literature review was conducted to explore topic briefs and relevant material produced by research offices of the Minnesota Legislature, other states, federal agencies, and other

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[52] Commonwealth of Pennsylvania Independent Fiscal Office, "*Pennsylvania Brewers' Tax Credit: An Evaluation of Program Performance*", (2022): http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/TC_2022_Brewers.pdf

[53] Commonwealth of Pennsylvania Independent Fiscal Office, "*Pennsylvania Brewers' Tax Credit: An Evaluation of Program Performance*", (2022): http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/TC_2022_Brewers.pdf

[54] Commonwealth of Pennsylvania Independent Fiscal Office, "*Pennsylvania Brewers' Tax Credit: An Evaluation of Program Performance*", (2022): http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/TC_2022_Brewers.pdf

[55] Tax Preference Performance Review, "Microbrewers - beer tax exemption for a brewery's first 60,000 barrels sold", Washington Joint Legislative Audit and Review Committee, (2020): https://leg.wa.gov/jlarc/taxReports/2020/microbrewers/f_final/default.html

[56] Fermented Malt Beverage (Beer) Tax, "What is the Tax Rate on fermented malt beverages?", Wisconsin Department of Revenue, (2024): https://www.revenue.wi.gov)/Pages/FAQS/ise-beer.aspx#br2

[57] North Dakota Beer and Liquor Wholesalers: Taxation, "5-03-04. Collection of Taxes", North Dakota Office of State Tax Commissioner, (2024): https://ndlegis.gov/cencode/t05c03.pdf

scholarly sources. The literature gathered was mainly utilized in the background section of the report to help inform and give context to the small alcohol producer credits in Minnesota.

This evaluation also analyzed licensee data from the DPS Alcohol and Gambling Enforcement Division. The licensee data includes businesses currently in operation and those previously licensed, dating back to 2001. This analysis provides an understanding of the development of new businesses and the survivorship of businesses within the alcohol production industry.

To gather information on the history of businesses claiming the credits and the effects on output and productivity, the LBO administered a survey to eligible alcohol producers to better assess how these tax credits are being used by small breweries, microdistilleries, and small wineries. The survey was distributed via email and mail, with an option for business owners to provide additional feedback over the phone if desired. A total of 81 businesses responded to the survey at a response rate just above 24 percent.[58] Respondents were surveyed on the impact of the credit, the recent growth of their business, business characteristics, and other factors discussed below.

Additionally, an economic analysis was conducted utilizing IMPLAN economic impact modeling software. IMPLAN was used to estimate the impact of the credits on the Minnesota economy as a whole. The model utilized forgone revenue estimates from the DOR Tax Research Division as a proxy for additional capital made available to each respective industry. These forgone revenue estimates were input into the model, and the model indicated the direct, indirect, and induced economic impacts caused by the tax credits. See Appendix D for additional information regarding the economic impact analysis provided in this report.

[58] Response Rate: See “Evaluation” section (page 17) for clarity on response rate range. The survey had 81 total respondents. The lower end denominator (271) represents the total number of surveys that were electronically emailed to business owners, the upper denominator (330) represents the total number of surveys that were physically mailed to business owners.

Survey

The LBO administered a non-generalizable survey to eligible small breweries, wineries, and microdistilleries in Minnesota. The purpose of the survey was to determine if the Minnesota tax credits for small breweries, small wineries, and microdistilleries promote development and survivorship for these businesses.

This survey was administered online using the survey platform *SurveyMonkey*. A link to the survey was shared with respondents via email, mail, or both. Two forms of contact were used, when possible, to ensure a more comprehensive sample of the businesses. The addresses of the qualifying businesses were collected from licensee data from DPS, and the email addresses were found on the businesses' websites, when available. A total of 271 emails containing the survey link were sent, and 330 physical letters were mailed with a QR code that linked to the survey. The survey yielded a response rate of just above 24 percent.[59]

Of the 81 businesses that responded to the survey, 63 claimed one or more of the three credits: 48 percent claimed the credit for small breweries, 33 percent claimed the credit for small wineries, and 24 percent claimed the credit for microdistilleries.[60] The proportion of each business type that completed the survey corresponds to the proportions within the DPS licensee data: 57 percent were small breweries, 30 percent were small wineries, and 12 percent were microdistilleries. A cross-tabulation was performed to see if there were any differences in how the three types of businesses responded to each question. As there were no statistically significant differences between each business type (small breweries, small wineries, and microdistilleries), the results of the survey are presented in totality rather than across the three business types.

Survey Findings

Respondents were asked to describe the overall impact of the credit on their primary business using a scale ranging from "very positive" to "very negative". Seventy-eight percent of respondents described the credit's impact as "very positive", while 21 percent of respondents chose "positive", and two percent of respondents chose "no impact". Respondents stated the credits enable small businesses to be profitable despite distribution costs, allowing them to reinvest the funds saved into marketing, sampling, tours, employee salaries, and equipment.

One respondent noted that they are typically eligible for $6,000 in credit per month, which the business has allocated to raise their staff from five to twelve people in the time they have been in operation.

Another respondent noted that - ***"The overhead to make a very large batch of beer is similar to the overhead to make a smaller batch of beer".*** The credit allowed prices to stay competitive when selling in a market with larger distributors who incur less proportional overhead costs.

Survey responses suggest the credits positively impact both growth and the ability to stay in operation. When asked to describe the tax credit's impact on output growth, 45 percent of descriptions focused on the ability to stay in operation, 31 percent discussed business growth,

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[59] Of the 330 businesses contacted either via email or physical letter, 81 businesses filled out the survey (81/330 = 24.5%). This is the response rate of the survey.
[60] Three of the 81 respondents claimed more than one of the tax credits.

and two percent of respondents reported that the credit had no effect. Many businesses discussed that one important aspect of the credit was the impact on their business's ability to remain competitive in an increasingly difficult marketplace within the state, and that overall, “every bit helps”. Respondents also discussed survivability with one respondent stating the credit –***“Has allowed [my] distillery to exist. It’s a hard business when you just sell through a distributor as a small company. May not be in business without credits”.***[61]

Respondents reported reinvesting credit proceeds in equipment, operations, employee earnings, and hiring new staff. Of the 81 businesses that responded to the survey, a small number of them were unaware of the credit. Additionally, a small number of respondents never claimed the credit. On average, businesses have been claiming the credit(s) for six years.

Economic and Employment Insights from Survey

The survey gathered economic and employment data from respondents to better understand the financial and operational characteristics of eligible small breweries, wineries, and microdistilleries. Forty-two percent of the respondents employ nine or fewer employees, while 58 percent of the respondents pay less than $25,000 per month in total employee payroll. Additionally, 56 percent of respondents have annual net profits under $25,000. This data illustrates the small-scale environment that many of these businesses operate in.

Below, Figures 7 through 9 display the number of employees each responding business has, the average amount of total employee wages paid each month, and the 2023 annual net profits, as well as gross revenue for each business.

Figure 7. Number of Employees by Each Individual Business

Number of Employees	Number of Responses	Percentage of responses
No Employees	2	3.2
1-2 Employees	9	14.5
3-4 Employees	4	6.5
5-9 Employees	11	17.7
10-19 Employees	20	32.3
20-49 Employees	12	19.4
50-99 Employees	4	6.5
100+ Employees	0	0.0
Total responses	**62**	**100%**

Data Source: LBO survey administered to small alcohol producers in MN

[61] For a full view of all short answer responses please see Appendix B

Figure 8. Average Amount of Total Employee Wages Paid Each Month by Each Business

Total Dollar Amount Paid in Employee Wages per Month	Number of Responses	Percentage of responses
Less than $10,000	19	32.2
$10,000 - $24,999	15	25.4
$25,000 - $49,999	13	22.0
$50,000 - $99,999	10	17.0
$100,000 - $249,999	2	3.4
$250,000 or greater	0	0.0
Total Responses	**59**	**100%**

Data Source: LBO survey administered to small alcohol producers in MN

Figure 9. 2023 Annual Net Profit and Annual Gross Revenue for Each Business

Total Dollar Amount	Annual Net Profit – percentage of respondents (i.e., after taxes and expenses)	Annual Gross Revenue - percentage of respondents (i.e., pre-tax)
Less than $25,000	55.6	0.0
$25,000 - $49,999	8.3	0.0
$50,000 - $99,999	16.7	2.8
$100,000 - $249,999	8.3	13.9
$250,000 - $399,999	2.8	13.9
$400,000 - $749,000	0	30.6
$750,000 - $999,999	0	16.7
$1M - $2.49M	0	19.4
$2.5M - $4.99M	0	0.0
$5M - $7.49M	0	2.8
Over $7.49M	0	0.0

Note: 8.1 percent of respondents were unsure of their annual net profit
Data Source: LBO survey administered to small alcohol producers in MN

Again, insight from the survey responses speaks to the narrow margins that these businesses operate in and illustrates that every dollar matters to businesses with limited revenue and limited profit margins. For reference, the U.S. Small Business Administration (SBA) defines a "small business" according to revenue or employment thresholds by industry. SBA's "Table of Size Standards" determines that wineries with less than 1,000 employees, breweries with less than 1,250 employees, and distilleries with less than 1,100 employees are all considered "small businesses". There are no revenue standards listed for these select industries to determine if a business is small or not.[62]

While all of the survey respondents fell well below the SBA definition of the number of employees of a small business, most of the alcohol producers in the state are below the number of employees as well. As of 2017, the average number of employees per brewery was roughly 23 in Minnesota.[63] There is no average employee-specific data available for wineries or distilleries.

