

Microbrewers

2020 JLARC TAX PREFERENCE REVIEW

Estimated 2021-23 beneficiary savings: \$7.2 million

Beer Tax

Inferred intent: provide tax relief to developing microbrewery industry

The Legislature did not state an intent for the preference. Based on testimony, JLARC staff infer it was intended to provide tax relief to Washington microbreweries in a developing industry as of 1993. The preference provides a **net \$3.30 beer tax exemption for the first 60,000 barrels** produced by breweries making **fewer than 2 million barrels** annually.

Beer industry now has more breweries with smaller production

State beer production data indicates that Washington now has more breweries and produces less beer. Large breweries left the state and beer production dropped from 7.6 million barrels in 2001 to under 300,000 barrels in 2005.

Washington had 472 licensed breweries in 2019. Most produce fewer than 500 barrels of beer annually.

In 2019, 27 breweries produced 71% of the state's beer and 445 breweries produced the remaining 29%

Breweries	# of barrels	Barrels produced
29% (135)	< 50	<1%
43% (201)	50 to 499	7%
23% (109)	500 to 4,999	23%
6% (27)	5K+	71%

Distributors realize 84% of preference savings. WA breweries realize 16%.

Distributors directly benefit from the preference when they buy beer from WA and out-of-state breweries. WA breweries directly benefit when they sell to customers or retailers.

The breakdown of tax savings by beneficiary and brewery location in fiscal year 2019 shows:

16% WA breweries self-distributing or directly selling to customers.

30% Distributors purchasing from WA breweries.

54% Distributors purchasing from out-of-state breweries.

Preference created an estimated 2 to 6 beverage manufacturing jobs

JLARC staff used an economic model to estimate the preference's impact. The model suggests that the preference likely:

- Directly supported between two and six jobs in the beverage manufacturing industry.
- Reduced state and local government spending, resulting in a loss of 25 to 27 public sector jobs.

LEGISLATIVE AUDITOR'S RECOMMENDATION

Review and clarify

The Legislature should review and clarify the preference to include a performance statement, clarify the intended beneficiaries, and ensure the preference supports the intended beneficiaries.

The complete report is on the JLARC web site: www.leg.wa.gov/jlarc

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