PENNSYLVANIA

BREWERS' TAX CREDIT

An Evaluation of Program Performance

January 2022

COMMONWEALTH OF PENNSYLVANIA
INDEPENDENT FISCAL OFFICE

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INDEPENDENT FISCAL OFFICE

January 24, 2022

The Honorable Members of the Performance-Based Budget Board and Chairs of the House and Senate Finance Committees:

Act 48 of 2017 requires the Independent Fiscal Office (IFO) to review various state tax credits over a five-year period. For the fourth year, the IFO reviewed four tax credits: the Educational, Coal Refuse Energy and Reclamation, Brewers' and Mixed-Use Development Tax Credits. The act requires the IFO to submit tax credit reviews to the Performance-Based Budget Board and the Chairs of the House and Senate Finance Committees and to make the reports available to the public on the IFO website.

This report contains the tax credit review for the Brewers' Tax Credit. The IFO identified similar programs in other states, reviewed the limited research available, held discussions with various stakeholders and met with agency staff who administer the tax credit. Based on that research, the IFO submits this report to fulfill the requirements contained in Act 48.

Currently, 12 states (includes Pennsylvania) offer a tax incentive for brewers. Six states offer a tax credit for brewers, five states offer a tax exemption or reduced tax rate and one state offers a tax rebate. Requirements for each incentive vary but most states provide larger benefits to small brewers (based on annual production).

IFO welcomes all questions and comments on the contents of this report. Questions and comments can be sent to contact@ifo.state.pa.us.

Sincerely,

Dr. Matthew J. Knittel
Director

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General Findings and Recommendations

Enacted in 2016, the Brewers' Tax Credit is available to eligible Pennsylvania malt or brewed beverage manufacturers. The credit is equal to qualifying expenditures for capital placed into service during the prior calendar year up to a maximum of $200,000 per year. Qualifying capital expenditures include those for plant, machinery or equipment that are capitalized and used in the manufacturing or sale of malt and brewed beverages. Credits may be utilized against Pennsylvania malt beverage tax due in the year the credit is issued or carried forward three years. The program is capped at $5.0 million annually. The credit seeks to generate economic activity and create jobs related to malt and brewed beverage manufacturing.

The **general findings** of this report are as follows:

- Twelve states offer a tax incentive to encourage brewery start-ups and production. Six states offer tax credits and the remaining states (except Arkansas) offer a tax reduction/exemption. Pennsylvania is the only state that offers an incentive based on brewing equipment and machinery purchases. Brewer eligibility varies by state, generally based on annual production.
- In 2020, 28 brewers received tax credits that totaled $2.1 million.
- For most years, roughly one half of awarded tax credits flowed to large brewers that request the annual maximum of $200,000. Those brewers are generally able to use the entire tax credit within one or two years.
- Most very small brewers that receive tax credits cannot use them before they expire at the end of four years.
- Due to insufficient malt beverage tax liability and the accumulation of unused credits, the analysis estimates that nearly one half of recently awarded credits will not be utilized prior to expiration.

The final section of this report contains various **recommendations**. A summary is as follows:

- The tax credit should be targeted to small and very small brewers. The tax credit is generally a windfall to large brewers.
- If large brewers are excluded, other parameters should be adjusted to make the tax credit more generous for small and very small brewers. However, the tax credit should only be available for a limited number of years and not be an ongoing subsidy.
- Small brewers need a mechanism to utilize tax credits. For example, the tax credit could be made refundable or converted into a grant program that provides a direct infusion of funds.

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Introduction

Act 48 of 2017 requires the Independent Fiscal Office (IFO) to review various state tax credits over a five-year period.[1] For the fourth year, the IFO reviewed four tax credits: the Educational, Coal Refuse Energy and Reclamation, Mixed-Use Development and Brewers' Tax Credits. The act requires the IFO to submit tax credit reviews to the Performance-Based Budget Board and the Chairs of the House and Senate Finance Committees and to make reports available to the public on the IFO website.