During Fiscal Year 2023, 75 percent of survey respondents had annual gross revenues between $100,000 and $999,999. That is revenue before taxes and expenses. After taxes and business expenses, 80.5 percent of survey respondents had annual net profits under $100,000. This metric illustrates the narrow profit margins and small-scale environment that small alcohol producers in Minnesota typically operate within.

Survey Perspective on Impact of Business Growth and Operations

The survey sought to understand the impact of the tax credits on business growth. The survey defined business growth as "an increase in revenue, sales, etc." Of 65 respondents, 24 (37 percent) said the tax credit(s) have had a *very positive* impact on their business growth. Thirty-two (49 percent) respondents said their credit(s) had a *positive* impact. Nine respondents (14 percent) said the tax credit(s) had no impact on their ability to grow their business. None of the survey respondents indicated that the tax credit(s) harmed their business's ability to grow.

Overall, the survey indicates that these tax credits have made a positive impact on the business operations of small breweries, small wineries, and microdistilleries, and to varying degrees, the tax credit assists in the growth of these small businesses.

Regarding the tax credit(s) having an impact on a business's ability to stay in operation, out of 65 responses, 30 respondents (46 percent) said the tax credit(s) has had a *major positive* impact on the business's ability to stay in operation. Twenty-five respondents (39 percent) said the tax credit(s) had a *minor positive* impact on their ability to stay in operation. Nine respondents (14 percent) said the tax credit(s) had no impact on their business's ability to stay in operation, and one person answered they were not sure about the impact on their business.

Out of 65 responses received, 32 respondents (49 percent) said the tax credit(s) reduced their reliance on business loans. Twenty-seven respondents (42 percent) indicated that the tax credit(s) did not reduce their reliance on business loans. Six other respondents (9 percent) said they were unsure if the tax credit(s) reduced reliance on business loans.

The survey asked respondents if they reinvested the savings from the tax credit(s) and how they utilized those funds. Respondents were allowed to answer with more than one response. Among 56 responses, 35 respondents (63 percent) said they used the funds on equipment, 39 respondents (70 percent) said they spent the funds on operations, 29 respondents (52 percent) said they put the funds towards employee earnings, 24 respondents (43 percent) said they used

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[62] U.S. Small Business Administration, "Table of Size Standards", U.S. Department of State, (2023): https://www.sba.gov/document/support-table-size-standards

[63] Statewide Employment per Brewery, "Employment per establishment in breweries, by state, first quarter 2017", U.S. Bureau of Labor Statistics, (2017): https://www.bls.gov/opub/ted/2017/on-tap-a-look-at-statewide-employment-per-brewery.htm

the funds towards hiring new staff, and five respondents (9 percent) were not sure how the tax credit proceeds were used.

Survey Open-ended Responses

The survey included a series of open-ended questions to which respondents could reply with written responses. The responses to each open-ended question are summarized below, and a comprehensive list of all responses is provided in Appendix B. Responses were categorized into a series of codes to help analyze the types of responses received.

All open-ended responses were ascribed to the codes outlined in Figures 10 - 12. The codes are meant to help organize the responses and highlight any prominent themes that were present in the data. An example response is listed for each code.

Figure 10 displays survey respondents speaking to the impact of the credit(s) on their business' output growth. Most respondents either indicated that the credit helped them grow as a business (31 percent) or helped them stay in operation (45 percent). Only one respondent shared that the tax credit(s) had no impact on their business' output growth.

Figure 10. Prompt – "Please describe the tax credit's impact on your output growth as a business."

Code	Example	Count	Percent
Stay in operation	"For a small brewery like ours, every little bit helps keep the lights on."	23	46
Growth	"It provides more opportunity for investing in the quality of the business we have."	16	32
Negligible	"While it helps, larger issues like the pandemic and SBA interest rates have had more impact."	5	10
Profit	"Output is independent of the credit; we need to serve customers. It does allow us to actually have a profit margin."	3	6
Positive	"Helps with taxes"	3	6

Note: A comprehensive list of all responses is listed in Appendix B. These are verbatim quotes from the respondents.
Data Source: LBO survey administered to small alcohol producers in MN

Figure 11 displays survey respondents speaking to the nature of their business' ability to stay in operation due to the tax credit(s) impact on their business. Over half of the respondents voiced that the tax credit(s) help them stay in business or reinvest in their business. Thirty-six percent of respondents shared that the credit(s) had no impact or a minor impact on their businesses' ability to stay in operation.

Figure 11. Prompt – "Please describe the tax credit(s) impact on your business's ability to stay in operation."

Code	Example	Count	Percent
Stay in operation	"Would not be in distribution without it."	17	34
Minor Impact	"There are many expenses that go into making and selling beer. Taxes, while a small portion, still impact my overall costs."	15	30
Re-invest	"Frees up money in the budget and increases the profit margin to allow expansion in staffing, running a cocktail room, and hosting events."	10	20
Revenue	"This is a significant amount of annual savings for a small brewing operation."	5	10
No Impact	"No impact"	3	6

Note: A comprehensive list of all responses is listed in Appendix B. These are verbatim quotes from the respondents.
Data Source: LBO survey administered to small alcohol producers in MN

The codes provided for the question in Figure 12 are more general than the previous two because this question did not inquire regarding a specific topic. Fifty-three percent of the respondents noted that the credit(s) positively impacted them, and 18 percent mentioned that they felt they needed further tax relief. Twenty-nine percent of the respondents provided some form of feedback. Some feedback was specifically about the credit(s) or the process of claiming the credit(s), but many comments gave feedback on the survey itself.

Figure 12. Prompt – "Do you have any general comments or concerns about the credit(s) or other aspects of your business that have impacted your business's growth or ability to remain in operation?"

Code	Example	Count	Percent
Positive	"With ongoing rising costs and slower traffic, credits like this are what allow us to stay in business."	18	53
Feedback	"With the credits, we are still operating in the negative. We have not made any profits and have invested personal $ into the business to keep us open."	10	29
More tax breaks	"MN taxes are some of the highest in the nation. We need to work to reduce those burdens on small businesses and encourage small business growth to create jobs. Therefore, tax credits should remain in effect. Also, R&D tax credits need to be reimplemented."	6	18

Note: A comprehensive list of all responses is listed in Appendix B. These are verbatim quotes from the respondents.
Data Source: LBO survey administered to small alcohol producers in MN

Survey Insights Regarding Barriers to Claiming the Credits

Two survey respondents shared that they were unaware of the credit(s) and that they didn't know how to claim the credit(s). On the other hand, some of the respondents knew about the credit(s), but chose not to claim them for other reasons. One respondent reported they were not claiming the credit(s) due to the process involving "too much paperwork". Of those who claimed at least one of the credits, the notion of administrative burden was brought up by two other respondents who discussed that "the paperwork currently required [to claim the credit] is onerous". The two main themes surrounding any barriers to claiming the credits are a lack of knowledge of the credit(s) and the process of claiming the credit(s).

Business Survivorship Data Analysis – Licensee Data

To understand the survivability of small breweries, wineries, and microdistilleries, the evaluation examined license data collected from DPS and correlated survey responses. License data was reviewed to understand the length of time a business possessed a license and was further cross-referenced with whether the business remained open. Survey data was reviewed to look at the years that businesses sold products and how long each respective business claimed the applicable credit.

