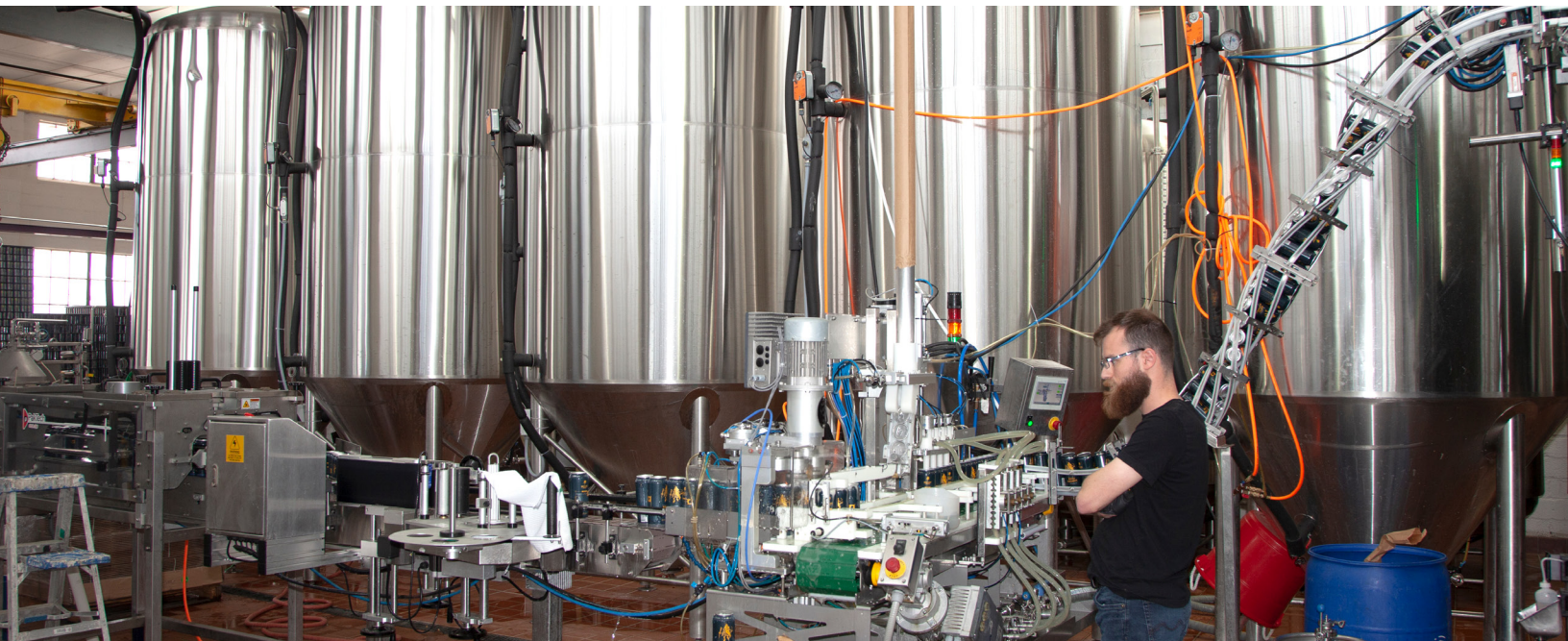


AmericanExperiment.org

Freedom to grow for Minnesota's brewers and distillers



STATE POLICYMAKERS SHOULD

- **Cut state alcohol excise taxes**
- **Remove the 'Growler Cap' and limits on distillery sales**
- **Free breweries and distilleries to sell in vessel sizes of their own choosing**

The benefits of lower taxes and fewer regulations

Minnesota's craft brewers have been an economic success story over the last decade. According to the Brewer's Association, there were 35 craft breweries operating statewide in 2011; in 2020, that number was up to 217, an increase of 520 percent. While the craft beer boom has been

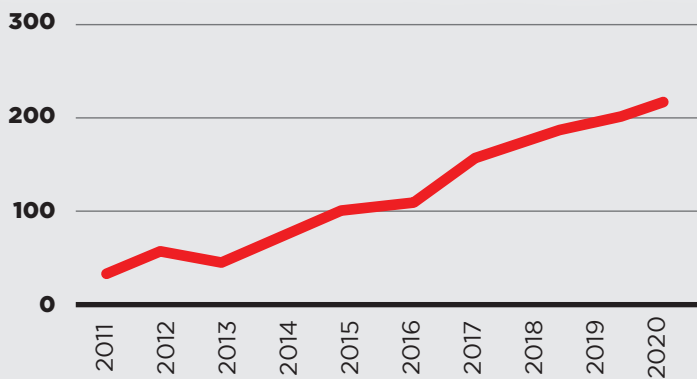
a nationwide phenomenon, Minnesota has been something of a market leader: it ranks 13th nationally for breweries per capita.