The act specifies that tax credit reviews shall contain the following content:

- The purpose for which the tax credit was created.
- Whether the tax credit is accomplishing its legislative intent.
- Whether the tax credit could be more efficiently implemented through other methods.
- Any alternative methods which would make the tax credit more efficient.
- The costs to provide the tax credit, including the administrative costs to the Commonwealth and local government entities within this Commonwealth.

The act also specifies that the IFO shall develop a tax credit plan for all tax credits subject to review. The plans should include performance measures, and where applicable, the measures should reflect outcome-based measures (including efficiency measures), measures of status improvements of recipient populations, and economic outcomes or performance benchmarks against similar state programs or similar programs of other states or jurisdictions. The IFO submits this report to fulfill these requirements.

The remainder of this review contains four sections. **Section 2** discusses how the tax credit is administered and presents historic program data. **Section 3** presents relevant data for states that offer tax incentives for the benefit of in-state brewers and industry data published by the U.S. Bureau of Labor Statistics. **Section 4** discusses factors that affect the economic impact of the tax credit. **Section 5** concludes with the tax credit plan, as required by Act 48. If submitted, written comments provided by stakeholders and affected agencies are included in the **Appendix**.

[1] Act 48 of 2017 is also known as the Performance-Based Budgeting and Tax Credit Efficiency Act. See the Appendix for the Tax Credit Review Schedule.

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Brewers' Tax Credit Overview

The Brewers' Tax Credit is authorized under Article XX, Section 2010 of the Tax Reform Code of 1971 (Act 84 of 2016) and is available to eligible Pennsylvania malt or brewed beverage manufacturers beginning in fiscal year (FY) 2017-18.[2] The credit is equal to qualifying expenditures for capital placed into service during the prior calendar year.[3] Qualifying capital expenditures include those for plant, machinery or equipment (includes tangible property such as pipes, wiring and tanks) that are capitalized and used in the manufacturing or sale of malt and brewed beverages. Taxpayers are eligible for a maximum credit of $200,000 per year and the program is capped at $5.0 million annually. To the extent that the credit is oversubscribed, all awards are reduced proportionally.

Tax credits may be applied against Pennsylvania malt beverage tax due in the tax year the credit is issued. Credits not used in that tax year may be carried forward three additional years. The credit is nonrefundable and may not be sold, assigned or carried back to preceding tax years.

This section begins with a description of the tax credit goals and purpose. It then discusses the application process and administration of the tax credit and concludes with a presentation of program data.

Goals and Purpose

Act 48 of 2017 requires that all tax credit reviews published by the IFO shall discuss (1) the purpose for which the tax credit was created and (2) whether the tax credit is accomplishing its legislative intent. For this credit, the IFO reviewed the documentation provided by the Pennsylvania Department of Revenue (DOR) and the authorizing legislation for the Brewers' Tax Credit. The IFO established the specific and quantifiable goals and general purpose of the Brewers' Tax Credit as follows:

Goals

- Encourage malt and brewed beverage manufacturers to locate in the state.
- Incentivize brewers to expand or upgrade in-state beverage manufacturing operations.

Purpose

- Generate economic activity and create jobs related to malt and brewed beverage manufacturing.

[2] An earlier version of the tax credit was available for malt or brewed beverage manufacturers prior to December 31, 2008. That credit was most recently available for manufacturers with annual production of less than 1.5 million barrels and could be used to offset up to $200,000 in capital expenditures annually.
[3] For FY 2017-18, qualifying capital must have been purchased or placed into service between July and December 2017.

Administration

The Pennsylvania DOR administers the tax credit and reviews applications. Applicants for the Brewers' Tax Credit must provide a complete application package that includes the following:

- Malt Beverage Tax Credit Program Application.
- Qualifying Expenditure Schedule.[4]
- Copies of finalized invoices for all transactions in the order they appear on the expenditure schedule with qualifying items noted separately.
- Product descriptions with supporting documents as needed.
- Detailed description of the process in which the items were used, installed, repaired or maintained.
- Evidence of delivery location for items placed into brewery service.
- Proof of payment (verification of dates and amounts).[5]

Completed application packages and any supporting documents must be submitted to DOR by April 1. Applicants must be in compliance with tax laws and regulations during the review period. Applicants with compliance issues not resolved within 30 days are denied. Approved applications will be issued a Malt Beverage Tax Credit Certificate within 90 days of the April 1 deadline. DOR ensures that the tax credit is applied to the appropriate taxpayer account.

