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April 11, 2013

The Honorable Vern Buchanan
Chairman, Small Business/Pass Throughs Working Group
U.S. House of Representatives
Ways and Means Committee
2104 Rayburn House Office Building
Washington, DC 20515-0916

Dear Chairman Buchanan:

I am writing to you today on behalf of the Virginia Craft Brewers Guild, the state trade association for Virginia's 53 small brewers and brew pubs, to urge you to recommend that any tax reform legislation considered by the Ways and Means Committee in the 113th Congress include an adjustment to the federal excise tax paid by small brewers as outlined in the bipartisan legislation, H.R. 494, introduced by your colleagues on the Committee, Congressmen Jim Gerlach and Richard Neal.

H.R. 494, the Small Brewer Reinvestment and Expanding Workforce Act (or "Small BREW Act"), will provide additional capital to America's small brewers, allowing them to invest in their businesses, expand production and create more jobs and economic development. This important legislation would recalibrate the federal excise tax paid by small American brewers for the first time in 36 years, and recognize the tremendous changes that have occurred in the brewing industry during that time.

What H.R. 494 Would Do and Why It Is Necessary

Under current federal law, brewers making less than 2 million barrels of beer annually pay \$7 per barrel on the first 60,000 barrels they brew, and \$18 per barrel on every barrel thereafter. H.R. 494 would create a new rate structure that reflects the evolution of small Main Street American brewers. Under this legislation, the rate for the smallest brewers and brew pubs would be \$3.50 per barrel on the first 60,000 barrels. For production between 60,001 and 2 million barrels, the rate would be \$16 per barrel. Any brewer that exceeds 2 million barrels would begin paying the full \$18 rate at 2 million barrels. Brewers with an annual production of 6 million barrels or less would qualify for these tax rates. Currently, all 53 small brewers in Virginia are well below the 60,000 barrel figure.

Consumer demand for the bold and innovative beers brewed by America's small brewers has grown significantly in recent years. But beer produced by small, independent brewers still represents only about 11% of the beer sold nationwide. As small businesses, small brewers face many economic challenges. Because of differences in economies of scale, small brewers have higher costs for production, raw materials, packaging and market entry than larger, well-established multi-national competitors. Given the fact that the largest two brewers in the country account for 80% of domestic beer sales, it is clear that the small, American brewers are at a remarkable market disadvantage based on economies of scale. H.R. 494 seeks to mitigate this disadvantage.

If Enacted, H.R. 494 Will Create Thousands of New, Well-Paying Jobs

Adjusting the federal excise tax paid by America's small Main Street brewers is really nothing less than a well-founded effort to increase economic development and create jobs. Many small brewers today are operating at peak production. That is, they are making as much beer as they can, and they cannot fulfill the demand for their products. H.R. 494 is intended to give small brewers additional capital so that they can invest in their business, expand their production, and hire more workers.

Harvard University economist John Friedman has analyzed the potential effects of H.R. 494, and concluded that, if enacted, the bill would help generate more than 5,000 new jobs in the first 12 to 18 months, followed by an average of about 400 new jobs per year after that.

The reality today is that while small brewers only account for about 11 percent of all domestic beer sales, they account for the vast majority of jobs in the entire brewing industry (large and small brewers combined) nationwide. Small brewers are "hands on" operations that rely on the labor of craftsmen and craftswomen.

Bipartisan Support for Adjusting Small Brewers Excise Tax

There is strong bipartisan, bicameral support in the Congress for recalibrating the federal excise tax paid by America's small brewers as outlined in Congressman Gerlach and Neal's legislation (H.R. 494). As of April 8, 2013, H.R. 494 had 61 co-sponsors, including 28 Republicans and 33 Democrats. When Congressman Gerlach is included, 12 Members of the Ways and Means Committee are co-sponsors. The Brewers Association anticipates that Senator Ben Cardin of Maryland soon will introduce companion legislation to H.R. 494.

It is noteworthy that in the 112th Congress, virtually identical legislation in the House (H.R. 1236) had 174 co-sponsors, including 77 Republicans and 97 Democrats. When Congressman Gerlach is included, 24 Members of the Ways and Means Committee supported this legislation. The Senate companion to the Gerlach-Neal bill in the 112th Congress was introduced by former Senator John Kerry of Massachusetts, and had 44 co-sponsors (16 Republicans, 27 Democrats, and 1 Independent), including 12 Members of the Senate Finance Committee.



About America's Small Main Street Brewers

America's small brewers are quintessentially small Main Street manufacturers. They typically employ 10 to 100 workers, and many began as home brewers before devoting themselves full time to the brewing industry.

The Commonwealth of Virginia now has 53 small breweries and brewpubs. According to recent research, there are another 57 breweries in planning in Virginia. This represents a large jump in the past several years. In 2010, when the Virginia Craft Brewers Guild was founded, there were 37 small breweries and brewpubs.

In 1976, the last time the federal excise tax on small brewers was adjusted, there were 30 small brewers in the United States. Today, there are more than 2,400. In fact, more than half of all Americans live within 10 miles of a brewery.

Nationally, small brewers employ approximately 108,000 full- and part-time employees, and generate more than \$3 billion in wages and benefits and pay more than \$2.3 billion in business, personal and consumption taxes.

Conclusion

H.R. 494 would recalibrate the federal excise tax paid by America's small brewers for the first time in nearly four decades and provide them with the additional capital they need to grow their businesses, increase production and hire more American workers. We urge the Working Group on Small Business/Pass Throughs to support the inclusion of this measure in any tax reform legislation considered by the Ways and Means Committee in the 113th Congress.

Thank you for your consideration.

Sincerely,



Michael P. Killelea

Chairman

Virginia Craft Brewers Guild

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