The following analysis is based on DPS licensure data that goes back to the beginning of 2001, extending through September 2025. **As indicated by DPS data, small wineries, breweries, and microdistilleries in Minnesota have stayed active in business for an average of 7.8 years**.[64] Furthermore, for all private sector establishments in Minnesota from March 2017 to March 2024, 45.7 percent of the newly established businesses that started in 2017 made it to

[64] Aged Public Data Access, "License Search", Minnesota Department of Public Safety, (2025): https://app.dps.mn.gov/AGEDIS5/DataAccess/pages/license-search

the end of 2023, indicating that the business survivorship rate for small alcohol producers in Minnesota is similar to the survivorship rate of other private businesses in the state.

Licensure data was analyzed by one year, five years, 10 years, and 20 years of survivorship. Alcohol producers with active licenses had one-year survivorship rate of 97 percent, a five-year survival rate of 69 percent, a 10-year survival rate of 28 percent, and a 20-year survival rate of 3 percent. Out of the businesses that closed or held a canceled or expired license, 74 percent had a survival rate of five years, and 24 percent had a survival rate of 10 years.

Survey data indicates that respondents claimed the credit(s) for an average of 5.7 years. Businesses reported the average years of selling products to be 9.2 years. Survey data shows businesses started to claim the credit an average of 1.6 years after starting to sell products. Most businesses claimed the credit for the same year they started selling products. However, as the small winery credit is newer, more wineries opened before the credit became available in 2017, thus altering the data to show a higher average.

The survivorship rates of Minnesota small wineries, small breweries, and microdistilleries are similar to those of other industries in Minnesota but tend to outlive small alcohol producers and other private businesses in other states. According to survivorship data from the Bureau of Labor Statistics, in Minnesota, the survivorship rate of all new businesses established in March 2017 that lasted until March 2024 (or longer) was 45.7 percent.[65] From a national perspective, 43.2 percent of new businesses in the U.S. survived between the same seven-year period.[66] This indicates that Minnesota's survival rate for new businesses is slightly higher than the U.S. average.

Business Survivorship Data Analysis – Survivorship Across Different Alcohol Beverage Manufacturers in Minnesota

As noted, the business survivorship rate for all alcoholic beverage manufacturers in Minnesota between January 2001 to September 2025 is roughly 7.8 years. While this is the average life expectancy across all the different manufacturer types, there is variability by alcohol types. During this time period, the average survivorship rate for distilleries was roughly seven years. For breweries the average survivorship rate was roughly 7.4 years; and for wineries the average survivorship rate was roughly nine years. Figure 13 displays the survivorship rate for all the different alcoholic beverage manufacturers' license types that were included in this evaluation.

[65] Percentage of new businesses in MN that survive 7 or more years past their start date: March 2014 – March 2021 (or longer) = 48.4%, March 2015 – March 2022 (or longer) = 49.6%, March 2016 – March 2023 (or longer) = 50.5%.
[66] Bureau of Labor Statistics, Survival of private sector establishments in the United States by opening year, https://www.bls.gov/bdm/us_age_naics_00_table7.txt

Figure 13. Business Survivorship of Minnesota's Breweries, Wineries, and Distilleries by Specific License Type

License Type Description	License Type Code	Survivorship Rate (years)
Farm Winery License	FWN	8.97
Farm Winery Branch	FWNBR	10.92
Farm Wine Distiller	FWNDST	8.38
Micro Brewer License	MCB	6.54
Minnesota Brewer License	MNB	14.40
Small Minnesota Brewer License	SMNB	8.82
Micro Distillers License	MDL	6.50
Micro Distillery Branch License	MDLBR	13.33
Micro Distillery Small	MDLS	6.99
Liquor Manufacturer's License	LQRMFR	7.76D

Note: There are additional license types; this table only includes license types that were a part of this evaluation. See footnote for full list.[67]

Data Source: Data gathered from 2025 DPS licensee data

Business Survivorship Data Analysis – Minnesota Compared to Other States

To better put Minnesota's small alcohol producers' average business survivorship rate of 7.8 years into perspective, the LBO reached out to the alcohol regulatory agencies in 47 other states to see how long their small alcohol producers survive in their respective states.[68] Of the 47 states contacted by the LBO, nine states got back to the LBO with comparable data. To reiterate, Minnesota alcohol producer data from DPS dates back to 2001. Some of the states surveyed did not have data going back to 2001, so there are some slight inconsistencies in the data that are being compared. All of the data (both Minnesota and the other nine states) has a cutoff date of September 2025.

The LBO received detailed data from Connecticut, Iowa, Michigan, Missouri, Montana, New Hampshire, North Dakota, Pennsylvania, and Vermont. Figure 14 displays the survivability in each of these states, as well as the years in which the data were collected. Iowa, Michigan, and Montana are included in the table, but the survivorship rate is not directly comparable to Minnesota's because the alcohol regulatory agencies in these states provided the LBO with partial data. Connecticut, Missouri, New Hampshire, North Dakota, and Pennsylvania have comparable data to Minnesota's small alcohol producers survivorship rate because they include the same data as the Minnesota DPS data (survivorship rate of both active and non-active businesses). A caveat to this data is that North Dakota provided data dating back to 2005, and Pennsylvania and Vermont provided data dating back 2002. The available data is not perfect

[67] License Codes, "Liquor Types and Fees", Minnesota Department of Public Safety, (2025): https://app.dps.mn.gov/AGEDIS5/DataAccess/pages/license-codes

[68] Hawaii and Nevada were not contacted because they are the only states that administer alcohol licenses through county and/or local authorities (all other 48 states administer at the state level)

but provides context to put Minnesota's small alcohol producers' survivorship rate in perspective. The average survivorship rate of the five comparable states is 5.8 years, two fewer years than Minnesota's average of 7.8 years. Of the data collected, only Vermont has a higher survivorship rate (8.1 years) than Minnesota's small alcohol producers. It should be noted that Pennsylvania, Michigan, and Montana offer tax incentives to small producers as well, and Connecticut recently reduced the alcohol excise tax for all producers.[69] Also, as previously mentioned, North Dakota offers a tax credit to beer wholesalers who purchase or produce beer that cannot be sold in the state.

Figure 14. Business Survivorship Rate for Contacted 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 01/1/2017 or later that are no longer active (business closed) // **For manufacturer licenses issued 01/1/2017 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

Economic Impact Analysis

In this section, the LBO models the impacts of the three tax credits on the Minnesota economy. The general idea underlying the model is that the economy has many different industrial sectors, and a change in one sector may have an impact on other sectors of the economy through a ripple effect. Presumably, the economic impacts of the tax credits go beyond the

[69] Pennsylvania Act No. 84 of 2016; Michigan Complete Laws Annotated § 436.1409; Montana Code Annotated § 16-1-406; Connecticut Public Act 21-2.

brewery, wine, and microdistillery industries and the workers employed in those industries. The resulting economic effects can be measured in terms of direct, indirect, and induced impacts.[70] Direct impact is due to the initial activity resulting from the three tax credits; indirect impact occurs due to business expenditures on goods and services (business-to-business transactions); and induced impact refers to consumer spending on goods and services (consumer-to-business transactions). It should be noted that while the model provides what appears to be specific outputs resulting from an assumed contribution to a specific industry, it is better to think about these outputs as estimates that give likely impacts of a general direction and magnitude. Additionally, the model relies on a set of broad assumptions that were not specifically tested or validated for the brewery, wine, and microdistillery industries.[71]

The Impact Analysis for Planning (IMPLAN) software package was used to carry out the impact model. This is a widely used regional input-output economic impact modeling software in the tax incentive evaluation literature. IMPLAN analyzes how the initial tax credits (small breweries, wineries, and microdistilleries) flow through different sectors of the economy. IMPLAN requires an initial level of spending. To that end, the 2025 DOR estimate of forgone revenue of $2.3 million, combined across all three industries was used as the initial input for the analysis. It is assumed that the economic impact is likely to be a higher bound as some of the $2.3 million will likely flow to other states. Please see Appendix D for more details on IMPLAN and the methodology used.

