



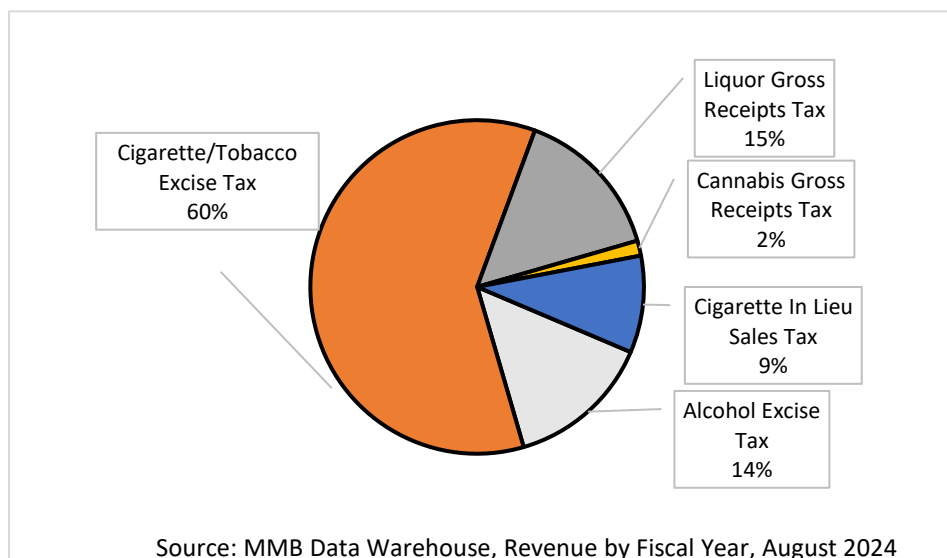
ISSUE BRIEF

Alcohol, Tobacco, and Cannabis Taxes

November 2024

Alcohol, tobacco, adult-use cannabis and cannabis products are subject to Minnesota state taxes. Minnesota state tax collections for alcohol, tobacco and cannabis taxes accounted for almost \$800 million in general fund tax and non-general fund tax revenue in FY 2024. This issue brief summarizes how these state taxes are levied, how much is collected from each tax and which taxes are dedicated to a specific purpose.

Figure 1: FY 2024 – Total Collections from Alcohol, Tobacco & Cannabis Taxes: \$797.118 million



Alcoholic Beverage Taxes – Excise Taxes

State excise taxes on alcoholic beverages are levied on a per-unit basis.

- For distilled spirits, wine, and cider, the tax is imposed on a per liter (metric) or per gallon (standard) unit of measurement.
- For beer, the tax is imposed on a per barrel (barrel = 31 gallons) unit of measurement.

The state excise tax on alcohol is structured at a higher rate, per-unit, on distilled spirits relative to wine and beer. Also due to the structure of these excise taxes, any annual change in total tax receipts collected from these excise taxes is due to a change in consumption (from increased quantity by weight or volume), with no relationship to price or inflation. Figure 2 shows modest growth for state excise tax collections on alcoholic beverages with excise tax revenue exceeding \$100 million in FY 2021. About three-quarters of total state tax excise collections on alcoholic beverages from FY 2017 to FY 2024 was derived from taxes on distilled spirits. Rates for excise taxes on alcoholic beverages were last modified in 1987.

Figure 2: Alcohol Excise Tax Collection, FY 2017 to FY 2024, Dollars in Thousands