The administration of the Brewers' Tax Credit requires less than one full-time equivalent employee annually at a nominal cost to DOR.

Historical Data

Table 2.1 provides detail on Brewers' Tax Credit authorizations and awards for 2017 through 2020. For 2020, qualified expenditures (as verified by DOR) totaled $11.3 million. DOR awarded $2.1 million in credits after the application of the per brewer cap of $200,000. For most years, the credit offset 70% to 85% of verified qualified expenditures. The exception is 2020, when a large brewer reported a significant amount of qualified expenditures.

[4] The Qualifying Expenditure Schedule includes detailed information on equipment purchases such as the vendor, product type and payment amount.
[5] Proof of payment includes a copy of a cancelled check, or if electronic payment is used, a copy of the actual confirmation or bank statement showing the cleared payment.

Table 2.1
Brewers' Tax Credit Program

	2017	2018	2019	2020	Total
Approved Applicants	24	50	29	28	131
Authorized[1]	$2.7	$7.0	$3.1	$11.3	$24.2
Awarded[2]	$1.9	$4.9	$2.6	$2.1	$11.6
Average Award	$78,030	$98,520	$91,120	$76,000	$88,320

Note: Dollars in millions, except for Average Award.

1 Credit authorized by DOR based on validated expenditures.

2 Credit awarded by DOR after the application of the individual and program caps.

Source: Pennsylvania Department of Revenue.

Table 2.2 displays the number of recipients based on size of the tax credit. For most years, four to six brewers received the maximum $200,000 tax credit. The exception is 2018 when 14 brewers received a maximum credit. The data show that many of those same brewers did not file an application in 2019 or 2020, likely because the volume of credits generated could not be used over the four-year utilization period. It is possible they will file another return as those credits expire. For 2020, brewers at the maximum $200,000 credit received nearly one half of tax credit awards. For most years, credits are relatively evenly distributed based on the size of the tax credit. The notable exception is 2018 when 50 brewers received a tax credit. For other years, there were less than 30 recipients.

Table 2.2
Brewers' Tax Credit by Size

	2017		2018		2019		2020	
	#	Amount	#	Amount	#	Amount	#	Amount
$200k	4	$0.80	14	$2.80	6	$1.20	5	$1.00
$100k to $199k	4	0.58	10	1.42	5	0.79	4	0.57
$50k to $99k	2	0.17	5	0.31	5	0.38	5	0.35
$10k to $49k	10	0.29	14	0.36	9	0.25	6	0.17
<$10k	4	0.03	7	0.04	4	0.02	8	0.04
Total	**24**	**1.87**	**50**	**4.93**	**29**	**2.64**	**28**	**2.13**

Note: Dollars in millions.

Source: Pennsylvania Department of Revenue.

Table 2.3 displays recipients based on whether a credit was also claimed in the prior year. For 2017, all brewers were new applicants. For 2018, 37 new brewers applied and received $3.3 million of tax credits. There were 12 new applicants in 2019 ($0.8 million) and 16 in 2020 ($1.0 million). By 2020, 7 recipients had been awarded a tax credit in all four years and received $0.9 million in credits for that year. Most of that amount is attributable to three large brewers that generally receive the maximum $200,000 credit every year.

Table 2.3
Brewers' Tax Credit Awards: New vs. Repeat Applicants

	2017		2018		2019		2020	
	#	Amount	#	Amount	#	Amount	#	Amount
Total Awards	**24**	**$1.9**	**50**	**$4.9**	**29**	**$2.6**	**28**	**$2.1**
New Applicant	24	1.9	37	3.3	12	0.8	16	1.0
Repeat Applicant	--	--	13	1.6	17	1.8	12	1.1

Note: Dollars in millions. A "new applicant" is one that did not claim the credit in the immediately preceding year.
Source: Pennsylvania Department of Revenue.

