

Written Testimony of Julie Verratti
Director of Business Development and Founder of Denizens Brewing
Company
House Small Business Committee
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Chairman Huelskamp, Ranking Member Chu and members of the Subcommittee, thank you for the opportunity to testify at today's hearing. My name is Julie Verratti. I am the Director of Business Development and co-founder of Denizens Brewing Company in Silver Spring, Maryland. I am speaking on behalf of my small business and the Brewers Association, which represents more than 3,000 craft brewers, 46,000 members of the American Homebrewers Association and 1,100 industry suppliers of agricultural commodities, brewing equipment, packaging, and other goods and services required by modern breweries. I appreciate the opportunity to testify today.

My co-founders Emily Bruno, Jeff Ramirez, and I started Denizens in 2014. Denizens is the only woman and minority owned and operated brewery in Maryland and a proud member of the Silver Spring community. We are both a restaurant and a production brewery. We produce beer to be sold in our restaurant and throughout Maryland and Washington, D.C. In the short time that we have been open, our brewery has experienced solid growth. In 2015, we produced 1,140 barrels and are on track to produce 1,500 barrels in this coming year.

Running a craft brewery like Denizens is similar to running any other small business. All of the day-to-day activities and stresses like scheduling, marketing, healthcare and payroll are amplified by a tight brewing schedule and working to distinguish ourselves in a growing industry. Denizens has close to 40 full-time employees who range from tipped service positions, kitchen staff, brewing staff (manufacturing jobs), and salaried professional positions. All of our full-time employees who work 30 or more hours a week, whether they are hourly or salaried, are offered medical, dental, and vision insurance through the company.

As the director of business development for the brewery it is my responsibility to conduct outside sales, liaise with the state and local chamber and brewery guilds and handle all the licensing and tax issues that arise. Denizens produces beer in Maryland and we sell our beer in Maryland and the District of Columbia. Our tax and compliance burdens are significant as we must collect and submit sales tax in our taproom, pay employment taxes, business income taxes, and excise taxes to both the state and federal governments using their separate and individual filing systems. I spend up to 5 hours a month working on taxes, which may not seem like a lot

of time but is significant when you are working to grow your business. In the next month my brewery will start distributing in Virginia, which will increase the number of tax regulations that we must comply with. Any way that the government could help to streamline and decrease this burden would be extremely beneficial to craft breweries like mine and smaller breweries that want to grow but don't have the manpower and funds to do so.

The Brewers Association defines a craft brewery as any brewery that is "small," with an annual production of 6 million barrels of beer or less (the 6 million threshold is approximately 3 percent of U.S. beer sales, but the vast majority of craft brewers are closer in size to mine in the 1,000-10,000 range); "independent," less than 25 percent of the craft brewery is owned or controlled (or equivalent economic interest) by an alcoholic beverage industry member that is not itself a craft brewer; and "traditional," a brewery that has a majority of its total beverage alcohol volume in beers whose flavor derives from traditional or innovative brewing ingredients and their fermentation.

There are more than 4,000 craft breweries in the United States. To provide some perspective, Denizens brews less than 2,000 barrels a year. Yet we are larger than 70 percent of the craft breweries in the country. I am lucky that I have the tools, knowledge and support to navigate the complex tax codes. A craft brewery that does not have a similar infrastructure is going to find the same tasks much more difficult. Currently breweries are required to comply with different federal and state excise taxes and alcohol regulation agencies, The Alcohol and Tax and Trade Bureau (TTB), the IRS and the Maryland Comptroller. Oftentimes, there are different requirements about when and what to file. Denizens is required to file different taxes bi-weekly, monthly and quarterly with both the federal government and the state of Maryland, although we have received some relief from the federal requirement that I will discuss below.

In many cases we have found that even if there is a way to file online, it is easier to file the forms in hard copy. I tend to do the work for my filings online and then print them out to mail them in. It would be significantly more convenient if the federal and state governments worked together to come up with a more streamlined process for reporting. A large portion of my time spent on taxes is duplicating information from one report to another. As Denizens continues to grow, which we plan on doing, we will likely expand sales and distribution to other states. To do so means that we will need to file excise taxes or sales reports to comply with each state's alcohol beverage laws. We are happy to comply, but these tax burdens could be a deterrent for a smaller brewer. There are breweries like mine that have the demand for their product and the desire to grow but don't have the personnel or capital to do so.

The federal government has taken the steps to correct some of the burdensome biweekly excise tax filing requirements. Last year, language was included in the year-end tax extenders package that made it so any alcohol producer that pays less than \$50,000 in annual federal excise taxes will no longer be required to get a bond and will only need to file quarterly. The cost savings is small, but substantial time will be saved by businesses and the TTB as thousands of biweekly returns will be eliminated. This is a perfect example of businesses working with Congress and the Treasury Department and the Alcohol and Tobacco Tax and Trade Bureau to come up with a solution that is beneficial to both parties. I hope that we will be able to accomplish other process improvements to facilitate the growth of the craft brewing industry and to improve the efficiency of routine federal approvals and the excise tax collection process.

