

BC Commercial Distillery Taxation Review

March 2018



why we are here

- small BC commercial distillers are taxed at parity to global distilleries that produce brands like smirnoff, bacardi, crown royal
- BC commercial distilleries run the identical business model to BC craft breweries and yet work under a very different and much more punitive taxation
- BC commercial distillers drive more revenue selling their products in AB, ONT and internationally than in their home province
- large brands control 67% of the global spirits market today, up from 58% in 1998 *Citigroup



our goal

the BC Independent Distilling Association are seeking a volume based graduated taxation model that promotes growth for small, BC based commercial distilleries:

- drives re-investment into BC distillery infrastructure
- increases spend against BC jobs and skills training
- opportunity to grow made in BC product into global hero brands
- alignment of BC spirit mark-up with national and international markets
- allows growing distilleries to price competitively and attract local consumers
- respect for international and inter-provincial trade agreements

just like beer



current mark-up comparison

BC Beer - Volume Based		BC Spirits - % Mark-Up Based	
Volume	Tax Rate	Duty Paid	Tax Rate
< 15,000 HL	\$.40/L	< \$21.00	124%
15,001 HL – 350,000 HL	\$.41 – \$.99/L	Next \$8.20	93%
> 350,000 HL	\$1.08/L	Next \$8.20	62%
		>\$37.49	43%

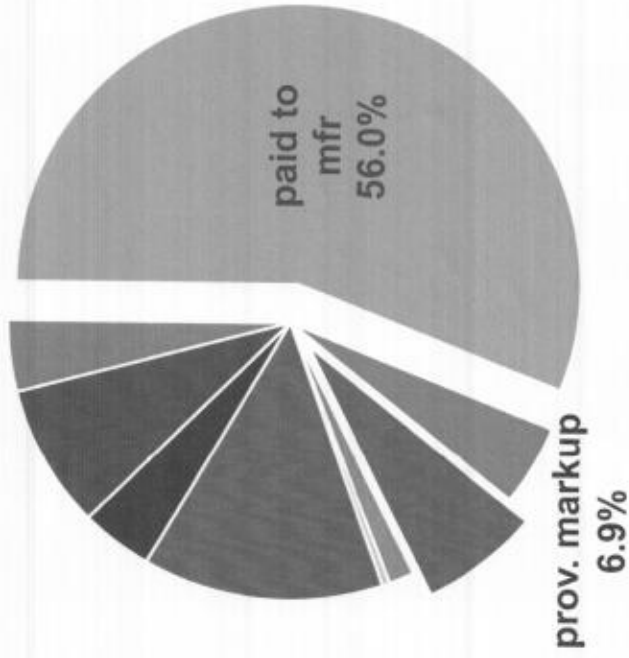
beer model encourages growth through mark-up increases only as volume increases

Spirits model encourages super-premium pricing reducing consumer adoption



spirits vs beer - current situation

Red Racer ipa (6-pack)

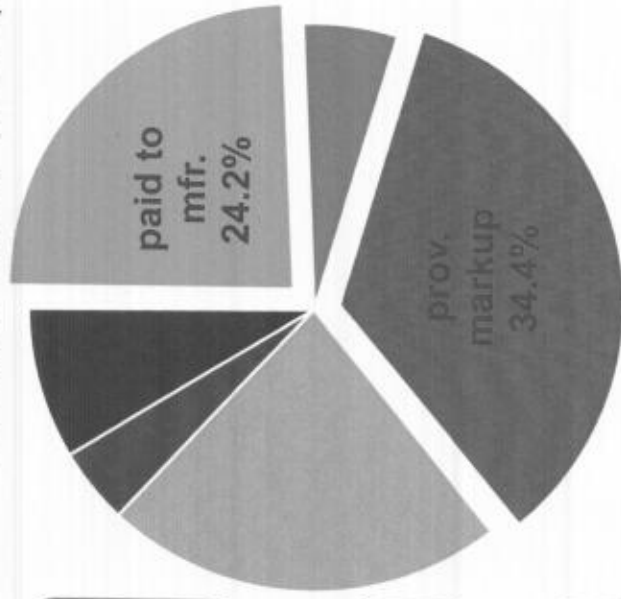


beer paid to **brewer** = 56.0%
vs
spirits paid to **distiller** = 24.2%

both BC made at the same facility
using the identical malt bill

beer nets almost 2.5x more

Lohin McKinnon whisky (750ml)