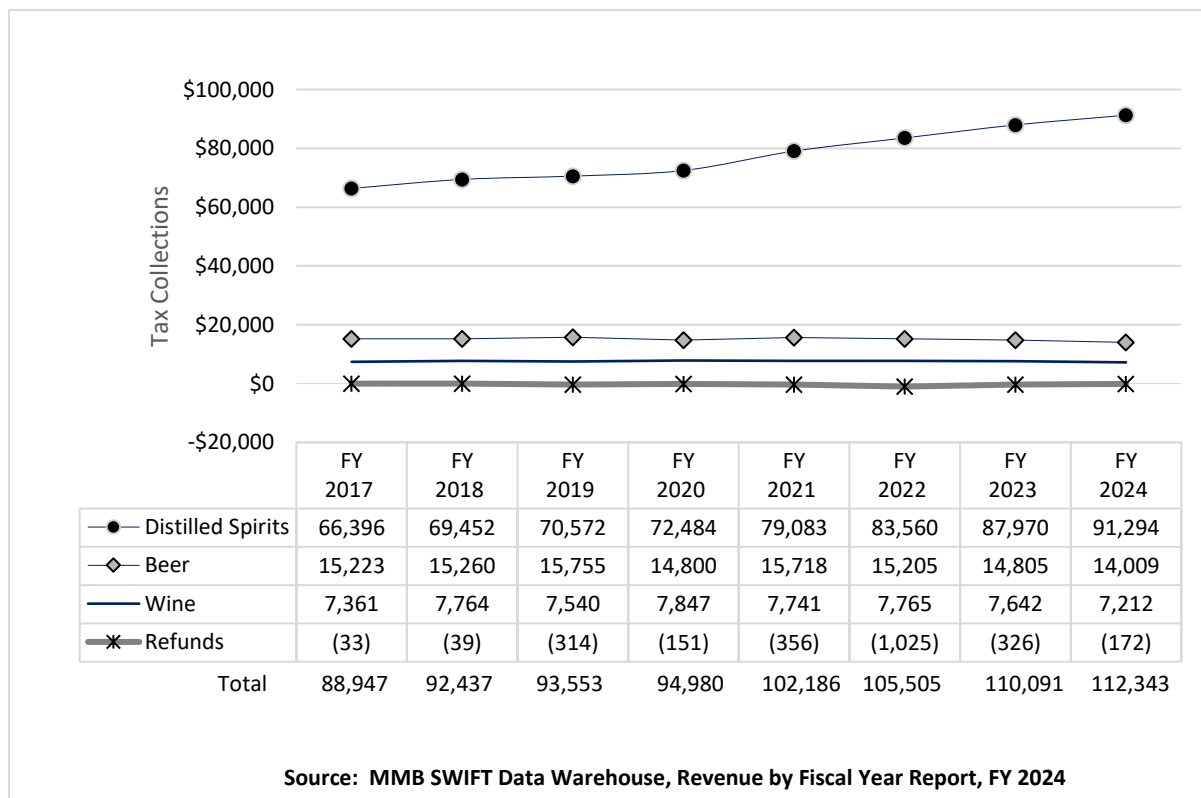


Table 1 converts the current law excise tax to an approximate amount of the current law excise tax per drink (based on assumptions about the ounces per drink). The Minnesota excise tax on alcohol, however, is not directly paid by the consumer, but instead is remitted by licensed brewers, farm wineries, manufacturers, micro distillers, wholesalers, and importers. It is assumed that the tax is incorporated into the final price paid by consumers.

Table 1: Alcohol Beverage Tax - Approximate State Excise Tax Rates Per Drink

Beer Product (By Weight)	Tax (per barrel/31 gallons)	Tax Per 12 oz. Can
Beer (greater than 3.2% alcohol)	\$4.60	\$0.01
Beer (3.2% Alcoholic or less)	\$2.40	\$0.01
Wine Product (By Volume)	Tax (per gallon)	Tax Per 5-ounce drink
Wine (14% Alcoholic or less)	\$0.30	\$0.01
Wine (More than 14% to 21% alcohol)	\$0.95	\$0.04
Sparkling wine	\$1.82	\$0.07
Cider (0.5% to 7% alcohol)	\$0.15	\$0.01
Product	Tax (per gallon)	Tax Per 1.5-ounce drink
Distilled Spirits	\$5.03	\$0.06

**Bottle Tax in Minnesota section 297G.03.subdivision4 is not included in this table.*

Alcoholic Beverage Taxes – Liquor Gross Receipts Tax & Sales Tax

In addition to the excise tax, the state sales and use tax of 6.875 percent and a liquor gross receipts tax of 2.5 percent are directly imposed on the price of alcoholic beverages purchased by consumers at retail.¹ The liquor gross receipts tax was imposed in 2005 to replace an additional 2.5 percent sales tax that had expired.² Together, these taxes on sales of alcoholic beverages at retail total 9.375 percent. State sales and liquor gross receipt tax revenues increase if total sales increase due to increased consumption or higher prices. Figure 3 shows mostly steady growth in tax collections for both alcohol excise taxes and liquor gross receipts taxes from a total of under \$200 million in FY 2017 to a total that exceeds \$220 million in FY 2024.