Figure 15 presents the IMPLAN estimates of the tax credits on employment and economic output in 2024. Overall, the model estimates the combined $2.3 million tax credits supported a total of 14 jobs. Specifically, the tax credits supported about seven direct jobs with a total labor income of $347,558. Additionally, it supported seven indirect and induced jobs with a total labor income of $585,548. While these job numbers may not be trivial, in 2024, total private and total nonfarm job estimates in Minnesota were 2.6 million and 3 million, respectively.[72] Finally, the tax credits supported $1.7 million in value added, and $4.2 million in total output. Here, the value added is a much better measure of economic activity than total output, as the value added excludes the values of intermediate input. Overall, relative to the size of the value added, these findings suggest that the tax credits did not generate much economic output.[73]

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[70] To elaborate further, direct impacts/effects are limited to the three alcohol industries that receive the initial $2.3 million tax credit. To produce alcohol, small alcohol producers need to purchase intermediate inputs from other suppliers. Thus, indirect effects capture business-to-business transactions taking place between small alcohol producers and other retailers through the supply chain. Finally, induced impacts capture spending in Minnesota by both employees of small alcohol producers and related industries due to an increase in household income associated with the three tax credits.

[71] IMPLAN Foundations, “Detailed Key Assumptions of IMPLAN & Input-Output Analysis”, IMPLAN, (2025): https://support.implan.com/hc/en-us/articles/115009505587-Detailed-Key-Assumptions-of-IMPLAN-Input-Output-Analysis

[72] Current Employment Statistics, “Minnesota Current Employment Statistics”, Minnesota Employment and Economic Development, (2025): https://mn.gov/deed/data/data-tools/current-employment-statistics/

[73] In IMPLAN, output measures the total value of all production (column 5 of Figure 15). That is, it includes the values of all final goods and services, in addition to the values of all intermediate goods and services (which are used to produce gross output). In measuring economic activity or gross domestic product (GDP), we normally consider only the values of all final goods and services, excluding the values of intermediate inputs (which are already included in the values of final goods and services). Thus, IMPLAN Output overestimates the true scope of economic activity. On the other hand, Value Added output excludes the values of intermediate inputs and is therefore our preferred measure of economic activity (column 4 of Figure 15).

Figure 15. IMPLAN Economic Impacts of $2.3 Million in Tax Credits

Impact	Employment	Labor Income	Value Added	Output
Direct	7	$347,558	$661,642	$2,300,000
Indirect	4	$375,608	$617,618	$1,304,564
Induced	3	$209,940	$375,441	$604,491
Total	**14**	**$933,106**	**$1,654,701**	**$4,209,055**

Data Source: IMPLAN 2024, authors' calculations

Next, the LBO evaluated the impacts of the three tax credits on the economic output of specific alcohol manufacturing industries. Figure 16 displays the findings for the three most impacted industries: breweries, distilleries, and wineries. "Industry Total Output" refers to total value of each industry's production or economic output in Minnesota in 2024. "Impact Output" is the portion of each industry's output that is due to the three tax credits. Breweries show the highest total output and impact output, with the small brewer tax credit representing approximately 0.18 percent of the total industry output. Distilleries follow with an impact output of 0.10 percent, and then wineries with an impact of 0.06 percent on their total output, from their respective tax credits. These results are consistent with the design of the tax credits, which aim to support and promote the growth of these specific industries.

Figure 16. IMPLAN Top Three Impacted Industries

Impacted Industries - Rankings	Industry	Industry Total Output (in $ Millions)	Impact Output	Percentage of Total Industry Output
1	Breweries	$944	$1,700,154	0.18%
2	Distilleries	$499	$500,775	0.10%
3	Wineries	$163	$100,197	0.06%

Data Source: IMPLAN 2024, authors' calculations

Alternative Use of Forgone Revenue

To put the findings of this section in context, the LBO performed an additional modeling exercise. In lieu of providing the tax credits to the brewery, wine, and microdistillery industries, the LBO assumed that Minnesota decided to use the $2.3 million in forgone revenues and distribute the money according to expenditure categories based on their budget shares. The LBO acknowledges one important limitation of this approach: just removing the tax credit fails to capture behavioral responses from small alcohol producers due to an eventual increase in the cost of production. That is, how much of the increase in the cost of production small alcohol producers decide to pass on to their customers will depend on how sensitive customers are to a price change. Further, this exercise is not meant to suggest that an increase in government spending would be the best use of the $2.3 million in forgone revenues. Rather, it is meant to provide a sense of the magnitude of the economic impact of the tax credit on the Minnesota economy when the forgone revenues are put to an alternative use. To that end, according to Minnesota Management and Budget, in the 2024-2025 biennium, the state spent 34.7 percent of its General Fund on E-12 Education, and roughly 30 percent on Health and Human

Services.[74] The remaining 35.3 percent is assigned to “All Other Categories”, as the remaining categories in IMPLAN do not match the other categories of the Minnesota expenditure budget.[75] Figure 17 displays the findings which show that the alternative use of forgone revenue supported a total of 23 jobs and $2.5 million in value added. Ignoring behavioral responses from small alcohol producers due to the removal of the tax credits, the model suggests that the direct expenditures on education, health and all other budget categories have a bigger economic impact on the Minnesota economy compared to the tax credits. Granted, these findings were obtained under a specific set of assumptions. Overall, the findings of this economic impact analysis are in line with a study from the Washington Joint Legislative Audit and Review Committee that finds a $7.2 million biennial preference for microbrewers directly supported between 2 to 6 manufacturing jobs and reduced between 25 to 27 public sector jobs.[76]

Figure 17. Economic Impacts of Alternative Use of Forgone Revenue

Impact	Employment	Labor Income	Value Added	Output
Direct	16	$1,317,042	$1,651,407	$1,959,938
Indirect	1	$98,790	$154,085	$279,877
Induced	6	$408,596	$732,241	$1,178,766
Total	**23**	**$1,824,428**	**$2,537,733**	**$3,418,581**

Data Source: IMPLAN 2024, authors’ calculations

But-for Analysis

As is often the case when using input-output models such as IMPLAN, it is not known how much of the new economic activity is due to the tax credits. That is, in the absence of the tax credits, how much of the direct impact, indirect impact, induced impacts, and economic output estimated above would have occurred. The counterfactual state of the economy is always a difficult question to answer. There are generally two ways to address this concern. First, analyses of other data in other states could be analyzed to get an idea of how much of the new economic activity is due to the tax credit. Unfortunately, there is a dearth of studies that specifically address the but-for issue in the context of tax credits for small alcohol producers. Second, an econometric analysis could be performed. This would require gathering data that predates the implementation of the tax credits. Unfortunately, due to data limitations, this is not possible. Further, even if panel data were available, given the relatively small magnitude of the tax credits ($2.3 million), findings from econometric analysis may be inconclusive or unable to capture such very small effects on the Minnesota economy.

[74] General Fund FBA Pie Chart, “Where the General Fund Dollars Come From?”, Minnesota Management and Budget, (2025): https://mn.gov/mmb-stat/documents/budget/operating-budget/enacted/2025/eos25-fba-pie-charts.pdf
[75] To further clarify, IMPLAN has two other relevant categories (“Other” and “Investment”), while the remaining categories of the Minnesota budget are as follows: Public Safety and Judiciary (5.2%); Transportation (1.9%); Environment & Energy (1.5%) ; Jobs, Commerce, Ag and Housing (5.5%); State Government & Veterans (4.2%); Debt Service & Others (3.3%); Higher Education (5.9%) ; Procurement Technical Assistance Center (7.8%).
[76] WAJLARC 2020 Tax Preference Review, “Preliminary Report: 2020 Tax Preference Performance Reviews – Microbrewers”, WAJLARC, (2020): https://leg.wa.gov/jlarc/taxReports/2020/microbrewers/p_i/default.html

Limitations

Survey specific

Limitations to the online distribution of the survey included encountering businesses that did not have a listed email address. This limitation was addressed through mail-out surveys to try to limit the gap in recipients. However, other potential survey limitations include email fatigue and mail fatigue that contribute to the response rate. Lastly, while some businesses had addresses listed online, some mail-out surveys were returned to the sender.[77]

Due to the complex nature of tax expenditures and the number of businesses that have tax professionals file and claim their credit(s), there were some instances of misunderstood questions.[78] This could be improved upon in the future by testing the survey on a sample selection of the survey population before full distribution.

Another potential limitation of the answers gathered through the survey is that when completing the survey, some businesses have the potential to fill out the survey with biased answers. Numerous factors could influence biased answers, such as survey respondents thinking that if they speak highly of the tax credits, they will be more likely to remain in place, or that if they speak negatively about the tax credits, they will be at risk of losing them.

