



# THE WHOLESALE BEER AND WINE ASSOCIATION OF OHIO

37 W. BROAD STREET, SUITE 1170 • COLUMBUS, OHIO 43215

(614) 224-3500 • 800-282-7639 (OHIO)

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## House Bill 49

Ohio House Committee on Ways & Means

Representative Tim Schaffer, Chairman

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### Opponent Testimony of the Wholesale Beer and Wine Association of Ohio

Jacob C. Evans, Counsel for Legislative Affairs

Chairman Schaffer, Vice Chair Scherer and Ranking Minority Member Rogers, on behalf of Ohio's beer and wine wholesale distributors, I appreciate the opportunity to express their opposition to the proposed 70% increase in the excise tax on beer and wine, and associated tax policy changes, contained in the current version of House Bill 49. My name is Jacob Evans and I serve as Counsel for Legislative Affairs with the Wholesale Beer and Wine Association of Ohio (WBWAO). The members of the WBWAO are family owned beer and wine wholesale distributors, many in their third or fourth generation of family leadership, and employ roughly 5,000 Ohioans.

As proposed, House Bill 49 would make the following changes as it relates directly to beer and wine<sup>1</sup>:

1. 70% increase on the excise tax on beer under 12% alcohol by volume (ABV) from \$0.18 per gallon to \$0.305 per gallon; and,
2. Create a new category with a 456% increase on the excise tax on beer over 12% ABV from \$0.18 per gallon to \$1.00 per gallon; and,
3. 70% increase on the excise tax on wine under 14% ABV from \$0.32 per gallon to \$0.53 per gallon<sup>2</sup>; and,
4. 70% increase on the excise tax on wine over 14% ABV<sup>3</sup> from \$1.00 per gallon to \$1.69 per gallon; and,
5. Reduce the excise tax exemption available to brewers from 1,000,000 barrels to 10,000 barrels, a reduction of 90%<sup>4</sup>; and,
6. Remove the credit for early payment of the excise tax by brewers and some wine permit holders.

The proposed increases would give Ohio the highest excise tax rate amongst our border states on beer under 12% ABV (15<sup>th</sup> highest nationally), on beer over 12% ABV (3<sup>rd</sup> highest nationally) and on wine over 14% ABV (4<sup>th</sup> highest nationally). Ohio's excise tax rate on wine under 14% ABV would be the third HIGHEST amongst our bordering states (31<sup>st</sup> highest nationally). Our current rates are not only competitive amongst our neighbors, but rank near the middle nationally (beer is 29<sup>rd</sup> highest; wine under 14% ABV is 39<sup>th</sup> highest and wine over 14% ABV is 12<sup>th</sup> highest).

These proposed changes will only exacerbate cross border sales issues. Wholesale distributors are a volume based business; small changes in sales over a given area have real consequences to WBWAO member businesses. As sales migrate across state lines, the reduction in volume leads to a reduction in the number of cases on truck for a given route. This results in a consolidation of routes. Fewer cases means fewer warehouse employees for loading and unloading product and fewer routes means fewer drivers. In short, fewer employees.

Assertions that this is merely “a penny per serving” increase fail to recognize basic economic principles, as well as the numerous tax and tax policy changes included in the same bill. In addition to the excise tax change, the tax policy changes to the brewers on both the excise tax exemption and/or the early tax payment credit, result in a necessary increase in the cost of goods sold. Furthermore, the sales tax increase is amplified by the increase in the cost of goods sold. And, like any consumer good, price point is a necessary element of success in the marketplace. A case of beer will not merely go up \$0.29 (24 cans x \$0.012 per serving increase); it will be left to the supplier to determine the proper pricing and the potential price elasticity of the product vis a vis the consumer. The end price will likely reflect a compression of margin throughout the entire three tier supply chain.

Our members, and many others in the industry, believe that these proposed changes are unnecessary and unwarranted. Over the last 25 years, the beer and wine industry in Ohio has seen tremendous growth in terms of new breweries and wineries, which includes significant increases in employment. Part of this growth is based upon a predictable and competitive tax policy that businesses rely upon in their planning. This stability has allowed long standing businesses to continue to contribute to Ohio’s economy and new businesses to enter the marketplace. Whether new or old, all of these businesses have made significant investments in terms of facilities and employment.

We greatly appreciate the willingness of this Committee, and all Members of the House, to review the myriad of tax policy changes contained in House Bill 49. With the relatively small increase in tax revenue that is generated by these increases, we would respectfully ask that this Committee recommend the removal of these onerous taxes on Ohio businesses and Ohio residents.

I thank you for your time and would appreciate the opportunity to answer any questions the Committee may have.

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<sup>1</sup> all rates have been converted to “per gallon” to reflect consistent comparisons based upon the current tax calculations

<sup>2</sup> Ohio’s proposed tax rate in this document also reflects the \$0.02 Ohio Grape Industries Tax that is assessed at the excise tax collection point

<sup>3</sup> Michigan (16% ABV) and Indiana (21% ABV) have varying tax rates depending upon the ABV in wine. However, the number of wines over 16% ABV is minimal and are generally fortified. Ohio’s rate change at 14% reflects an ABV that does come into play. Traditionally, red wines such as cabernet sauvignon, Malbec and other “heavier” wines are higher ABV, and European wines tend to be below 14% ABV. Additionally, Ohio’s proposed tax rate in this document also reflects the \$0.02 Ohio Grape Industries Tax that is assessed at the excise tax collection point

<sup>4</sup> the proposed change has also been discussed in gallons; for simplicity of numbers, the numbers reflect a barrel change; however, the change is from 31,000,000 gallons to 1,000,000 gallons. There are 31 gallons in a barrel.