beer vs spirits mark-up - proposed

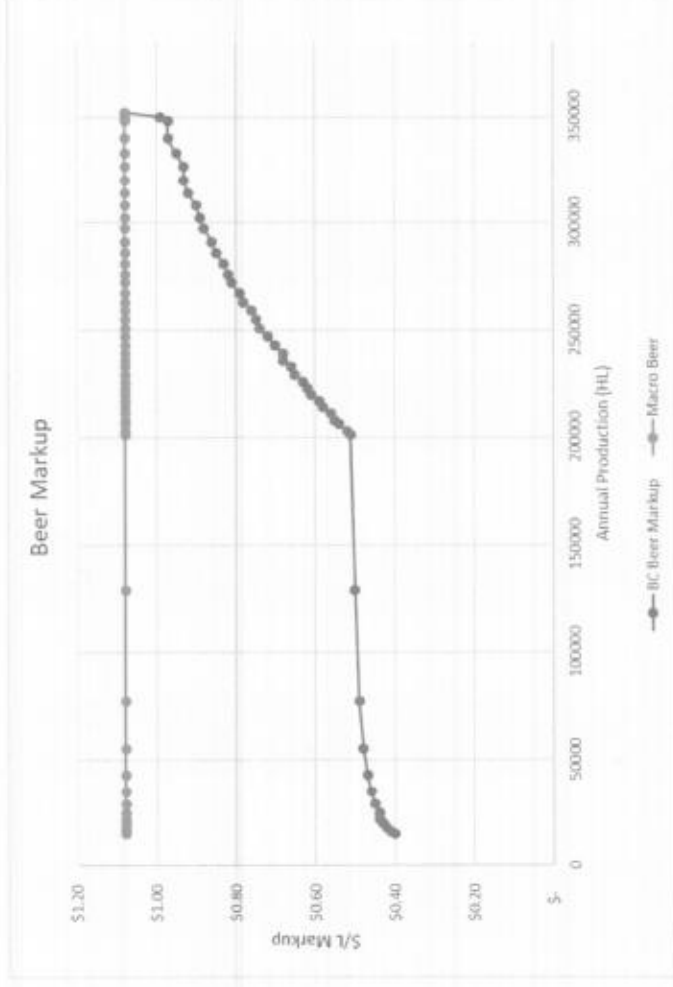
- Volume based on global production (L) of abs. alcohol
- ** 100,000L ~ 26,500 9L cases

BC Beer		BC Spirits (Proposed)	
Volume	Tax Rate	Volume*	Tax Rate
< 15,000 HL	\$.40/L	< 4286 L	\$27.76/L
15,001 HL – 350,000 HL	\$.41 – \$.99/L	4,287 L – 100,000 L	\$28.45/L – \$68.70/L
> 350,000 HL	\$1.08/L	> 100,000 L**	\$74.95/L

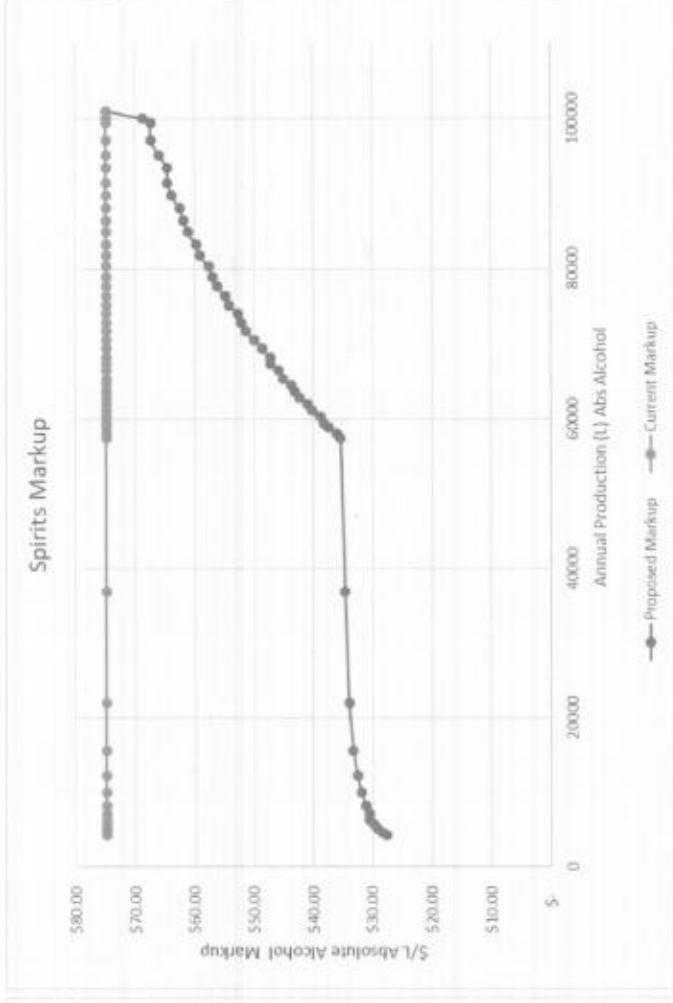
proposed spirits model encourages growth through mark-up increases only as volume increases – just like beer