With 4,269 breweries in the United States and more opening at a rate of 1.9 per day the craft brewing industry is the largest it has ever been in this country and it is continuing to grow. Craft brewing now represents 12% of the US beer market by volume and 21% in final retail dollar sales. There is still room for growth, something we would like to work with Congress to accomplish.

U.S. Brewery Count					
	2012	2013	2014	2015	'14 to '15 % Change
CRAFT	2,401	2,863	3,576	4,225	+ 18.1
Regional Craft Breweries	97	119	135	178	+ 31.9
Microbreweries	1,149	1,464	1,971	2,397	+ 21.6
Brewpubs	1,155	1,280	1,470	1,650	+ 12.2
LARGE NON-CRAFT	23	23	26	30	
OTHER NON-CRAFT	32	31	20	14	
Total U.S. Breweries	2,456	2,917	3,622	4,269	+ 17.9

As I mentioned previously, breweries like mine pay excise taxes on both the state and federal level. They are additional taxes over and above our business and payroll taxes, and excise taxes are one of the major expenses that I, as a brewery owner, face. In 1976 Congress wanted to help encourage the growth of American craft brewing. The Internal Revenue Code was changed to stipulate a demarcation point for any domestic brewer that produces less than 2 million barrels of beer a year. Brewers below that threshold pay \$7 per barrel in federal excise taxes on the first 60,000 barrels and \$18 per barrel on anything over that. When the federal beer excise tax was

first put into place to finance the Civil War, excise taxes were a major source of revenue and most other modern federal taxes did not exist. Today, brewers pay all of the same individual and corporate taxes paid by all businesses as well as payroll taxes on behalf of our employees. Brewers also pay excise taxes to their states and in some cases to local governments.

For almost a decade the Brewers Association has been working with Congress to try and pass legislation that recalibrates the federal excise tax to reflect the makeup of the craft brewing industry, and to spur additional growth. In the 114th Congress, this legislation is the Craft Beverage Modernization and Tax Reform Act (S.1562/H.R. 2903). The Senate version was introduced by Senators Wyden (D-OR) and Blunt (R-MO), and the House version was introduced by Representatives Paulsen (R-MN) and Kind (D-WI). This legislation would lower the federal excise tax for the brewing industry as well as the wine and distilled spirits industries, and make the alcohol beverage excise tax system more progressive for smaller producers and it has broad industry support.

For craft brewers, in particular, this bill would reform the federal excise tax structure on beer by:

- Reducing the federal excise tax to \$3.50 per barrel on the first 60,000 barrels for domestic brewers producing fewer than 2 million barrels annually and reducing the amount brewers pay from 60,001-2 million to \$16 per barrel.
- Reducing the federal excise tax to \$16 per barrel on the first 6 million barrels for all other brewers and all beer importers.

It is legislation like this that would have a major impact on my business, as well as other craft brewers. Denizens is a growing brewery and if we continue at our current trajectory, we will be at capacity within the span of a year. Legislation like the Craft Beverage Modernization and Tax Reform Act would benefit us greatly. If we are able to get our federal tax liability reduced we will be able to purchase more equipment and kegs to produce more beer and hire at least two additional new employees.

Knowing that we would have access to additional capital is an incentive to continue growing and hiring, which will produce more federal revenue over time. Whether it is additional payroll taxes for newly hired workers, or expanding production to enter a new state market, a reduced federal excise tax liability would be extremely helpful to the craft brewing industry and the national economy. In fact, economists predict that just the beer portion of the bill would create an additional 9,000 jobs in the first 12-18 months after it is implemented and an additional \$320 million in economic growth. The Craft Beverage Modernization and Tax Reform Act would be

good for the country and help to ensure that brewers can continue to compete with larger brewers and foreign competitors.

It is no surprise that this bill has widespread support from not just the Brewers Association and the Beer Institute, but also groups like the Wine Institute, Wine America, DISCUS, the American Craft Spirits Association, the National Barely Growers, the Can Manufacturers Institute and more. The legislation will have a widespread impact on a range of different industries from agriculture to retail. Every dollar saved in relief mean nearly \$8 of growth for the U.S. Economy. The bill also updates tax administration.

With craft producers in every state and Congressional District across the country strong bipartisan support exists for the Craft Beverage Modernization and Tax Reform Act. The legislation has 172 co-sponsors in the House and 33 in the Senate (as of 4/11/2016). There is broad bipartisan support to help encourage the growth of the craft brewing industry and continue to create good manufacturing and service industry jobs across our country.

In conclusion, taxes, and tax compliance costs, are the largest expenses that craft brewers like Denizens deal with on a day-to-day basis. We are more than happy to pay our fair share, but a recalibration of the federal excise tax would have an extremely positive impact on small brewing businesses like mine and the ones in your home states.

Thank you again, I appreciate the subcommittee inviting me to testify today on behalf of the Brewers Association and craft brewers across the country.