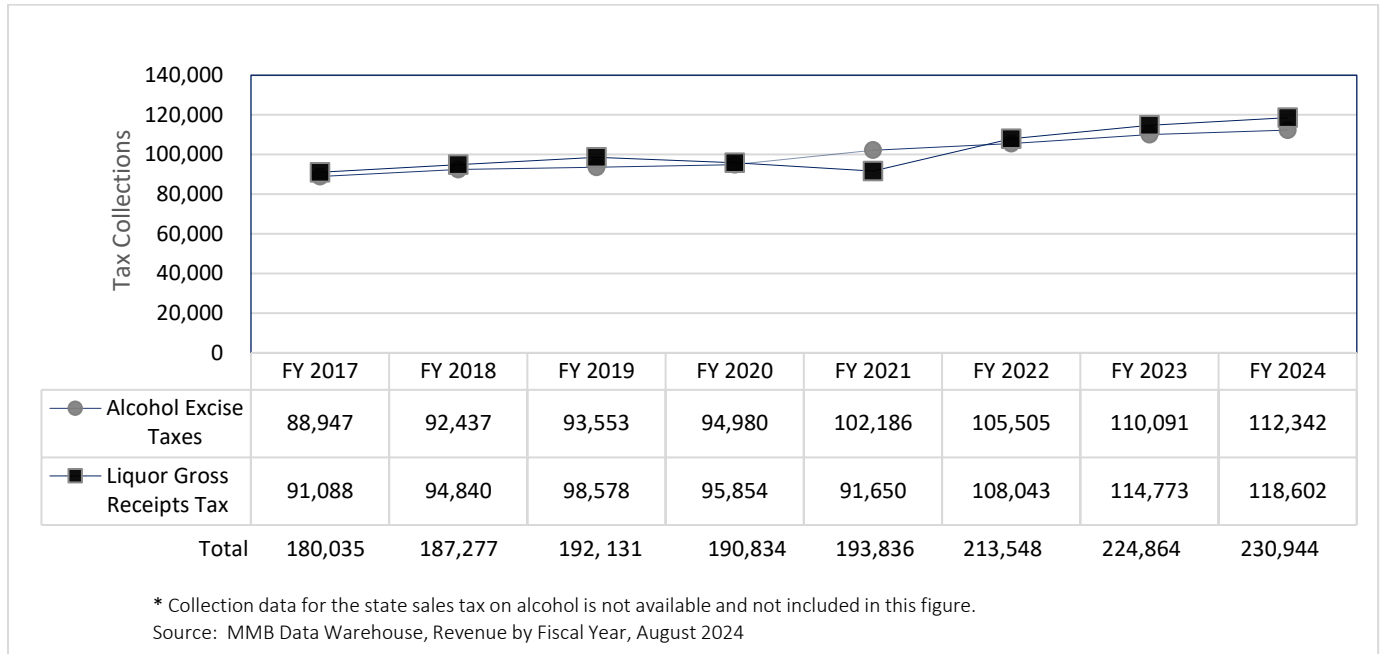
Alcoholic Beverage Taxes – Dedications

Alcoholic beverage excise taxes and the liquor gross receipts tax are deposited as non dedicated revenue into the General Fund. The revenue raised from state sales and use tax on alcoholic beverage purchases, however, is partially dedicated. The amount collected by the constitutionally dedicated sales tax rate equal to three-eighths of one percent (0.375 percent) is deposited into the Legacy funds, with the amount collected from the remaining 6.5 percent tax rate to be deposited as non dedicated revenue into the general fund.³ The constitutional dedication of sales tax revenue ends on June 30, 2034.

¹ Local sales tax may also apply. For alcohol beverages are purchased out-of-state or out-of- the country, a use tax may be assessed if certain conditions are met.

