



State of Alaska Department of Revenue

Indirect Expenditure Detail: Small Brewery Exemption Presentation to House Labor and Commerce Committee

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Indirect Expenditure Report Legislation Overview



Indirect Expenditure Report Overview

- HB306 Passed in 2014
- Requires Biennial DOR Report to the Legislature
 - Detail of indirect expenditures by agency
- Requires Legislative Finance Division to provide a additional detail on certain agencies on a rotating schedule

- First DOR report released July 8, 2014
- Second DOR report released July 1, 2016

Indirect Expenditures Defined

Indirect expenditure as defined by AS 43.05.095(d):

- An **express provision of state law** that results in foregone revenue for the state by providing:
 - A tax credit or other credit ;
 - An exemption, but does not include federal tax exemptions adopted by reference in AS 43.20.021
 - A discount
 - A deduction, (does not include costs incurred in the ordinary course of business that are deducted in the calculation of a tax or royalty under this title or AS 38
 - A differential allowance

2016 DOR Indirect Expenditure Report

- Provides details on 231 indirect expenditures across 11 departments and agencies,
- Includes 78 provisions administered by DOR
- A cooperative effort between 10 departments and other participating agencies, coordinated by DOR

Reported Information

Each department was required to report the following information for each item:

- Name and description of the indirect expenditure
- Statutory authority
- Repeal date, if applicable
- Legislative Intent
- Public purpose
- Estimated revenue impact for the previous five fiscal years
- Estimated cost to administer
- Number of beneficiaries, and who benefits

Small Brewery Reduced Tax Rate



Background on Alcoholic Beverage Tax

AS 43.60

- Initially passed as a 5c per gallon tax on beer and wine enacted in 1933 (after prohibition)
- Basic tax statute has not been substantially changed; rate has increased over time
- In 2002, the legislature increased all alcoholic beverage rates in a revenue measure intended to make the tax a “dime a drink”
 - Distilled spirits \$12.80 / gallon (10c / oz)
 - Wine \$2.50 / gallon (10c / 5 oz glass)
 - Beer and cider \$1.07 / gallon (10c / 12 oz bottle)

Creation of Small Brewery Reduced Rate

- As part of the 2002 tax bill, the legislature created a separate rate for breweries meeting the qualifications of 26 USC 5051(a)(2)
 - Definition is less than 2 million barrels of beer produced in the USA
 - Only a handful of domestic breweries are larger than that size, although they represent a large percentage of the beer
 - Imported beer (from foreign countries) by definition does not meet the definition

Creation of Small Brewery Reduced Rate

- This exception to the \$1.07 / gallon tax, is in AS 43.60.010(c)
- The first 60,000 barrels of beer per year sold in Alaska are taxed at 35c
- With 31 gallons per barrel, a single brewery can potentially benefit up to 1.86 million gallons, or \$1.34 million (72 cents / gallon)
 - 38 of the 39 breweries in Alaska are microbreweries producing less than 15,000 barrels / year
- Typically 25%-30% of the beer sold in Alaska qualifies for the reduced tax rate

Who Pays Taxes?

- Only beer sold in Alaska is taxed
 - Beer brewed here but sold Outside is not taxed
 - Beer brewed in other states and brought into Alaska is
- Our taxpayers are typically beverage distributors, who handle multiple brands
 - This makes it hard to precisely determine volumes of in-state vs. Outside- brewed beer
- Some Alaska breweries distribute their own product, and therefore pay taxes directly
 - Breweries operating brewpubs are direct taxpayers

Impact of Small Brewery Reduced Rate

Table shows growth trend for small breweries

Year	# of Breweries that Paid the Tax	Reduced Rate Gallons	Tax Impact of Reduced Rate	In-State Brewery Benefit	Out of State Brewery Benefit
2016	31	4,175,200	\$3,006,100	\$1,325,900	\$1,680,300
2015	25	3,999,700	\$2,879,800	\$1,259,800	\$1,620,000
2014	24	3,856,600	\$2,776,800	\$1,161,900	\$1,614,800
2013	22	3,604,800	\$2,595,400	\$1,041,200	\$1,554,200
2012	19	3,448,400	\$2,482,900	\$1,021,400	\$1,461,400

THANK YOU

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