Table 2.4
Ability to Claim Tax Credit Awards

	2017	2018	2019	2020	Total
All Awards					
Number	24	50	29	28	131
Amount	$1.9	$4.9	$2.6	$2.1	$11.6
Able to Use Same Year					
Number	6	7	6	7	26
Amount	$0.6	$1.1	$1.0	$0.8	$3.5
Able to Use in 2-4 Years					
Number	7	8	6	6	27
Amount	$0.5	$0.5	$0.4	$0.3	$1.7
More Than 4 Years					
Number	11	35	17	15	78
Amount	$0.7	$3.4	$1.3	$0.9	$6.4

Note: Dollars in millions.
Source: Pennsylvania Department of Revenue.

Table 2.4 displays data that illustrates the ability of brewers to use tax credits awarded in a particular year. For 2017, six brewers could immediately use the $0.6 million of credits awarded to offset malt beverage tax liability. Assuming that annual production and malt beverage tax liability did not change, seven brewers could utilize unused credits during the next three years. Eleven brewers would need more than four years and therefore, some portion of awarded tax credits would expire. The data show that many small brewers would require one or two decades to effectively utilize tax credits generated, assuming that annual production did not change.

Tax credit data for 2018 through 2020 show similar outcomes: there are a large number of brewers that were unable to use tax credits to offset malt beverage tax liability because their annual production was insufficient to absorb it. Moreover, as shown by Table 2.3, many brewers apply for credits every year, so that unused tax credits continue to accumulate.

Overall, the program data reveal three types of brewers that claim the tax credit:[6]

- Large and mid-size brewers that claim a credit each year and fully offset the maximum malt beverage tax liability. For those brewers, it is unlikely that the tax credit incentivizes location or production activity because the brewers are established manufacturers with a stable customer base.
- Small brewers that are generally able to use tax credits over the four-year window. However, for some brewers that file in multiple years, tax credits may accumulate and not be usable in future years prior to expiration.
- Very small brewers that generate significant tax credits but are unable to use them due to insufficient production volume. For recent years, only 5% to 6% of awarded tax credits could be used to offset malt beverage tax liability generated during the tax year of the application. For these brewers, the tax credit provides limited tax relief.

A review of the data also fails to reveal a noticeable correlation between tax credit awards and annual production volume for small and very small brewers. For brewers that filed applications in multiple years, the data do not reveal a discernable increase in annual production volume.

[6] Brewer size as follows: Large (1 million or more barrels per annum), Mid-size (50,000 to 1 million), Small (5,000 to 50,000) and Very Small (under 5,000).

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State Comparisons

Currently, 12 states offer some form of a tax incentive to brewers. Six states offer a tax credit for brewers (includes Pennsylvania), five states offer a tax exemption or reduced tax rate and one state offers a tax rebate. Eight states limit the incentive based on annual production to encourage start-ups and local businesses. **Table 3.1** provides a comparison of brewers' incentives across the 12 states. Most incentives are based on annual production volume and reduce the effective tax rate per barrel. For example, Minnesota offers a tax credit that applies to the first 25,000 barrels and is only available to brewers with less than 250,000 barrels of annual production.

Table 3.1
State Comparison

State	Incentive[1]	Production Limit	Detail
Alaska	Special rate	≤60,000 barrels	--
Arkansas	Rebate	<25,000 barrels	$7.50/barrel
Kentucky	Credit	≤300,000 barrels	50% of the tax levied on each barrel of malt beverages sold
Michigan	Credit	≤60,000 barrels	$2.00/barrel for annual production of ≤30,000 barrels
Minnesota	Credit	<250,000 barrels	$4.60/barrel for annual production ≤25,000 barrels
Montana	Tiered rate	none	--
New Mexico	Tiered rate	none	--
New York	Credit	≤15 million gallons (484,000 barrels)	$0.14/gallon for the first 500,000 gallons and $0.045/gallon for each additional over 500,000
Ohio	Exemption	<9.3 million gallons (300,000 barrels)	Excise tax exemption
Pennsylvania	Credit	none	Up to $200,000 of qualified equipment purchases; $5 million program cap
Washington	Special rate	<60,000 barrels	--
Wisconsin	Credit	<300,000 barrels	$1.00/barrel for annual production of ≤50,000 barrels

Note: Some states also allow credits for damaged, destroyed or sour beer.

