



**House
Legislative
Analysis
Section**

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TAX CREDIT FOR SMALL BREWERS

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House Bill 4618 as enrolled
Second Analysis (7-27-89)

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Mich. State Law Library

Sponsor: Rep. Mary C. Brown
House Committee: Taxation
Senate Committee: Finance

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 allow small brewers to claim a credit of \$2 per barrel against the beer tax for tax years 1989 through 1991. The credit would be available to brewers who manufacture under 5,000 barrels during a tax year at all facilities and under all brands or labels, whether or not they were located in the state. (The full tax rate is \$6.30 per 31-gallon barrel, and it is levied on all beer manufactured or sold in the state.)

MCL 436.40

FISCAL IMPLICATIONS:

The Liquor Control Commission 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, according to the commission. (The only other brewers operating in the state at this time are G. Heileman Brewing, whose production far exceeds the maximum figure for the tax reduction, and the Frankenmuth Brewery, which would have qualified recently due to a fire but whose production is expected to exceed the limit from now on.) Liquor Control Commission figures say that Kalamazoo Brewing produced 485.66 barrels in 1988. Had this bill been in effect, the loss of beer tax would have been \$971.32. The commission 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, or should the tax break be expanded to cover brewpubs, 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. Further, there is the question of whether it is wise to grant an exception from an excise tax, and whether this is the way to draw the line between those who pay the full tax and those who get a tax break. Drawing lines tends to produce cheating.

Response: The bill is not aimed at brewpubs. That is an issue to be addressed another day. The tax credit is aimed simply at helping small breweries grow and compete in an industry dominated by giants.

Against:

What is the justification for granting a tax break to small breweries? Just because they are small? Are successful businesses to be penalized? Small businesses already get various tax breaks; for example, they get special treatment under the Single Business Tax. When people go into business, among the legitimate expenses they should take into account are the taxes they must pay.

H.B. 4618 (7-27-89)