

## Congress may cut taxes on beer, wine, liquor this month

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ASHEVILLE – Legislation being considered in Congress this month could knock a few cents off the price of your favorite IPA, put more money in the pocket of your local brewer or make specialty liquors significantly cheaper.

The tax reform bill approved by the U.S. Senate on Dec. 2 would reduce federal excise taxes on beer, wine and liquor, with the deepest cuts going to smaller producers.

The House version of the bill did not include the cuts, so people in the industry are waiting anxiously to see whether they make it into a final version representatives of the two chambers are haggling over now.

Supporters say the cuts would result in more jobs and investment in craft beer and other specialty producers of alcoholic beverages. Critics say they would increase deaths and other problems related to alcohol consumption and increase the federal debt.

Most of the cuts would be effective in 2018 and 2019 only, although once they are enacted, there would be pressure to keep them in place permanently. A congressional committee estimates the changes would cost the U.S. treasury \$4.2 billion as written.

That's a small part of the \$1.4 trillion total the Joint Committee on Taxation says all the cuts in the bill would cost the federal government.

But it would result in "a huge benefit" to locally based Hi-Wire Brewing worth about \$70,000 next year, co-owner Chris Frosaker said.

Hi-Wire Brewing co-owner Chris Frosaker is shown in this 2016 photo. (Photo: Angela Wilhelm/awilhelm@citizen-)

Beer production at Hi-Wire, which has locations on downtown's South Slope and in Biltmore Village, is up about 60 percent this year, Frosaker said.

"We're growing like crazy," he said.

The company employs about 35 people and is undergoing an expansion this winter. If the federal tax Hi-Wire pays is cut in half as the Senate proposes, the proceeds would probably go toward more equipment to help it grow more, Frosaker said.

"I don't think the tax cut is going to translate into cheaper prices. ... I think we're going to use this as a way to reinvest," he said.

More alcohol, more problems?

The Senate proposes reducing taxes paid on liquor distilled by small producers by 80 percent and cutting in half the tax smaller breweries pay. Major producers would also get tax breaks, but those rate decreases would be much less dramatic.

One analyst says the Senate proposal works out to about a 16 percent decrease in federal alcohol taxes.

If the House goes along, the cuts would lower the amount of tax paid on a standard, 750-milliliter bottle of liquor made by a small company by about 85 cents, depending on how much of the contents are alcohol and how much are other ingredients.

The tax reduction on a six-pack as it leaves a small brewery works out to about 6.4 cents. Because distributors and bars and retailers typically mark up the cost of beer on a percentage basis, Frosaker said the potential savings to consumers would be larger, although many brewers would plow the additional money back into their businesses instead of lowering prices.

John Helberg walks between fermenters in the cellar at Hi-Wire Brewing in this 2016 photo. Congress is considering cutting taxes for small breweries like Hi-Wire. (Photo: Angela Wilhelm/awilhelm@citizen-, Angela Wilhelm/awilhelm@citizen-)

A leading backer of the alcohol tax cuts, Sen. Rob Portman, R-Ohio, told the Senate Finance Committee last month the Senate tax bill "will allow these entrepreneurs to reinvest even more in their businesses and into our communities. ... This legislation is only going to promote the expansion and the jobs that come with these entrepreneurial small businesses."

People inside and outside the alcoholic beverage industry say it is difficult to gauge the chances the cuts will end up in the tax reform bill's final version. One encouraging sign for supporters of the cuts is that Portman is a member of the small committee of senators and representatives negotiating the final legislation.

But an official with a group that bills itself as an alcohol industry watchdog says the legislation will also increase the number of alcohol-related health issues and means producers of beer, wine and liquor will pay an even smaller share of the costs their products impose on the federal government.

"When taxes go down, consumption goes up," said Carson Benowitz-Fredericks, research manager at California-based Alcohol Justice. The group fights against industry practices it says are aimed at increasing underage consumption and alcohol abuse.

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Benowitz-Fredericks cited a 2009 study that estimated doubling federal alcohol taxes would result in a 35 percent drop in alcohol-related death and an 11 percent reduction in deaths from car crashes.

Higher taxes, he said, are "how you make alcohol a safe and legal product without having to criminalize it at all. We've already seen it work very well with tobacco."

Adam Looney, a senior fellow in economic studies at the Brookings Institution, [estimated recently](#) that the Senate's proposed alcohol tax cuts would increase the number of people who die in car crashes by somewhere between 280 and 660 a year. The total number of alcohol-related deaths would rise by 1,550, Looney wrote, about a 1.8 percent increase.

He cited a 2014 congressional study that found local, state and federal taxes combined account for about a fourth of the estimated costs alcohol imposes on society. Federal alcohol taxes have not been increased since 1991 and inflation means they have actually fallen 36 percent since then.

Benowitz-Fredericks said his group is "not really bothered by craft brewers coming into existence and doing well" and that if only small brewers were affected by the proposed tax cuts, Alcohol Justice probably would not take a position.

But he noted larger companies will also get a tax break and that it is large enough to affect beer consumption. The tax on the first 6 million barrels a brewer produces or imports will fall from \$18 to \$16 a barrel.