* critical to understand that distiller mark-up moves to a volume based markup

proposed beer vs spirits markup



beer mark-up schedule

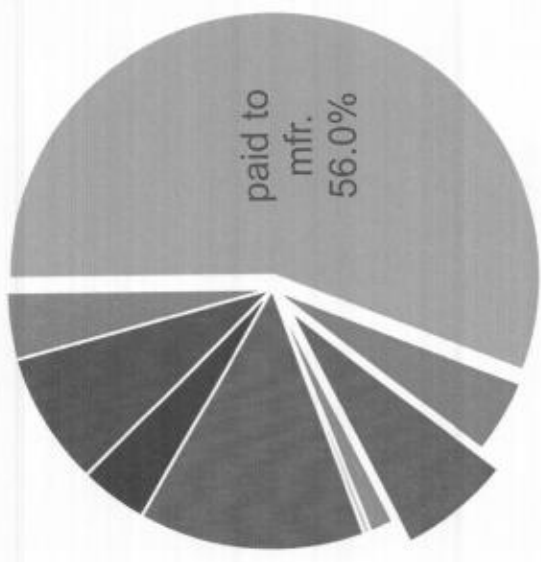


proposed spirits mark-up schedule

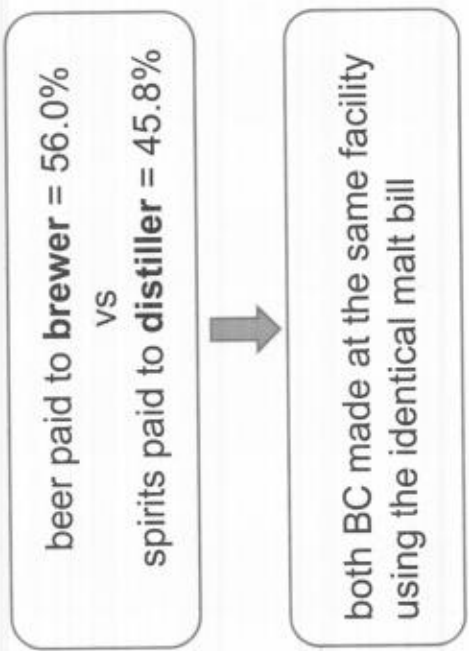
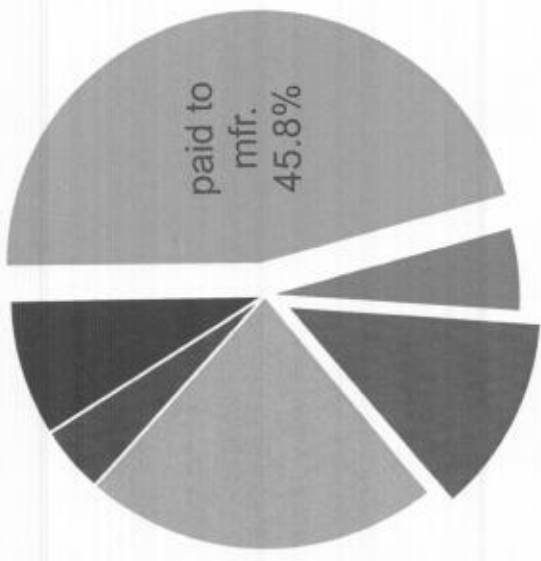
replication of beer mark-up model for BC commercial distilleries

