



SB 1565: The Distillers' Subsidy Bill

Testimony for Senate Finance and Revenue – Jody Wiser – 2.6.2020

According to testimony from the industry, the purpose of this legislation is to make tasting rooms economically viable.

But why is the solution to their business model the public purse? Are these business owners negotiating reduced rent, insurance, materials, equipment or utilities? They entered the distillery business knowing the tax they must collect, just as they knew what rent they had negotiated. But SB1565 asks that the public subsidize their businesses by returning to them all but 5% of the tax that is correctly collected from purchasers of these alcohol products – the same tax that is paid on alcohol consumed at every bar and restaurant and on every bottle purchased at an OLCC store. Alcohol they sell from their tasting rooms is as likely to lead to social and financial costs as the alcohol purchased elsewhere. To give the distillers the customer's contribution of taxes collected to address these costs is a clear subsidy of their businesses.

This bill would hand each distillery with one or more tasting rooms \$.45 on the dollar for their first \$250,000 in sales (a maximum of \$112,500) and the current \$.17 on the dollar after that for selling their own product. It doesn't matter how successful they've become or how many years they've been in business.

Clear Creek began operating in 1985. Shortly thereafter they asked the legislature to change the law so that they could sell their products and host tastings on site. They and other distillers succeeded without this subsidy, and their tasting room is open six days a week. The problem may well be that there are simply too many of these businesses to be economically viable. The number of licensed distillers basically doubled in four years. But that is not a legislative issue. When other businesses such as bookstores, restaurants, auto repair shops or software companies started failing, you didn't step in with a plan to make them economically viable. Why this industry?

Other businesses that receive substantial subsidies are providing services to the public: medical care, child care, alcohol treatment, educational services. Or the subsidy is time limited, e.g. five years of property tax exemption. And few other businesses create the social and financial problems of alcohol.

You will hear testimony that uses as a justification for SB 1565 two facts about the alcohol industry: our beer taxes are the lowest in the country and our low wine taxes don't apply to most of the wine produced in Oregon. But beer and wine are taxed the same, wherever they are sold in Oregon. The winery or brew pub does not have an advantage over the grocery store. Secondly, the fact that those taxes haven't seen increases in decades is proof of the power of this industry and the reason for caution in creating an additional carve out. Do we have a caucus for any other industry?

If the sponsors purpose is to help an emergent industry, we have a recommendation: start taxing beer and wine consumers. These are certainly no longer young, emergent industries. Their customers should begin paying their fair share of the financial and social costs of these products.¹ If you did that, then this proposal, redesigned as a temporary measure for each emerging business in this industry might make some sense, and there would be money to pay for it.

More book stores might have succeeded if the legislature had made their businesses economically viable by returning to them \$112,500 on their first \$250,000 in sales each year and \$42,500 on every \$250,000 in sales thereafter.

The solutions proposed by the League of Oregon Cities are thoughtful ways of re-designing this as an economic development program rather than a business subsidy, and of reducing the revenue losses for both the State and local governments. Of course individuals, their family members, the medical system and employers bear most of the costs of excessive alcohol consumption. But State and local governments are struggling to address their responsibilities as well. Supporting these needs rather than supporting the industry would seem more appropriate.

We read the bills and follow the money

¹ Significantly increase the taxes on beer and wine and end the small small winery exemption that means that 90% of Oregon wineries pay no tax on the alcohol they sell in Oregon, nor do smaller wineries in other states on wine they sell in Oregon.