Standards for similar research

This evaluation of small brewery, microdistillery, and winery tax credits is one of the first in Minnesota to evaluate the effect on the survivability of small businesses benefiting from the credits. As a result, there was little available research and literature on best practices and recommended standards for similar research. Overall, there was a lack of existing literature discussing the impact of existing production credits in Minnesota or other states. Literature was available to understand and analyze the impact of the brewery, winery, and microdistillery industry on local, state, and federal economic development. While the evaluation team utilized available literature review resources and existing survey best practices, future evaluations will benefit from further research on evaluating the impact of tax credits on survivability in a small business context.

Secondary Considerations for Future Evaluations

While the primary objective of these tax credits is to promote the development and survivorship of small wineries, breweries, and distilleries in Minnesota, additional considerations may be relevant for future evaluations. These include a focused analysis of market share and market competition, secondary impacts on the local economy, geographic distribution, and expansion opportunities made possible by claiming these credits.

One area to explore is the potential influence of these tax credits on market competition. By supporting small producers, these incentives may enable smaller businesses to gain a stronger

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[77] 25 mailout surveys were returned to the sender.

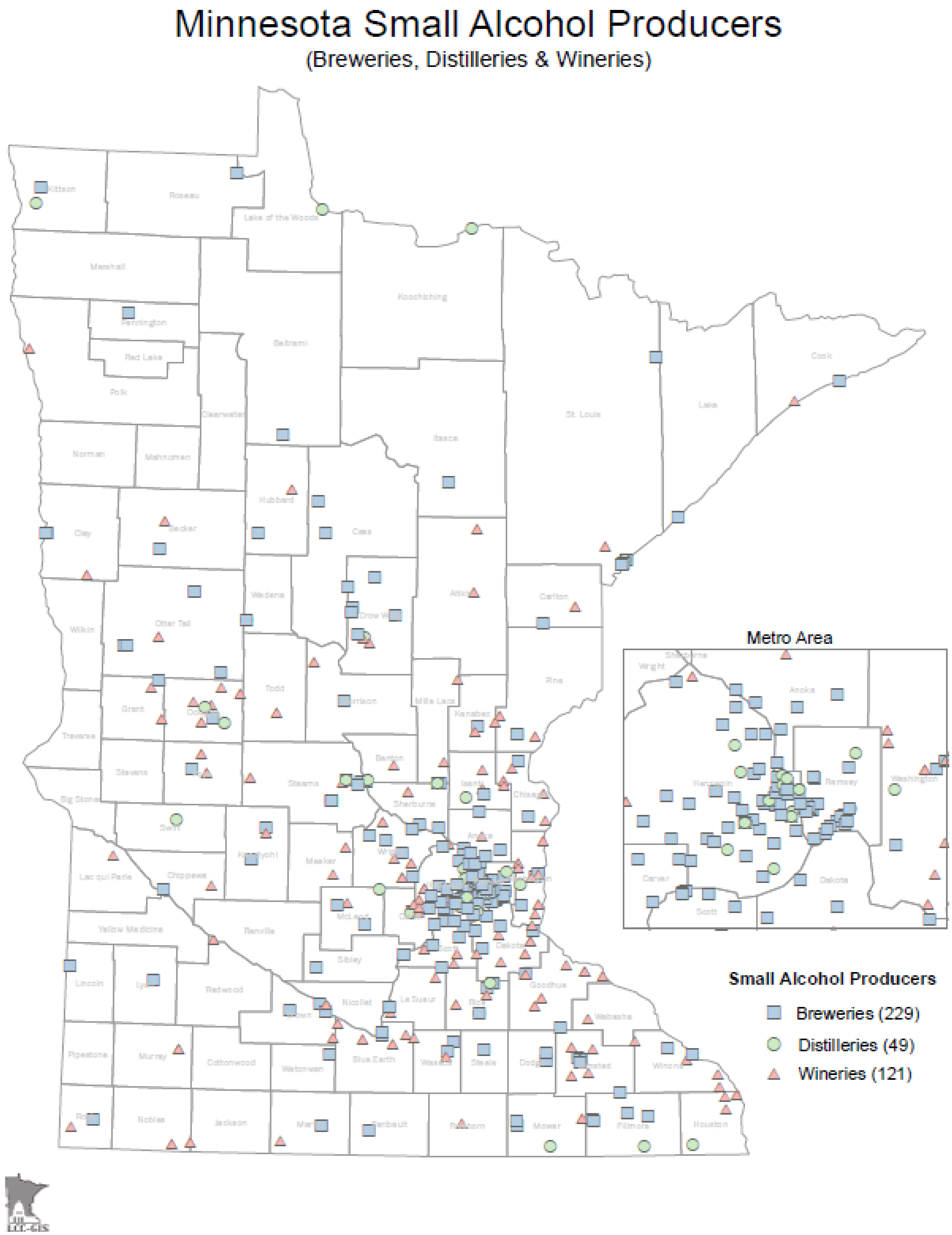
[78] One question was stated as asking "if the credit was to expire, would that have an impact on our business's ability to stay in operation?" with the response options "major positive impact, minor positive impact, no impact, and not sure". Without the inclusion of the response options "major negative impact" and "minor negative impact", respondents were unsure of how to respond to the question. Because of the resulting confusion over the miswording of the question, the question was not analyzed as a part of the survey results.

foothold in an industry that larger manufacturers generally dominate – this could contribute to reshaping market dynamics. Beyond the impact of these credits, it may be worthwhile to understand the impact that exceptions to the three-tiered system of regulation have had on market dynamics and revenue streams for small producers.

These tax credits could also contribute to increased tourism and local spending. Small wineries, breweries, and distilleries often attract visitors and host events that generate economic activity not only for themselves but also for surrounding businesses such as restaurants, hotels, shopping centers, etc. Future evaluations may consider whether this spending represents growth for Minnesota's economy by new revenue coming into the state, or if it could just represent dollars being traded from one Minnesota business to another.

Another consideration is the geographical spread of credits. The survivorship and success of small producers may vary significantly based on location. Figure 18 below displays the geographical distribution of small alcohol producers in Minnesota as of September 2025. Further investigation into the economic impact by region or by location may be useful for policy makers to consider.

Figure 18. Geographical Spread of Small Alcohol Producers in Minnesota



Data Source: DPS Alcohol and Gambling Enforcement license database

Finally, the tax credits may play a role in business growth and expansion. Survey responses suggest that the financial assistance provided by these credits enables investments in production capacity, innovation, and staffing. Over time, this growth may reduce their dependency on the credits for survival, making businesses more self-sustaining. Understanding the extent to which the credits support long-term business viability could help refine these incentives to maximize their effectiveness.

Although these considerations extend beyond the immediate scope of the current evaluation, assessing these broader impacts in the future could provide valuable insights into the full effects of these tax credits on Minnesota's economy and the extent to which they achieve the intended objective.

Data Analysis

Individual tax filing data and contact information for the businesses that file for the credits were unable to be obtained. Only high-level data of businesses in the state that hold qualifying licenses was available. As a result, the survey recipient list reflects all businesses across the state with a qualifying license. Businesses that at one point held a license and claimed the credit but are no longer in operation were not included in the recipient list. Their experiences are not captured in the survey results, but this would be useful information to collect in the future to fully analyze the effectiveness of these credits.

Conclusion

Overall, the analysis of available data suggests that the credit for small brewers, small wineries, and microdistilleries are likely meeting their intended objectives of promoting development and survivability within their respective industries.

Survey data revealed that many qualifying small businesses were not yet profitable or had very small profit margins. Further, the credit contributed to qualifying small businesses' ability to obtain small profit margins or remain in business and reinvest credit savings into growth initiatives.

Minnesota's small alcohol producers tend to out-survive small alcohol producers from other states, though the evaluation is not able to identify to what extent the tax credits impact this phenomenon. Many factors influence business survivorship and it is likely that multiple factors contribute to the increased business survivorship of small alcohol producers in Minnesota.

An economic impact model attributes under one million dollars in labor income to the credits and suggests positive job growth. However, the estimated amount of tax revenue forgone by the state is more than the estimated economic impact attributed to the tax credits.

The Tax Expenditure Review 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.