² Minnesota Tax Handbook, 2023 edition, page 23.

³ The receipts from the constitutionally dedicated sales tax rate of three-eighths of one percent are deposited into four funds: (1) Outdoor Heritage Fund; (2) Clean Water Fund; (3) Parks and Trails Fund; (4) Arts and Cultural Heritage Fund.

Figure 3: Alcohol Beverage Tax Collection, FY 2017 to FY 2024, Dollars in Thousands *

Cigarettes & Tobacco Products – State Excise Taxes

State excise taxes are also imposed on cigarettes, tobacco, and tobacco products. The rate structure of the state excise tax varies by the type of tobacco product.

- **Cigarettes:** The excise tax rate on cigarettes is levied at a (dollar) rate per 20-pack of cigarettes. The rate was last modified in 2013. From 2014 through 2017, the excise tax rate was annually adjusted for inflation. In 2017, the legislature repealed the annual adjustment for inflation on the tax rate. The rate has remained fixed at \$3.04 per pack of 20 cigarettes since 2017.
- **Tobacco & Tobacco Products:** The excise tax rate on tobacco, unlike the per pack tax on cigarettes, is levied as a percentage of the price. The excise tax is equal to 95 percent of the wholesale price. This excise tax also applies to vaping and e-cigarettes products. This rate was last modified in 2013.
- **Moist Snuff:** For each container of moist snuff, the tax rate is equal to 95 percent of the wholesale price with a minimum tax equal to the excise tax for 20-pack of cigarettes.⁴ The

⁴ If the moist snuff container is more than 1.2 ounces, the tax is 15 percent of the wholesale price of the moist snuff container or \$3.04 multiplied by the ounces and divided by 1.2, whichever is greater.

excise tax on moist snuff also applies to products similar to moist snuff containing synthetic nicotine or nicotine derived from non-tobacco sources.⁵ This rate was last modified in 2013.

- Premium Cigars, the tobacco tax rate is equal to the lesser of: (1) the rate of 95 percent of the wholesale sales price of premium cigars or (2) \$0.50 per premium cigar. This rate was last modified in 2017.

Unlike the pattern of steady growth for alcoholic excise tax revenue, state tax collections on cigarettes and tobacco show a bit more volatility with modest growth in some years and modest declines from FY 2017 to FY 2024. Figure 4 reflects how the revenue raised from cigarette and tobacco excise tax collections have ranged from about \$600 million to \$480 million with the most recent fiscal years showing a downward trend.

Cigarette & Tobacco Taxes – Sales Tax and an In Lieu Sales Tax

All tobacco products are also subject to state sales and use taxes or an in-lieu sales tax. Cigarettes are subject to an in-lieu sales tax. Effective January 1, 2025, the in-lieu sales tax is 78.6 cents for each 20-pack of cigarettes (or 3.93 cents per cigarette).⁶ The in-lieu sales tax is annually adjusted for the change in the average retail price of cigarettes. For 2025, the total state tax rate (excise tax plus in lieu sales tax) per pack of 20 cigarettes is \$3.83. The Sales Tax on cigarettes is collected from distributors when they purchase cigarette tax stamps from the Minnesota Department of Revenue.⁷ Sales tax is collected from customers at the time of purchase for all other tobacco products.

Cigarette and Tobacco Products – Other Taxes and Fees

An additional fee of 50 cents per pack is imposed on cigarette manufacturers that were not a part of a settlement agreement with the state of Minnesota (i.e., companies other than Philip Morris USA and RJ Reynolds). For those manufacturers, the total state tax rate per 20-pack is \$4.33 (\$3.04 excise tax + \$0.786 in lieu sales tax + \$0.50 non settlement fee = \$4.33) after the non-settlement fee is imposed. This fee substitutes for the tobacco settlement monies that are being paid by Philip Morris USA and RJ Reynolds to the State of Minnesota⁸.

A use tax is imposed on cigarettes that are also used in Minnesota on which the sales tax had not been previously paid.

⁵ For additional detail about the tax base for moist snuff, see Minnesota statute [297F.01, subd. 19](#).