1 A tiered rate applies to all brewers, and a special rate is a lower rate that only applies to small brewers.

Source: Various state websites.

The brewing industry (NAIC 312120) includes establishments that primarily engage in the brewing of beer and malt beverages.[7] **Table 3.2** ranks Pennsylvania, border and other peer states based on brewery employment data and total wages paid for 2019.[8] In 2015, the U.S. brewery industry employed 48,400 full- and part-time staff and paid $2.9 billion in total wages. By 2019, those amounts had expanded rapidly to 86,670 (15.7% average growth per annum) and $3.9 billion (7.2%).[9] For Pennsylvania, employment was 3,643 staff and total wages paid were $154 million in 2019. Both metrics comprise roughly 4% of the national total.

The very rapid expansion of the industry across all states suggests that broad market trends have driven growth, irrespective of whether a state offered a brewer's tax incentive. The analysis projects that expansion will continue in the near term due to consumer preferences and shifts in purchase patterns that occurred during the COVID-19 pandemic.

Table 3.2
Brewery Industry Employment and Total Wages Paid

	2015		2019		Avg Ann Growth	
	Jobs	Wages	Jobs	Wages	Jobs	Wages
New York	2,315	$133	4,582	$215	18.6%	12.6%
North Carolina	2,435	$106	4,281	$139	15.1	7.1
Ohio	2,053	$139	3,706	$189	15.9	8.0
Pennsylvania	2,124	$109	3,643	$154	14.4	9.1
Michigan	1,888	$55	3,384	$101	15.7	16.6
Virginia	1,777	$110	3,305	$162	16.8	10.2
New Jersey	447	$44	1,002	$57	22.4	6.8
Maryland	352	$12	1,000	$30	29.8	25.1
Connecticut	224	$7	879	$27	40.7	41.9
United States	48,401	2,926	86,668	3,863	15.7	7.2

Note: Brewery industry as classified under NAICS 312120. Wages paid in millions of dollars.
Source: U.S. Bureau of Labor Statistics, Quarterly Census of Wages (QCEW).

[7] NAIC 312120 includes "establishments primarily engaged in brewing beer, ale, malt, liquors, and nonalcoholic beer." It is noted that some small brewers (i.e., brewpubs, microbrewers) could also appear under other NAIC designations, such as full-service restaurants (722511). For 2020, 22 of the 28 tax credit recipients reported NAIC 312120 on the tax credit application. Three others reported a NAIC starting with 722 and three others did not report a code. The 22 that did report a NAIC of 312120 received $1.8 million of the $2.1 million of tax credits awarded and reported nearly all total production.

[8] The data are from the U.S. Bureau of Labor Statistics' Quarterly Census of Employment and Wages (QCEW). Although data for 2020 are available, they are not used due to the impact of the COVID-19 pandemic. For that year, total U.S. employment was 79,500 and wages paid were $3.8 billion. For Pennsylvania, 2020 jobs and wages data were comparable to 2019.

[9] As noted in footnote 7, these data are lower bound estimates and will not capture certain brewpubs and microbrewers. The Brewers of Pennsylvania website lists 193 separate members throughout the state. See https://www.brewersofpa.org/.

Economic Analysis

For most tax credits reviews, this section of the analysis typically estimates the share of tax credits awarded that incentivize targeted activity that would not otherwise occur without the tax credit. Having identified that parameter, the analysis would then compute a counterfactual scenario to compare economic outcomes with and without the tax credit.