Appendix A - Survey Questions

1. What is the Name of your business?
2. What year did your business first start selling products to the public? Ex. 2011
3. Have you claimed the Small Brewery, Small Winery, or Microdistillery Credit?
   - I have claimed the credit(s) in tax year 2023
   - I have claimed the credit(s) prior to tax year 2023, but did not claim for 2023
   - I have never claimed the credit(s)
   - I am not aware of the existence of the credit(s)
   - Other (please specify) ___
4. Which credit(s) has your business claimed? Check all that apply.
   - Small Winery (includes cideries)
   - Small brewery
   - Microdistillery
5. What tax year did you first claim one of the credit(s)? Ex. I filed my taxes in 2024 for **tax year 2023.**
6. If you no longer claim any of the credits, when was the last tax year that you claimed one of the credit(s)? Ex. I filed my taxes in 2024 for **tax year 2023.**
7. How would you describe the overall impact of the credit(s) on your primary business?
   - Very Positive
   - Positive
   - No Impact
   - Negative
   - Very Negative
   - Not Sure
8. Has the tax credit reduced your reliance on business loans?
   - Yes
   - No
   - Not Sure
9. What has been the tax credit's impact on your business' "growth"? We are defining "growth" as an increase in profit, revenue, sales, etc.
   - Very Positive
   - Positive
   - No Impact
   - Negative
   - Very Negative
   - Not Applicable to My Business
10. Please describe the tax credit's impact on your output growth as a business.
11. Has the credit had an impact on your business's ability to stay in operation?
    - Major Positive Impact
    - Minor Positive Impact
    - No Impact
    - Not sure
12. Please describe the credit's impact on your business's ability to stay in operation.
13. How would you categorize the change in your business's growth over the last five years?
    - Large Increase in growth

- Small Increase in growth
- No change
- Small decrease in growth
- Large decrease in growth

14. If the credit were to expire, would that have an impact on your business's ability to stay in operation?
    - Major positive impact
    - Minor positive impact
    - No impact
    - Not Sure
15. How many individuals are currently employed at your primary business?
    - No employees
    - 1-2 employees
    - 3-4 employees
    - 5-9 employees
    - 10-19 employees
    - 20-49 employees
    - 50-99 employees
    - 100-199 employees
    - 200-499 employees
    - Over 500 employees
16. Please estimate the following to the best of your ability.
    - Annual net profit (i.e., after taxes and expenses) 2022 = ____ 2023 = ____
    - Annual gross revenue (i.e., pre-tax) 2022= ____ 2023 = ____
17. If you have used the savings from the tax credit(s) to reinvest into the business, please check all the areas that apply to the types of investments you are making into your business:
    - o Equipment
    - o Operations
    - o Employee earnings
    - o Hire new staff
    - o Not sure
    - o Other (please specify) ____
18. Approximately what are the average total employee wages paid per month?
    - < $10,000
    - $10,000 - $24,999
    - $25,000 - $49,999
    - $50,000 - $99,999
    - $100,000 - $249,999
    - $250,000 - $399,999
    - $400,000 - $749,999
    - $750,000 - $999,999
    - $1m +
19. Do you have any general comments or concerns about the credit(s) of other aspects of your business that have impacted your business's growth or ability to remain in operation?

20. Would you be willing to participate in a brief phone interview in the future for any clarifications or follow-up questions?
    - Yes
    - No
21. Please indicate the name and preferred contact information for follow-up questions and interview purposes.
    - Name of Business
    - Name of Primary Contact
    - Email
    - Phone Number
22. What are the barriers preventing you from claiming one of these credits?

Appendix B - Open-Ended Survey Responses

Prompt: "Please describe the tax credit's impact on your output growth as a business."

"It provides more opportunity for investing in the quality of the business we have."

"Output is independent of the credit, we need to serve customers. It does allow us to actually have a profit margin."

"Helps free up cash that can be put into making more product, which can age, which leads to long-term growth."

"This tax credit has been very helpful when managing growth. Our Company has grown every year and in years with more growth we have a strapped cash flow and high debt load, and so the credit helps us stay afloat."

"While it helps, larger issues like the pandemic and SBA interest rates have had more impact"

"It increases cash flow which helps to promote expansion, employee salaries, and investment into the business"

"It saves $, that I can spend on marketing, etc."

"A microdistillery credit allows some of our revenue to be able to put towards other intangibles such as marketing, sampling, tours, etc."

"It has no impact."

"For a small brewery like ours, every little bit helps keep the lights on."

"Every bit helps"

"It allows us to invest more back into our business and employees"

"Tax credit only way distribution makes sense"

"Profitably"

"Still a new small business and not profitable yet"

"This credit has been critical for allowing us to stay competitive in an increasingly difficult marketplace"

"The tax credit has helped keep us afloat financially"

"I keep dollars in the business instead of another tax or fee."

"We are very small so the credit is small but every bit helps."

"Slight"

"We produce less than 250 bbls per year. The tax credit isn't much but for a small business it matters over the year in savings and redirecting revenue elsewhere."

"We can invest in equipment and labor instead."

"It is nice to not pay the tax"

"It has been very helpful not to have to worry about or plan for a tax as we grow. We are significantly under the lower limit and will be for many years"

"We can keep our MSRPs stable."

"Helps with taxes"

"Allows positive cash flow vs negative"

"As a small producer, my expenses are much higher than a large brewer. The tax credit helps keep my product pricing competitive in the marketplace."

"Money saved on taxes allows us to stay competitive with people who get economies of scale from brewing bigger batches."

"It has allowed my business to exist. It's a hard business when

required to sell through a distributor as a small distillery. May not still be in business without credits"

"The credit is too small to be meaningful"

"It reduced our loss the past 3 years"

"We have been able to increase production of wine every year since we opened our store in 2018"

"We would be shut down without it."

"Small businesses are struggling, we pay so much in other taxes and fees, this helps immensely."

"It has allowed us to be competitive with our pricing in the market"

"We are a small brewery. It is great that we don't pay for production. We still pay a huge amount of sales tax on beer sold."

"Gives us small guys a bit of breathing room on the monthly expenses"

"This tax credit allows me to provide more pay and benefits to my empl---oyees and grow"

"We are not profitable yet, so any credits help our bottom line"

"Has not affected output."

"The credit has encouraged us to grow because we will not see an additional tax fee for additional output, as we are well below the ceiling for the credit."

"First, it gives us parity with other businesses that for years were given a tax credit before it was offered to wineries. We had previously, in 1980, but denied a tax credit that we had when we first started. Our margins are small and the tax credit is a huge savings for us to re-invest in our business, hire a new employee, offset the losses from our vineyard that frequently occur."

"Operating a brewery is already very challenging with taxes at every corner. Having one less tax to pay has increased our ability to reinvest in our business and build a second facility."

"It allows us to use those monies for new equipment to increase our capacity"

"This is a very positive credit that helps small businesses get off their feet and stay in business in this competitive environment"

"Chance to compete"

"We are still in startup mode but the credits allow us to operate and sell product. I feel that without them we would have trouble continuing to operate."

"Money saved with this tax credit can be applied toward other operational expenses."

"This tax credit has helped us grow our business and spend the $6,000 a month on increasing our paid labor rather than on paying taxes. Since 2018 we've grown our staff from 5 people to 12 people and added 4 full-time positions."

"We're so small it isn't a large amount of money"

Prompt: "Please describe the credit's impact on your business's ability to stay in operation."

"While we do have a solid financial foundation from our ownership, every penny counts and we are grateful for the credit."

"This is a significant amount of annual savings for a small brewing operation"

"We are a small family owned business and cash flow is tight. Without the credit we'd be forced to take out loans or find investors to maintain operations."

"It is especially helpful to have this credit up front, versus as a reimbursement/refund. It would be very hard to pay these bills with our seasonal industry."

"As we're a smaller brewery, it provides some relief, but probably has a bigger impact on larger local breweries"

"It's less money that I have to spend, and can use on other operating costs."

"Frees up money in the budget and increases the profit margin to allow expansion in staffing, running a cocktail room, hosting events."

"No impact"

"For a small scale brewery like ours, the cost of submitting a new label for registrations is almost more than the brewer's tax. Being able to claim the tax credit allows for us to redirect that money to the registration with less stress on the idea of wanting to create new and innovative brews but not looking at higher costs for doing so."

"Every bit helps"

"It has helped us to expand and retain employees"

"Would not be in distribution without it"

"We were able to hire new employees."

"Any cost savings is helpful"

"We likely would not be as large or even in operation without it"

"Same as above"

"It keeps dollars in the business instead of another tax or fee."

"We could survive without it."

"Important"

"The redistribution of revenue to other areas"

"There is already high tax in alcohol so the credit is nice"

"Without it, we probably wouldn't have had enough margin to launch the business in our projections."

"If we had to pay the tax we would. It is really nice to have the credit."

"Without tax credit we would have had a very difficult time staying in operation."

"As a small brewery in a small town in rural Minnesota, the tax credit has been very helpful in dealing with increased costs - ingredient costs, energy costs, water costs, and inflation"

"Keeps costs lower."