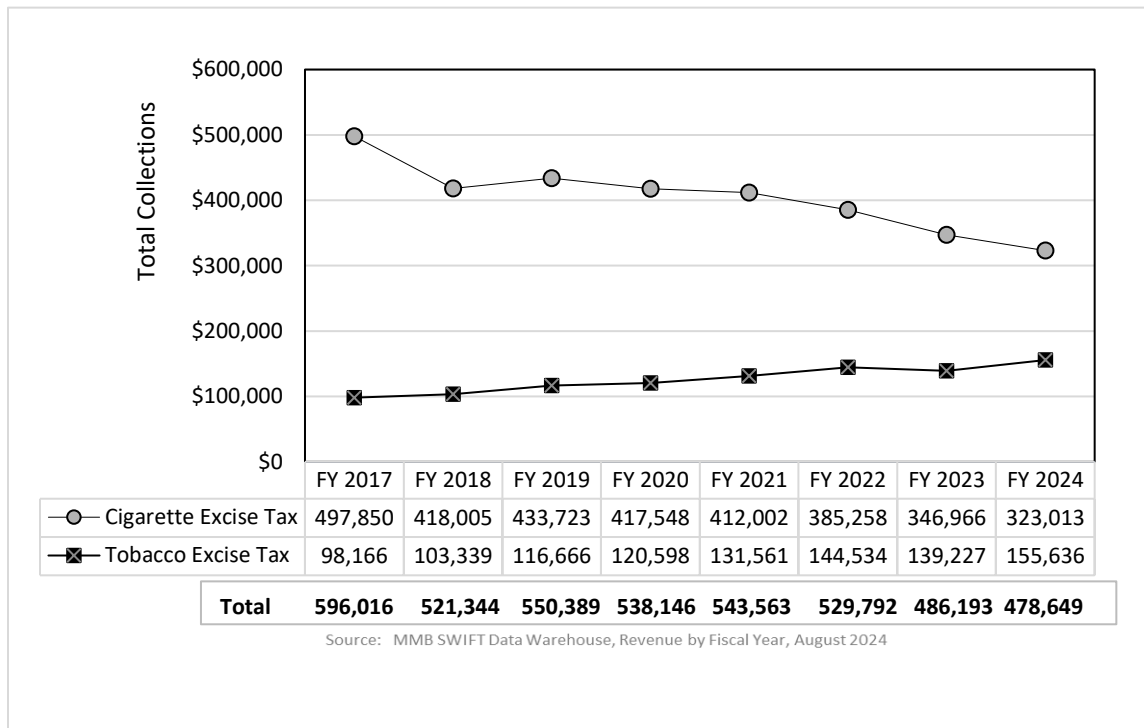
⁶ The statutory rate in 297F.05 is 152 mills or 15.2 cents on each cigarette.

⁷ A cigarette or tobacco tax stamp is a stamp that, may be applied adhesively or via another mechanism, provides evidence of payment of a cigarette or tobacco tax.

⁸ State v. Philip Morris Inc., No. C1-94-8565, Minnesota District Court Judicial District.

Floor stock taxes have also been imposed on a one-time tax basis as a transition to a new cigarette tax rate. The floor stocks tax is applied to inventories, and it equals the difference between the old and the new rate for cigarettes. A floor stocks tax was last imposed in FY 2013.

Figure 4: Cigarette & Tobacco Excise Tax Collections, FY 2017 to FY 2024, Dollars in Thousands



Cigarette & Tobacco Taxes – Dedications

Cigarette excise, in-lieu sales, floor stock taxes and non settlement fees are remitted by about 43 cigarette distributors and about 274 tobacco distributors when the products are received in Minnesota for sale.⁹ Figure 5 shows total revenue for cigarette and tobacco from excise taxes and from in lieu taxes and fees. Total tax revenues in Figure 5 have hovered between \$600 million to \$700 million in a fiscal year with four consecutive years of tax revenue declines in FY 2021 through FY 2024.