And the craft beer industry has expanded rapidly without a tax break, he said. Craft beer sales rose 6.2 percent last year and the number of breweries of all types in the United States was five times as large in 2016 as it was 20 years before, according to the Brewers Association, a trade group for independent brewers.

Critics of the tax cuts in general say they will add to the federal debt and result in future reductions in safety net programs like Medicare and Medicaid, the health care program for low-income people. House Speaker Paul Ryan said Wednesday that budget reductions for those and other "entitlement" programs will be a major part of House Republicans' agenda in 2018.

Lower taxes, more jobs?

Supporters of the cuts affecting alcohol say they will boost the economy by encouraging producers to buy more equipment or hire more workers. Some industry officials and their allies are skeptical of predictions of more alcohol-related problems if tax rates fall.

Bob Pease, president and CEO of the Brewers Alliance, said craft brewers are "very community-minded. I think they're the leaders in encouraging responsible use of their products. We don't agree with that argument" that lower taxes on brewers will mean more health issues caused by alcohol.

The head of Consumer Action for a Strong Economy, a conservative group that pushes for fewer regulations on business, recently called Looney's report "outlandish and skewed."

Writing in the Washington newspaper The Hill, CASE President Matthew Kandrach [said](#) federal figures show deaths due to drunk driving have fallen by half since 1982 and that underage drinking is "at historic lows."

History shows there are limits to government's ability to reduce alcohol abuse, said Cody Bradford, owner of Woodfin-based moonshine maker Howling Moon Distillery.

"You're going to have that problem. We're going to have to deal with that in our society," said Bradford.

Chivous Downey, left, and Cody Bradford are the founders of Howling Moon distillery and stand next to a traditional moonshine still in this file photo. (Photo: Citizen-Times photo)

People looking to get drunk are unlikely to buy his product anyway, Bradford said.

"There's \$5 fifths of vodka all over the place" that will be much more attractive to them, he said.

A bottle of Howling Moon moonshine runs \$25 in an ABC store. Buyers "put it in a cabinet, get it out and share it with friends," Bradford said.

As in the craft beer industry, the number of small producers of specialty liquors has surged in recent years. Bradford said Howling Moon was one of only a handful in North Carolina when it opened nearly eight years ago but now there are roughly 70 in the state.

But the industry's growth has not necessarily translated into profits, he said. A state employee recently told him Howling Moon is one of the few distilleries in the state that is making money, Bradford said.

Pease said Congress is giving cuts for his industry serious consideration because members have seen craft brewers' record of creating new jobs. He said the industry has added more than 130,000 jobs over the last 30 years.

If tax cuts are approved, brewers are "not going to go out ... and buy a new car," he said. "They're going to reinvest in their business. They're going to buy a new canning line or a new fermenting tank ... or upgrade their lab."

If the tax cuts are approved, more jobs in small breweries are sure to follow, he said.

If Congress and ultimately President Donald Trump approve the proposed alcohol tax cuts, Bradford said he would invest any resulting additional sales revenue into more workers. Howling Moon employs Bradford, his brother and a part-time worker now, Bradford said.

"I'm having to do a full-time job in the distillery on top of running a business," he said.

That could change with the additional revenue a cut might bring, he said: "We need to hire some employees is what we need to do."

The government tab

Federal taxes on alcohol are paid at the producer level, not at the point of sale. They are levied in addition to state and local sales taxes, state and local alcohol taxes and corporate income taxes a brewer, winery or distiller pays on its profits just as a tire maker or grocery store chain does.

Brewers in North Carolina, for example, pay an additional tax of 61.71 cents per gallon of beer produced. That's the eighth-highest tax rate in the country. The median rate among the states, the point at which half are higher and half lower, is 20 cents, according to the Federation of Tax Administrators. The state also has special taxes for wine and liquor.

On top of that, alcoholic beverages are subject to the same sales tax paid on other retail goods when they are sold. The state gets 4.75 cents for every \$1 of sales and counties add on another 2 or 2.25 cents per dollar, for a total of 6.75 or 7 cents. The total sales tax rate in Buncombe County is 7 percent.

Here is a summary of changes to federal taxes proposed in the Senate version of the tax reform bill:

**Beer.** Taxes are levied by the number of 31-gallon barrels produced or imported. The biggest cut would go to smaller producers. For breweries that produce fewer than 2 million barrels in a year, the tax rate for the first 60,000 barrels -- a limit that would cover most producers in the Asheville area -- would fall from \$7 to \$3.50. For the first 6 million barrels a larger brewery makes, the rate would drop from \$18 to \$16 a barrel. Above that, the rate would stay at \$18 a barrel.

**Wine.** Wine is taxed by the gallon. Rates start at \$1.07 for wine with less than 14 percent alcohol content and increase as alcohol content increases. However, a complicated array of tax credits make effective rates lower. Rates are considerably higher for sparkling wines like champagne. The Senate proposes to increase the alcohol concentration allowed for the lowest tax rate to 16 percent and make credits more generous.

**Liquor.** Taxes are levied by the "proof gallon," a measure equaling one gallon of liquor that is 50 percent alcohol, or 100 proof. The current rate is \$13.50 per proof gallon. The new rates would be \$2.70 per proof gallon for the first 100,000 gallons produced or imported and \$13.34 above that up to about 22.1 million gallons. The rate would be unchanged above that.