"Helps reduce taxes, means we have more money in the bank"

"For 2023, the MN tax credits have saved my business $11k which allows us to stay in business."

"There are many expenses that go into making and selling beer. Taxes, while a small portion, still impact my overall costs."

"Without credits to support small breweries, they cannot stay competitive against larger breweries. The overhead to make a very large batch of beer is similar to the overhead to make a smaller batch of beer. This means that in order to have small breweries compete against larger breweries, there needs to be something to level the playing field."

"It has allowed my distillery to exist. It's a hard business when you just sell through a distributor as a small company. May not still be in business without credits"

"Every little bit helps, if we continue to lose money each year we will close the business at some point"

"No tax liability during covid when we were shutdown. We continue to increase sales and are holding our prices without an increase in three years."

"We would have shut down without the tax credit."

"Again, we pay enormous amounts in fees and taxes , for a small business."

"It is one of many that impacts our business so can't say that it has an impact greater than other operating expenses. For sure, though, it has allowed us to be competitive."

"It helps but it is just $100-$200 per month. It would be bad to have to pay it and sales tax."

"Helps big time with cash-flow"

"We watch every dollar as we are not profitable yet. Any additional costs impact our bottom line"

"Reduce tax burden"

"The credit saves us money which helps in the long run, but our taxes would be low enough that we could have probably always remained in operation regardless of the tax, albeit as a more strained operation."

"According to 250K BBL being classified as a small brewery would make us microscopic. Though are contributions to the brewing industry, environment and agriculture are not."

"Surviving the closures during Covid was very difficult and every savings, including the tax credit, helped to keep us in operation."

"Operating a brewery is already very challenging with taxes at every corner. Having one less tax to pay has increased our ability to reinvest in our business and build a second facility."

"Being able to save even a small amount of money is very helpful to our business"

"Not having this credit would create a new financial hurdle in an already tough economic environment."

"Extra cash to reinvest"

"In startup we are at heavy negative cash flows, even with low sales volumes it helps to avoid more negative flows."

"Any amount saved using a credit means that money can go toward other operational expenses, which assists in keeping the business in operation."

"Without the tax credit we would have to raise the prices of our locally made craft products and would not be able to be price competitive with the larger multinational brands that dominate the spirits market."

"too small to have an impact"

Question: "Do you have any general comments or concerns about the credit(s) or other aspects of your business that have impacted your business's growth or ability to remain in operation?"

"With ongoing rising costs and slower traffic, credits like this are what allow us to stay in business."

"Would be great if we could use the credits in other aspects of the business other than just bottles sold."

"Credits are a huge help. We already pay nearly 10 percent of sales annually on all combined taxes. Our local taxes continue to increase and so help from the State is much appreciated."

"SBA loan rate increases have been hard to navigate, as have increases in raw material costs"

"We appreciate the ability to apply for this monthly microdistillery credit!"

"Question 14 referenced the expiration of the tax credit but did not give an option to select that it would have a minor negative impact on our business"

"The tax credit I'm assuming this is the reprieve on the excise tax we get a break on for being a micro Distillery. If not, please send me information on any additional tax credit or small business grants"

"MN taxes are some of the highest in the nation. We need to work to reduce those burdens on small business and encourage small business growth to create jobs. Therefore tax credits should remain in effect. Also R&D tax credits need to be reimplemented."

"If the tax credit were to expire it would have a significant negative impact"

"Cider with added fruits needs realignment of it's tax structure. Change the "bubble tax" on cider and sparkling wine so these beverages can be more competitive in the marketplace without the heavy tax burden. Both State and Federal need this adjustment."

"I hope it doesn't go away."

"They are vital, we've lost many distilleries this year."

"Really like the tax credit. We are a small winery so we don't come close to using the whole amount each year."

"The tax credit has been very helpful these past 4 years. The credit has been helpful as we grow to not have to plan to pay increased taxes on that growth. We are unlikely to grow beyond 5,000 BBL annual production in the near future, so for us, the credit could be lowered from 250,000 barrels annually to 5,000 barrels annually with little impact to us. PLEASE keep it at least for us very small breweries!!"

Question 14: "Answer would be Major Negative Impact. Question 16: Answer would be Negative profit (loss) for 2022 If the MN Distillers excise tax credits were to expire, we may not be able to remain in operations."

"Craft brewing as a whole is declining. If MN wants to keep small breweries viable they need to continue to support them and not take away already existing benefits."

"Nothing about credits, just parity in all other aspects between craft beverage industries"

"With growth there is a constant need to upgrade

equipment a tax credit could help accomplish this faster.”

“With the credits we are still operating in the negative. We have not made any profits and have invested personal $ into the business to keep us open.”

“The tax credit is helpful; other regulatory reforms would also be helpful to modernize the 3-tier system in MN and eliminate some of the barriers that restrict direct to consumer access.”

“I assume this is the credit applied for each month when completing the fermented malt beverage report. Every tax break helps. If we grow in distribution, the tax break really helps keep margins a bit better on packaged product.”

“The credit is a major positive impact on a small brewery”

“This is an essential tax credit. Our taproom already pays over $100,000 in sales tax each year.”

“If the credit were to expire, I would hurt our business”

“I was pleasantly surprised to learn of the credit”

“We are a sub 300 BBL brewery though we get lumped in with breweries making up to 250K BBLs per year, which doesn't make sense. We are thankful for any savings though credits such as these really help larger businesses only, not the small.”

“Given the tax credit and zero liability we have every month it doesn't make sense that we would be required to file monthly tax statements to the state. Even the federal forms allow us to file quarterly. Further, the tax brackets (over 14 percent for the state but 16 percent for federal) and calculations (liters for the state vs gallons for federal make for some very complicated spread sheets.”

“The tax credits add up over the year for a small micro brewery like ours. We are able to invest that back in the brewery in product or operations to keep the business afloat.”

“This current economic environment is very tough. Every day is hard and cash flow is a constant concern. I would implore the continuation (or expansion) of the tax credits. The big companies have so many advantages that small micro-distilleries will never have access to”

“Keep the credit it’s a positive for the industry”

“The credits are very much needed as we continue through startup, with large losses in startup phase any savings of cash is very helpful to our business.”

“The tax credit is a very beneficial thing for us as a small business. We are able to apply that money to expense categories most in need at any given time. One major concern in another aspect of our business would be the brewery laws and restrictions that hinder our ability to operate and leave breweries at an obvious disadvantage to distributors and liquor stores who have the heavier lobby at the Capitol (ie. Brewery off sale 4-pack restrictions of two 4-packs per person per day.)”

“Question #14 - Did not have a negative impact response option. If the credit were to expire it would have a very negative impact on our business and the entire craft spirits industry in MN. We have lost more local distilleries than have opened in the last 2 years.”

“The paperwork currently required is onerous. In the First few years it was much easier to claim the credit now it’s a big headache”

Question: “What are the barriers preventing you from claiming one of these credits?”

“*Unsure of the process”*

“Don't know how to claim credits”

“Too much paper work”

“never heard of it.”

“We are new and unprofitable”

Appendix C - Minnesota Businesses' Survivability Calculations

Licensure data was obtained through the Minnesota Department of Public Safety Alcohol and Gambling Enforcement public access licensure database. Data was filtered for production licenses of each alcohol type. Two large manufacturers were removed from the data set after one was identified as a large producer above the eligibility threshold and another as a research and development lab, not a small business. Fifty-one entries were removed after being identified as duplicate firms under the same licensure type. There were 31 instances of firms holding manufacturing licenses for different alcohol types. In these cases, entries were merged into one business, with the license type associated with the earliest start date dictating the alcohol manufacturer category. This established survivability of the business as a firm, rather than separate establishments. The DPS licensee data captures licensure data from 2001 to September 2025, with the exception of two producers established in 1981 and 1986.

Figure 19 displays the survivability calculations for small alcohol producers in Minnesota. During the time period captured by the data, the average number of years a small alcohol producer stayed in business was 7.8 years. This survivability rate is on par with other private businesses in Minnesota.

Small alcohol producers in Minnesota tend to have a higher survivability rate than small alcohol producers from other states, as well as other private businesses from other states. This indicates that Minnesota's market tends to foster businesses that have longer survivability than businesses in other states as a whole. This makes it difficult to determine if tax credits for small alcohol producers assisted them in having longer survival rates than similar businesses in other states, or if their survival is partially because they are situated within Minnesota. Alternatively, it could be an unknown combination of multiple factors.