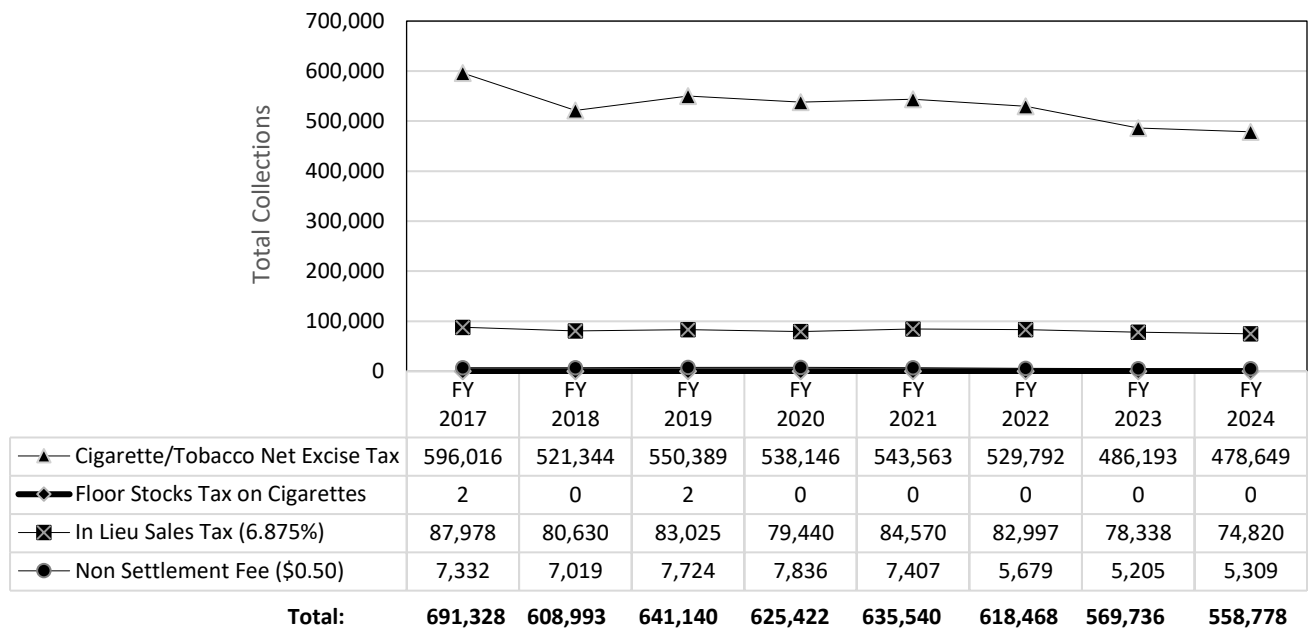
Most of total tax revenue from cigarette and tobacco is deposited into the unrestricted general fund. However, the following dedications are made to non-general fund accounts on a fiscal year basis:

- \$22.250 million each fiscal year to the University of Minnesota Academic Health Center.
- \$3.937 million each fiscal year to the Commissioner of Health for Medical Education and Research Costs (MERC). Prior to FY 2023, the amount dedicated was \$3.788 million.

⁹ Minnesota Tax Handbook, 2022 Edition, January 2023, p. 33

- In FY 2014 only, \$26.5 million dedicated to the general reserve account used for the financing of U.S. Bank Stadium.¹⁰

Figure 5: Total Cigarette/Tobacco Taxes, FY 2017 to FY 2024, Dollars in Thousands



*Note: Sales tax collections on tobacco is not available and not included in this figure.
Source: MMB Data Warehouse, Revenue by Fiscal Year, August 2024

Cannabis – New Gross Receipts Tax

Starting July 1, 2023, a 10 percent gross receipts tax is imposed on the retail sales of taxable cannabis and cannabinoid products. The gross receipts tax is also imposed on low-potency, hemp-derived edible cannabinoid products. In the first full fiscal year, this tax raised \$11.627 million from taxation on low-potency, hemp-derived edible cannabinoid products. Tax collections from this tax are anticipated to increase when actual adult-use cannabis retail sales begin on July 1, 2025 (FY 2026). Medical cannabis and products are exempt from the gross receipts tax.

¹⁰[Laws of 2023, Chapter 143, article 5, section 25, subd. 3.](#)

Cannabis – New State and Local Sales & Use Taxes

The state general sales tax of 6.875 percent also applies to cannabis and cannabis products. Medical cannabis and products are also exempt from the state sales tax.