This analysis does not use that standard approach because, in its current form, it is likely that the great majority of awarded tax credits do not incentivize new qualified investment, expansions or location decisions. There are several reasons for this outcome that are supported by data presented in earlier sections. They are as follows:

- **Small and very small brewers have insufficient sales volume to effectively use awarded tax credits.** The tax credit is based on qualified investment but can only be used to offset the malt beverage tax levied on production and sales ($2.48 per barrel). A brewer that sells 1,000 barrels can only use a tax credit of $2,480 to offset purchases of machinery and equipment. New brewers make relatively large capital investments but have limited sales. The data show that many very small brewers generate substantial credits, but most cannot be used over a four-year window.
- **There exists a large accumulation of unused tax credits for many brewers.** For some brewers that file applications every year, generating more credits does not change investment decisions because it is unlikely that new tax credits can be used, and they cannot be sold.
- **For large brewers that can use the tax credit, it is too small to affect expansion or location decisions. They would make regular investments up to the maximum amount ($200,000) regardless of the tax credit.** Three large brewers claim the maximum $200,000 tax credit each year. These firms are well-established and have stable annual sales volume across many states. They do not have cash flow constraints faced by small, start-up brewers. For these firms, the tax credit is likely a windfall. Moreover, due to the $200,000 cap, the credit likely does not impact marginal investment decisions.
- **The tax credit does not reduce a brewer's marginal cost of capital which would incentivize new investment. Rather, it offsets an excise tax remitted by manufacturers and effectively paid by consumers.** Research finds that excise taxes remitted by manufacturers or wholesalers like cigarette or soda taxes are nearly fully passed forward to final consumers. If that is accurate, then any savings from the elimination of the malt beverage excise tax would at least partly flow to final consumers as lower prices.

The data in **Table 4.1** show annual production volume reported on applications and provides further insights. Mid-size and large brewers generate maximum tax credits and most use them immediately to offset malt beverage excise tax. For small brewers, credits are used over several years and some may have accumulated sufficient tax credits to offset tax liability for the next four to five years. For very small brewers that receive roughly one half of total awarded credits, their liabilities are too small to fully utilize tax credits, and therefore the credits have no impact on location or expansion decisions.

Table 4.1
Brewers' Tax Credits and Production Volume

	2019			2020		
Brewer Size	**Number**	**Barrels**	**Credit**	**Number**	**Barrels**	**Credit**
Large	2	5,449	$0.4	2	4,905	$0.4
Mid-size	3	355	0.5	2	272	0.4
Small	5	80	0.5	5	109	0.6
Very Small	19	19	1.2	19	18	0.8
Total	**29**	**5,903**	**2.6**	**28**	**5,304**	**2.1**

Note: Dollars in millions. Barrels in thousands. Brewer size as follows: Large (1 million or more barrels per annum), Mid-size (50,000 to 1 million), Small (5,000 to 50,000) and Very Small (under 5,000). Credit amount is adjusted by the Pennsylvania Department of Revenue to match individual recipient and program caps.

Source: Pennsylvania Department of Revenue.

Tax Credit Plan

Act 48 of 2017 directs the IFO to review tax credits and develop a tax credit plan for credits subject to review. The act states that tax credit plans should include performance metrics for each credit. The act does not specify any other elements of the tax credit plan. For this review, the IFO defined the tax credit plan more broadly to include the following elements: (1) the general findings of the review, (2) specific recommendations, including performance metrics and (3) key decision points for policymakers to consider.

General Findings

For the purpose of this report, the IFO reviewed tax credit studies, held discussions with stakeholders and received input from the agency that administers the tax credit. The following bullet points summarize the main findings of this research:

- Twelve states offer a tax incentive to encourage brewery start-ups and production. Six states offer tax credits and the remaining states (except Arkansas) offer a tax reduction/exemption. Pennsylvania is the only state that offers an incentive based on brewing equipment and machinery purchases. Brewer eligibility varies by state, generally based on annual production.
- In 2020, 28 brewers received tax credits that totaled $2.1 million.
- For most years, roughly one half of awarded tax credits flowed to large brewers that request the annual maximum of $200,000. Those brewers are generally able to use the entire tax credit within one or two years.
- Most very small brewers that receive tax credits likely cannot use them before they expire at the end of four years.
- Due to insufficient malt beverage tax liability and the accumulation of unused credits, the analysis estimates that nearly one half of recently awarded credits will not be utilized prior to expiration.