spirits vs beer proposed situation

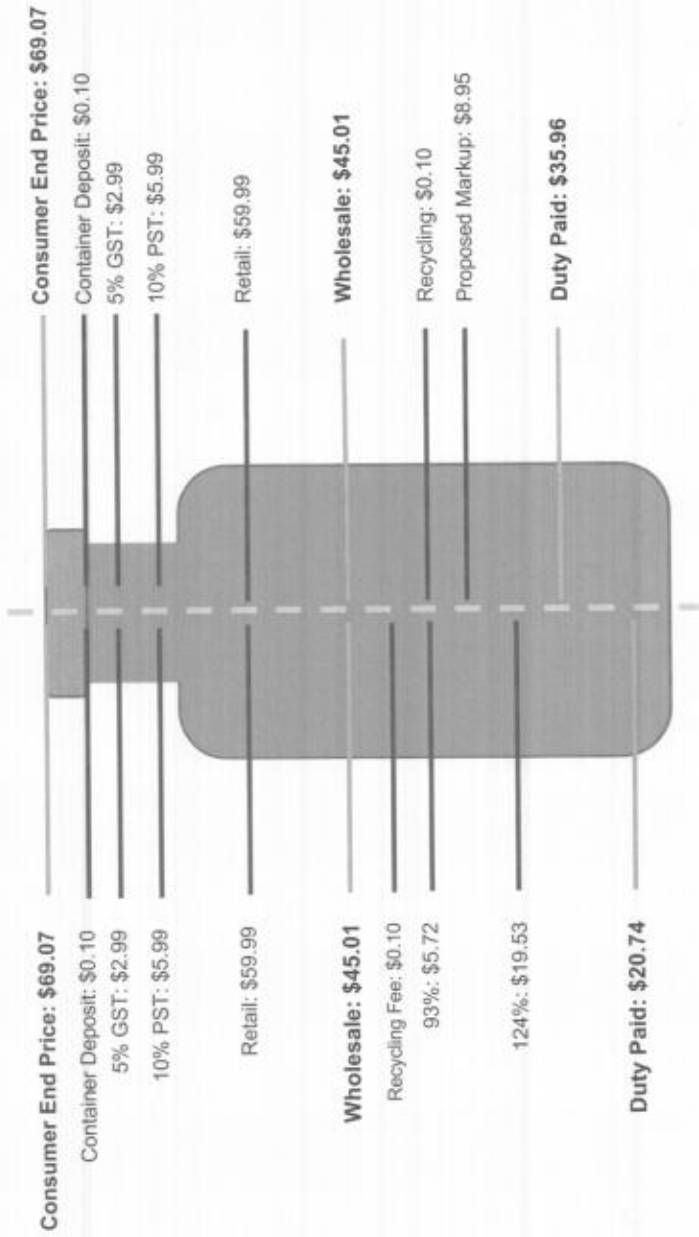
Red Racer ipa 6-pack



Lohin McKinnon whisky (proposed)



beer vs spirits mark-up - proposed



Lohin McKinnon:
Current Markup

Lohin McKinnon:
Proposed Markup

proposed mark-up change impact

*Data displayed represents national sales of top six BC Commercial Distilleries as reported in November 2017 ACD Data...20 Commercial Distilleries in BC

BC Commercial Distillery*	9L Cases	Absolute Ethyl Alcohol (L)	Mark-up \$ (Proposed)
Arbutus Distillery Inc.	109	422	\$ 11,709.02
Central City Brewing Company L	655	2,535	\$ 70,361.56
G & W Distilling Inc. DBA G&W	9,812	37,972	\$ 1,317,533.56
Long Table Distillery Limited	1,298	5,023	\$ 142,919.90
Victoria Distillers Inc. DBA	1,284	4,969	\$ 141,378.39
Victoria Caledonia Distillery	162	627	\$ 17,402.40
Total Proposed Spirit Mark-up			\$ 1,701,304.82
Current Spirits Mark-up			\$ 2,273,787.71
Variance			\$ (572,482.89)

The BC government invests only \$572,000 to create lasting change and a global impact

mirroring brewery success



*brewery rule and markup changes fostered the growth of over 100 new breweries with many exported globally

proven success abroad

2018 USA spirits tax changes

-USA invested \$97 Million in US distillery taxation reductions to build upon 27.4% compound annual growth from 2010 to 2015. this investment is in the form of a graduated volume mark-up schedule.

2015 United Kingdom taxation changes

-A 2% decrease in distillery taxation by volume led to a £96 Million increase in taxes paid to UK treasury

2014 NSLC spirits taxation changes

-dropping **spirits volume** mark-up by 50% drove 256% growth in local spirit volume from 10 distilleries.



our ask

the BC Independent Distilling Association wants to help the BC government achieve its stated goals by seeking a volume based commercial distilling graduated mark-up mirroring the BC beer model.



- how will this help the grow BC, feed BC & buy BC platform?

- re-investment into BC distillery infrastructure
- increased spend against BC jobs growth and skills training
- opportunity to develop global brands made in BC
- alignment of BC spirit mark-up with national and international markets
- allows growing distilleries to benchmark their retail prices competitively to international brands and attract local consumers
- respect for international and inter-provincial trade agreements



Thank You