Cannabis – Dedications

All sellers of taxable cannabis products must register with the Minnesota Department of Revenue to remit the new gross receipts tax. Proceeds from the gross receipts tax on cannabis are partially dedicated. The general fund receives 80 percent of the proceeds from gross receipts tax and a special revenue fund for local cannabis aid receives the remaining 20 percent of the proceeds from the tax to be distributed as a general-purpose aid for cities and counties. Beginning with aid payable in 2024 (FY 2025), the total amount available for distribution as aid equals the balance in the special revenue fund at the close of the previous fiscal year (FY 2024). Of the amount made available as local cannabis aid, fifty percent of the local cannabis aid must be distributed to counties and fifty percent must be distributed to cities.¹¹

The revenue raised from state sales and use tax on cannabis and cannabis purchases is also partially dedicated. The amount collected by the constitutionally dedicated sales tax rate equal to three-eighths of one percent (0.375 percent) is deposited into the Legacy funds, with the amount collected from the remaining 6.5 percent tax rate to be deposited as non dedicated revenue into the General Fund.¹² This constitutional dedication of sales tax revenue sunsets June 30, 2034.

Table 2: Cannabis Gross Receipts Tax Dedication*

Fund Disposition	FY 2024 Collections	% Share
General Fund	\$9.302 Million	80%
Special Revenue Fund – Local Gov’t Cannabis Aid – City Share	\$2.326 Million	20%
Special Revenue Fund – Local Gov’t Cannabis Aid – County Share		
Total	\$11.627 Million	100%

*Sales tax collections on cannabis is not available and not included in this chart.

Table 3 summarizes the taxes that apply to alcoholic beverages, cigarettes, tobacco, and cannabis.

¹¹ [DOR Summary of Local Government Cannabis Aid Certified for 2024.](#)

¹² The receipts from the constitutionally dedicated sales tax rate of three-eighths of one percent are deposited into four funds: (1) Outdoor Heritage Fund; (2) Clean Water Fund; (3) Parks and Trails Fund; (4) Arts and Cultural Heritage Fund.

Table 3: Matrix of Special Taxes on Alcohol, Cigarette/Tobacco and Cannabis

Matrix of Special Taxes	Excise Tax Rates	Gross Receipts Tax Rates	State Sales and Use Tax Rates **	Total Tax Rates
Alcohol - Beer <3.2% alcohol (per 31 gallons)	\$4.60/per barrel	2.50%	6.875%	Excise Tax + 9.375%
Alcohol - Beer >3.2% alcohol (per 31 gallons)	\$2.40/per barrel	2.50%	6.875%	Excise Tax + 9.375%
Alcohol - Wine (<=14% alcohol)	\$0.3 per gallon	2.50%	6.875%	Excise Tax + 9.375%
Alcohol - Wine (>= 14% alcohol to 21%)	\$0.95 per gallon	2.50%	6.875%	Excise Tax + 9.375%
Alcohol - Spirits	\$5.03 per gallon	2.50%	6.875%	Excise Tax + 9.375%
Alcohol - Cider (0.5% to 7%)	\$0.15 per gallon	2.50%	6.875%	Excise Tax + 9.375%
Cigarettes	\$3.04 / pack of 20 cigarettes	Not Applicable	78.6 cents/ 20-pack	\$3.83 per pack/cigarettes
Tobacco *	95% of the wholesale price	Not Applicable	6.875%	Excise Tax + 6.875%
Moist Snuff	The greater of 95% of the wholesale price or \$3.04 (for containers weighing less than 1.2 oz.)	Not Applicable	6.875%	Excise Tax + 6.875%
Premium Cigars	The lesser of 95% of the wholesale price or \$0.50 per cigar (minimum tax)	Not Applicable	6.875%	Excise Tax + 6.875%
Cannabis & Cannabis Products	Not applicable	10%	6.875%	16.875%

*The tax on tobacco includes cigars, vapor products, pipe tobacco, snuff and chewing tobacco. Non settlement fees not listed on the table.

**All local sales taxes in Minnesota would apply and the rates are not reflected in table 3.

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