



**House
Legislative
Analysis
Section**

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SMALL BREWER TAX CREDIT

House Bill 4774 with committee amendment
First Analysis (10-26-87)

RECEIVED

Sponsor: Rep. Mary C. Brown
Committee: Liquor Control

NOV 17 1987

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THE APPARENT PROBLEM:

Microbrewers are a growing source of specialty beers throughout the country. Entrepreneurs are producing, on a small scale, beers that compete with imports for the specialty beer dollar. Obviously, getting into beer production (and introducing an entirely new brand) is a difficult endeavor, particularly since the beer market is dominated by very large companies. One obstacle to starting and expanding a microbrewery in Michigan is the excise tax on beer. Some states help their brewery entrepreneurs by granting small breweries a lower tax rate. A microbrewer in Kalamazoo is seeking that kind of assistance in Michigan.

THE CONTENT OF THE BILL:

The bill would amend the Michigan Liquor Control Act to grant a \$2 per barrel tax credit to brewers, whether or not located in the state, manufacturing under 5,000 barrels during the tax year at all facilities and under all brands and labels. (The full tax rate is \$6.30 per 31-gallon barrel.)

MCL 436.40

FISCAL IMPLICATIONS:

The Department of Commerce has said the loss of revenue resulting from this bill would be minimal. The Kalamazoo Brewing Company is the only Michigan brewer that would qualify under the bill, the commerce department says. (The only other brewer operating in the state at this time is G. Heileman Brewing, whose production far exceeds the maximum figure for the tax reduction.) The department says the total production by Kalamazoo Brewing from July 1985 (when it was licensed) through April 1987 was 426.3 barrels. During that time the company would have saved \$852 in taxes had the bill been in effect. The department does not know how many out-of-state breweries would fall under the bill because it does not keep records of total production of out-of-state breweries, only their sales in Michigan.

ARGUMENTS:

For:

The bill would lend a hand to microbrewery entrepreneurs. While only one company in Michigan appears to qualify at present, this is a growing market nationwide and others can be expected to appear soon, particularly if the state demonstrates its support. The bill will promote jobs and tourism by supporting small breweries making specialty beers. While the tax advantage is small and has a low production ceiling, it will help small businesses that are trying to get on their feet and to expand. For example, a brewery producing 4,000 barrels a year would have an additional \$8,000 to spend on new equipment. This would be insignificant to large businesses but is significant to a beginning microbrewer.

Against:

Beer wholesalers have expressed concerns about the bill,

particularly its effect on future beer tax policy. A new entry into the beer market is the "brewpub", a theme restaurant of sorts, said to be popular in England, that brews beer and sells it on the premises of a restaurant. Should such outlets fall under this discriminatory tax scheme, there could be serious fiscal consequences for the state and competitive problems for beer wholesalers. The state traditionally has had a three-tiered beer distribution system that has kept separate the manufacturers, wholesalers, and retailers of beer. The brewpub concept violates that. The tax subsidy in this bill should be limited to brewers with very low levels of production. The wholesalers have recommended a 2,000 barrel per year limit. Wholesalers have also noted a court decision in Hawaii that struck down discriminatory taxation there between in-state and out-of-state alcohol manufacturers. This suggests it will not be possible to limit tax advantages to Michigan businesses.

Response: Industry sources say that 6,000 barrels per year is the minimum production level for success at microbrewing. The maximum for the tax reduction should not be less than that. Wisconsin reportedly provides a break for breweries below 100,000 barrels per year. Furthermore, the bill is not aimed at brewpubs. That is an issue to be debated another day. As for discriminatory taxation, this bill would apply to all small brewers no matter where they are located.

POSITIONS:

The Liquor Control Commission has no position on the bill. (10-23-87)

H.B. 4774 (10-26-87)