This success is largely due to free market policies which have given these brewers the freedom to innovate and grow. Starting in the 1970s, the

FIGURE 1
STATE OF MINNESOTA BREWERY FACTS AND STATISTICS



Number of Craft Breweries Operating per Year



State Rankings

- 15th** Number of Craft Breweries
- 13th** Breweries per 100,000 21+ Adults
- 12th** Economic Impact of Breweries
- 10th** Per Capita Economic Impact of Breweries
- 12th** Barrels of Craft Beer Produced per Year
- 12th** Gallons per 21+ Adult Produced per Year

federal excise tax has been cut and smaller breweries exempted. Deregulation saw home brewing legalized. Brewpubs—breweries with restaurants or pubs on the premises—were legalized in every state, Minnesota doing so in 1987. In 2011, Minnesota’s production breweries won the right to

operate and sell their own beer onsite in a tap-room.

Nevertheless, both tax and regulatory barriers to further growth remain. Removing these can help our state’s craft brewers and distillers to continue their success.

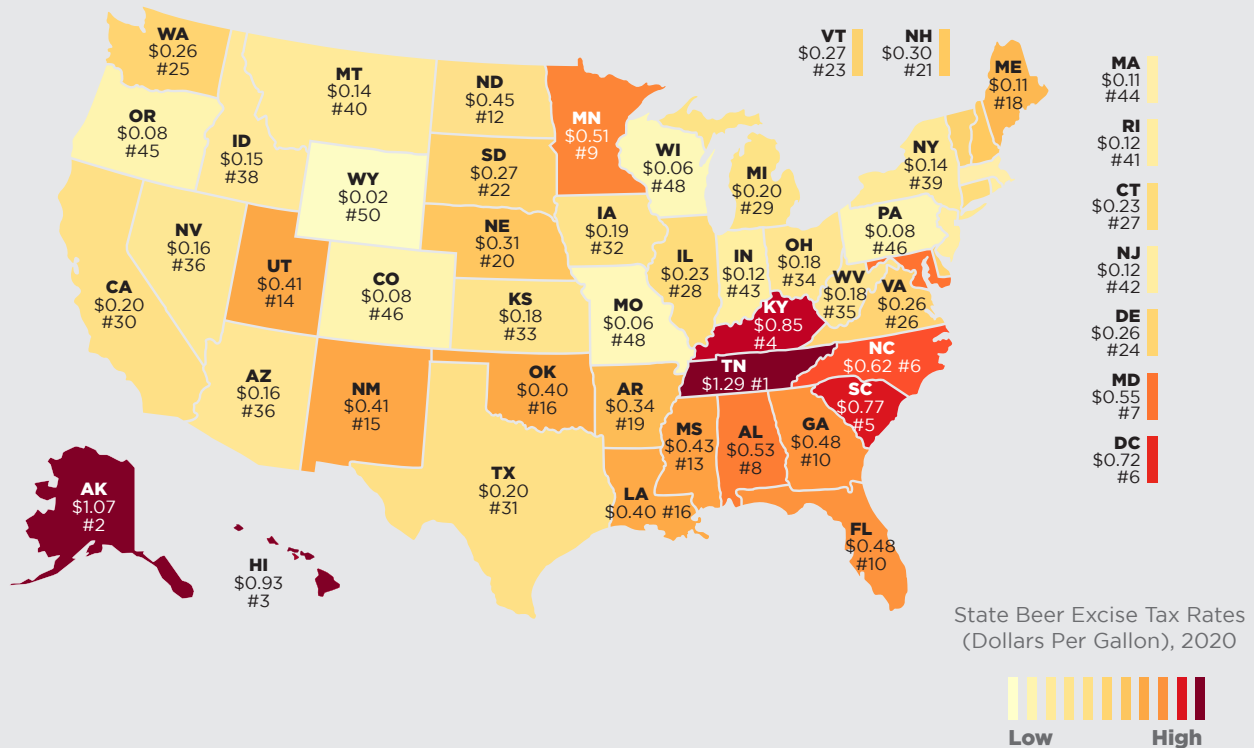
Cut Minnesota’s beer excise tax

As well as federal excise taxes, all 50 states and the District of Columbia also collect their own taxes on fermented malt beverages. In Minnesota, beer retailers are taxed at \$0.15 per gallon, and an alcohol-specific sales tax of 9 percent (instead of the state’s 6.875 percent general sales tax rate) is then applied at the point of sale,

showing up on the customer’s receipt. As a result, according to the Tax Foundation, Minnesota’s excise taxes are the ninth highest in the United States.

Cutting these taxes would boost demand and leave brewers and distillers with more capital to fund expansion.

FIGURE 2
STATE BEER EXCISE TAX RATES (DOLLARS PER GALLON), 2020



Remove the ‘Growler Cap’

In the regulatory sphere, one of the main barriers to the expansion of craft breweries in Minnesota is the ‘Growler Cap’.

This law restricts breweries producing more than 20,000 barrels annually from selling ‘growlers’ (containers that can be used to transport beer). Breweries that grow to approach this level of production face a choice between continued expansion or ending the sale of growlers, which can make up a substantial share of taproom sales.

Minnesota’s distilleries face a similar problem. When a distillery hits production of 40,000 proof gallons annually, they either have to stop expanding or close their cocktail room (and they can no longer sell half-bottles to guests.)

Legislators should remove limits such as the Growler Cap and those faced by distilleries. This would free Minnesota’s smaller breweries and distilleries from the choice between growth and onsite sales and allow consumers greater choice.