Specific Recommendations

Based on the general findings, the IFO submits the following recommendations to enhance the efficiency of the tax credit and improve its ability to achieve its goals and purpose.

Limit the tax credit to small and very small brewers based on annual production.

Nearly all other states that offer a brewer's incentive target it to small brewers. For example, the credit could be targeted to small and very small brewers with annual production under 50,000 or 100,000 barrels. Providing a tax credit to large, established brewers has no impact on incremental production or location decisions.

Limit the tax credit to a maximum number of consecutive years.

In addition to large brewers, the data show that many smaller brewers claim the tax credit every year, even though they have insufficient tax liability to utilize new awards before they expire. The credit should not be an ongoing subsidy but should be targeted to the early years of a brewer's operations. If brewers cannot establish themselves after an incubation period, then the subsidization should not continue.

If targeted to small brewers, adjust the tax credit parameters to provide more assistance.

If the $5.0 million annual cap is retained, other parameters could be adjusted if large brewers no longer qualify for the credit. However, due to the limited relief available through the offset of the malt beverage tax, other mechanisms must be identified. Tax credits could be sold, but the relatively small size limits the potential for sales unless multiple tax credits are bundled, and the number of sales transactions are minimized. Alternatively, credits could be refundable at 90% or 95% of the awarded amount or the credit could be converted to a grant program.

Key Decision Points

In addition to these specific recommendations, policymakers should also consider general issues that merit discussion if the Brewers' Tax Credit is amended. These issues are strategic and will be related to the general goals and purpose of the tax credit as envisioned by policymakers.

- Is the tax credit intended to help all brewers or only small brewers? Is it intended to be an ongoing subsidy, or only available for a few years?
- Given that the tax credit is too small to affect location decisions, what is the best way to encourage expansion within the state?
- If the tax credit is amended, how should the large volume of accumulated credits be treated?
- Is the state microbrewery market approaching maturation? Are industry dynamics sufficient to ensure that small brewers do not require a state subsidy to survive and compete?

Conclusion

Act 48 requires that the IFO make a determination regarding whether the tax credit has achieved its goals and purpose. For this review, the analysis establishes the specific and quantifiable program goals as to:

- Encourage malt and brewed beverage manufacturers to locate within the state.
- Incentivize brewers to expand or upgrade in-state beverage manufacturing operations.

The analysis establishes the general program purpose as to:

- Generate economic activity and create jobs related to malt and brewed beverage manufacturing.

Based on the research, conversations with the administering agency and review of tax credit data, this review finds that the Brewers' Tax Credit does not achieve its stated goals and purpose under its current structure. The tax credit is a windfall to large brewers and too small or unusable for small startup brewers because the ability to utilize the tax credit is tied to annual production levels.

Appendix

Performance-Based Budgeting and Tax Credit Review Schedule

Year	Performance-Based Budgets					
1	Corrections	Board of Probation and Parole	PA Commission on Crime & Delinquency	Juvenile Court Judges' Commission	Banking and Securities	General Services
2	Economic & Community Development	Human Services – Part 1	Health	Environmental Protection	PA Emergency Management Agency	State
3	PennDOT	Human Services – Part 2	State Police	Military & Veterans Affairs		
4	Education	Human Services – Part 3	Aging	PA Historical & Museum Commission	Agriculture	Labor and Industry
5	Drug and Alcohol Programs	Insurance	Revenue	Executive Offices	Environmental Hearing Board	Conservation and Natural Resources
Year	**Tax Credits**					
1	Film Production	New Jobs	Historic Preservation Incentive			
2	Research and Development	Keystone Innovation Zones	Mobile Telecom and Broadband	Organ and Bone Marrow		
3	Neighborhood Assistance	Resource Enhancement and Protection (REAP)	Entertainment Economic Enhancement Program	Video Game Production	Keystone Special Development Zones	
4	Educational Tax Credits	Coal Refuse and Reclamation	Mixed-Use Development	Brewers'		
5	Resource Manufacturing	Manufacturing and Investment	Waterfront Development	Rural Jobs and Investment		

IFO Independent Fiscal Office

Sources

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"Excise Tax Reporting Information for Brewpub Licensees," Michigan Department of Licensing and Regulatory Affairs, Liquor Control Commission (March 2018).