Figure 20 displays the survival rates of all the small alcohol producers in the DPS licensee dataset. As indicated in the table below, 389 businesses were analyzed of the 399 total businesses in the dataset, removing businesses that began in 2025, to understand how many businesses survive at least one year, based on longevity of licensure. Based on licensure data, 99 percent of these businesses licensed prior to 2025 are assumed to survive one year or more. Ninety percent of businesses licensed five years ago or prior survive five years or more. Ninety-eight percent of businesses licensed over ten years ago have survived ten years or more. Ninety-two percent of businesses licensed 20 years ago or more have survived 20 years or more.

Figure 21 displays the survival rates for small alcohol producers that have closed and have an expired or cancelled license. Of the 123 businesses in the dataset that are now closed or have expired/canceled license, 98% survived at least one year. Eighty-three percent of businesses that opened five years ago or more and have since closed or have an expired/cancelled license survived at least five years. Sixty-four percent businesses that opened 10 years ago or more and have closed or have an expired/cancelled license survived for at least 10 years.

Figure 19. Minnesota Small Alcohol Producers Survivability Calculations

Survivability Calculations	Years
Average Years Active	7.8
MIN	0.0
MAX	44.6
MODE	5.0
Average Survivability of Closed Businesses & Canceled/Expired Licensees	7.7

Note: 399 Total Businesses
Data Source: Data gathered from 2025 DPS licensee data

Figure 20. Survival Rates – All Licensees through 2024

Business Survivorship Threshold	Licensed Businesses	Surviving Businesses	Percent Surviving
1 year or more	389*	385	99
5 years or more	308	277	90
10 years or more	113	111	98
20-years or more	14	13	92

*399 Total Businesses in the database –10 businesses licensed in 2025 were removed from the sample
Data Source: 2025 DPS licensee data

Figure 21. Survival Rates – Closed Businesses and Cancelled/Expired Licensees

Business Survivorship Threshold	Licenses Businesses	Surviving Businesses	Percent Surviving
1 year or more	123	120**	98
5 years or more	108	90	83
10 years or more	39	25	64

**Producer licenses are issued for a period of one year. Three businesses listed under the cancelled or expired status were licensed for only year, so it is assumed that the business did not survive beyond the life of the license.
Data Source: Data gathered from 2025 DPS licensee data

Appendix D - Economic Impact Analysis

Model Background and Methodology

IMPLAN industry contribution analysis was used as the economic model in this evaluation. As already mentioned, the input data was from DOR's estimated forgone revenue generated by each respective credit. Estimated forgone revenue is the total dollar amount that the states would have received if the tax credits had been removed or had not been put in place. IMPLAN utilizes NAICS codes to categorize existing industries in the United States. The three industries analyzed were breweries, wineries, and distilleries. IMPLAN does not have a subsection of the brewery, winery, or distillery industry that isolates small businesses.[79] Therefore, the industry selection includes businesses at all production levels. For modeling purposes, the assumption is that the majority of operating wineries, breweries, and distilleries in Minnesota qualify for their respective credits based on statutory production eligibility thresholds, and the available IMPLAN industries are representative of the credit recipient population.

The DOR estimate of forgone revenue generated by each credit was inputted into IMPLAN for each industry: breweries, wineries, and microdistilleries. More specifically, the fiscal year 2025 forgone revenue estimate was $1.7 million for small brewers, $500,000 for microdistilleries, and $100,00 for wineries. Estimates of forgone revenue were taken from the 2024 Tax Expenditure Budget. See Figure 22 to reference the inputs used under the IMPLAN industry contribution analysis.

Figure 22. IMPLAN Input Table

Industry	Forgone Revenues	IMPLAN Industry Code
Small Brewers	$1,700,000	101
Microdistilleries	$500,000	103
Small Wineries	$100,00	102

Each credit's respective industry contribution data was then applied to Minnesota as separate events, and the model was run to understand the impact of the credits as a whole on Minnesota's economy. Each industry was added as a separate event within the model to ensure that industry buyback was reflected within the model. Industry buyback includes purchases made, for example, between a winery and a brewery. IMPLAN then estimated impacts caused by the input estimates of forgone revenue for each industry impacted by the credits.

Further Results

Figure 23 displays the findings for the top 13 most impacted industries. Outside of the top 3 most impacted industries, the remaining impacted industries have an impact output that is less than 0.05 percent of their total respective industry output. Glass container manufacturing has an impact of 0.04 percent; rice milling and metal cans manufacturing are among the industries with

[79] IMPLAN Industry Codes, "U.S. 528 Industries, Conversions & Bridges", IMPLAN, (2025): https://support.implan.com/hc/en-us/articles/30545246649115-U-S-528-Industries-Conversions-Bridges

minimal impacts at 0.01 percent, reflecting secondary connections to the production and supply chains of breweries, distilleries, and wineries. Other sectors, such as flour milling, crop farming, and paperboard container manufacturing, similarly demonstrate limited effects (less than 0.01 percent). Overall, these findings suggest that while the tax credits have targeted impacts on their intended industries, their influence on broader industry sectors remains minimal.

Figure 23: IMPLAN Top Impacted Industries

Impacted Industries - Rankings	Industry	Industry Total Output (in $ Millions)	Impact Output	Percentage of Total Industry Output
1	Breweries	$944	$1,700,154	0.18
2	Distilleries	$499	$500,775	0.10
3	Wineries	$163	$100,197	0.06
4	Glass container manufacturing	$85	$34,555	0.04
5	Rice milling	$11	$1,074	0.01
6	Metal cans manufacturing	$614	$60,351	0.01
7	Flour milling	$682	$57,774	0.01
8	All other crop farming	$54	$3,909	0.01
9	Wet corn milling	$581	$23,229	<0.01
10	Malt Manufacturing	$303	$11,393	<0.01
11	Fruit Farming	$42	$1,241	<0.01
12	Paperboard container manufacturing	$2,103	$42,173	<0.01
13	Wholesale – Other nondurable goods merchant wholesalers	$11,518	$152,893	<0.01

Data Source: IMPLAN 2024, authors' calculations

Limitations to Econometric Analysis

IMPLAN is an economic modeling software that estimates economic impact based on the inputted information, in this case, estimates of forgone revenue provided by the DOR. It is important to note that DOR estimates forgone revenue based on available information. There is no data collected on what qualifying small businesses choose to reinvest credit dollars towards, and as such, there is no available data to have an exact credit distribution allocation; rather, the model assumes a standard usage of dollars by industry based on historical industry data. Further, the economic impact is likely to be a higher bound as some of the $2.3 million will likely flow to other states.

Key Terms

The following definitions are key terms taken from IMPLAN's glossary resource and filtered here for relevance.[80]

Direct Effects: Attributable outputs that take place directly within the industry of interest.

Event: In IMPLAN, Events specify the economic transactions occurring in the local economy being analyzed, in terms of Type, Specification, and Value.

Indirect Effects: Economic Effects stemming from business-to-business purchases in the supply chain.

Induced Effects: Economic Effects stemming from household spending of Labor Income, after removal of taxes, savings, and commuter income.

Economic Impact Analysis: A type of applied economic analysis that tracks the interdependence among various producing and consuming sectors of an economy. More particularly, it measures the relationship between a given set of demands for final goods and services and the inputs required to satisfy those demands.

Industry Contribution Analysis (ICA): Is a method used to estimate the wider economic contribution of an existing Industry or group of Industries in a region, at their current levels of production. ICA shifts the traditional input-output framework to see what Industries, and what level of production in these Industries are being supported by current activity. ICA Events are distinct from Impact Events because they employ a constraint that removes feedback linkages or buybacks to the industry being analyzed. For example, if breweries and wineries were added to the same event within a model, the model would exclude any purchases between the two industries.

Output: For all Industries, output equals the value of production.

Value Added: The difference between an Industry's or establishment's total Output and the cost of its Intermediate Inputs; it is a measure of the contribution to GDP.

Labor Income: All forms of Employment income, including Employee Compensation (wages, salaries, and benefits) and Proprietor Income.

Employment: Employment in IMPLAN is an Industry-specific mix of full-time, part-time, and seasonal employment. It is an annual average that accounts for seasonality and follows the same definition used by the BLS and BEA. IMPLAN Employment is not equal to full-time equivalents (FTE). Includes wage and salary employment and proprietors.

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[80] IMPLAN References, "Glossary", IMPLAN, (2025): https://support.implan.com/hc/en-us/sections/16901820111003-Glossary?page=2#articles