CASE STUDY

In October 2019, the Castle Danger Brewery in Two Harbors lost the right to sell growlers. Established in 2011, the brewery has grown impressively, but had reached legislated limit of 20,000 barrels produced annually above which a brewery cannot sell growlers. Maddy Stewart, marketing and events manager for Castle Danger, told the Pioneer Press that growlers make up around 30 percent of all taproom sales. As a result of these lost sales, the brewery eliminated a handful of part-time positions, as well as one full-time position.

Another brewery impacted by this regulation, Lift Bridge from Stillwater, opened a new facility in Wisconsin in March 2021.

Expand vessel sizes

A further regulatory barrier faced by Minnesota's brewers and distillers are rules governing what sized vessel they can sell from their taprooms.

At present, Minnesota law limits breweries to selling off-sale beer in vessels under 750ml. Distilleries cannot sell full-sized bottles at all, they are limited to sales of just one 375ml (half-bottle) per customer per day.

Abolishing these laws would free breweries and distilleries to invest in new packaging, provide consumers with more options for takeaway beers and spirits and greater access to more shelf-stable beer in smaller package sizes, and give liquor stores access to new products put into market as breweries and distilleries invest in new packaging.

CASE STUDY

In March 2021, Minneapolis based Tattersall Distillery announced that it was opening "a destination distillery and second production facility" in River Falls, Wisconsin. The facility will be 75,000 square feet with full-service restaurant and cocktail bar to seat 150, outdoor patio with fire pits and lawn games to seat 250, large amphitheater for concerts and wedding ceremonies, ballroom event space for up to 420, and a retail market.

Tattersall explained that:

"As much as we would have loved to build a second facility in Minnesota, our state's restrictive liquor laws forced us to look beyond our borders. (Basically if we surpassed the state's current production limits, which we're on track to do, we would have had to shut down the cocktail room — and there's no way we were going to do that). Despite efforts by us and all our friends in the Minnesota Distillers Guild over the past four years, the law has remained unchanged."

Conclusions

Minnesota's craft breweries and distilleries are American success stories of people following their dreams to make a living doing something they love.

Tax and regulatory policy should be geared to-

wards helping them. These measures would be big steps in that direction.

John Phelan is an economist at the Center of the American Experiment.