"State Tax Incentives for Microbreweries," Rute Pinho, Office of Legislative Research (October 2018).

Stakeholder Feedback

September 20, 2021

Independent Fiscal Office (IFO)
400 Market Street
Harrisburg, Pa 17101

Dear IFO:

On behalf of the 200+ breweries who comprise the Brewers of Pa (BOP), the official statewide guild of the brewing industry in Pa, thank you for the opportunity to express our strong support for the continuation of the PA Malt Beverage Tax Credit program. This program has given our members the confidence to invest back into their businesses and is a great recruitment incentive for breweries considering locating (or re-locating) to Pennsylvania. In the past year I have spoken to two out of state breweries who are planning to move their operation to PA and both indicated that the Pa tax credit program was considered when choosing where to relocate.

By way of background, Pennsylvania has emerged over the past decade as a true leader in the craft beer industry. According to the national brewing association, The Brewers Association (BA) out of Boulder Colorado, Pennsylvania currently ranks 3rd in the nation in term of number of breweries (444) and 2nd in overall beer production as 3,156,000 barrels of beer brewed each year. Our overall economic impact is estimated at over $5 billion dollars and many PA breweries have been the cornerstone of some amazing community revitalization efforts.

We believe the current status of the tax credit program - $5 million cap and $200k cap per applicant – gives us the opportunity to continue to grow our industry in the years to follow. Since the program is still relatively new we still have some work to do to ensure that all our members are aware of the program and are utilizing it to their fullest potential. While Covid has prevented us from gathering in person for most of the past two years, we are planning to have our first in person educational symposium in State College this Fall. The importance of this tax credit will be one of the key issues we discuss during this event.

Again, thank you for the opportunity to comment on this very important program. Should you have any additional questions please feel free to reach out to me at your convenience.

Regards,

Adam Harris
Executive Director
Brewers of PA (BOP)

YARDS®

October 22, 2021

Dear Ms. Flaugh,

Yards Brewing Company is an independent regional craft brewer based in Philadelphia, PA with over 135 employees. We have been proudly brewing in the City of Brotherly Love since 1994 and have grown from a garage-sized operation in the Manayunk section of Philadelphia to Roxborough, Kensington, Northern Liberties, and now to our newest location — a 70,000-square-foot brewery and taproom at 500 Spring Garden Street. This growth over time would not have been possible without substantial investment in brewing equipment to expand output capacity, which in turn has resulted in the direct creation of high-quality manufacturing jobs in a city that needs them dearly. Our starting pay in production is $15/hour, which also includes a full benefits package, and our average annual production salary and benefits package for 41 jobs (and growing) is $60,000.00.

The Brewer's Tax Credit Program had been critical in helping us to achieve this growth, as it allows us to invest more in the production related capital expenditures, that enable us to expand and accelerate our hiring and better compete with other brewers from out of state. However, at our current production volumes we are unable to fully utilize the full value of the $200,000.00 maximum annual Brewer's Tax Credit, even though in a typical year we spend more than that amount on production related capital expenditures. If we could sell those credits to larger Pennsylvania brewers or out-of-state brewers that sell products in Pennsylvania, we could recognize substantially more benefit from the program, which would fuel greater capital investment and job creation.

With this expanded support from the Brewer's Tax Credit, we would envision the Philadelphia region and Pennsylvania becoming an even more substantial brewing hub in North America.

Sincerely,

Trevor Prichett

Trevor Prichett | CEO
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BREW UNTO OTHERS®

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