

Testimony of Jim Koch  
Founder of the Boston Beer Company  
To the Permanent Subcommittee on Investigations (PSI)  
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Chairman Portman, Ranking Member McCaskill and Members of the Subcommittee:

It is my honor to be here today as your Subcommittee investigates how the current corporate tax structure in the United States should be reformed to lessen the obstacles that exist to start, grow and maintain an American business.

The Boston Beer Company has humble beginnings. Using my great-great grandfather's recipe I started brewing in my kitchen in 1984. From there, I went from bar to bar trying to sell the new concept of a rich, flavorful, American beer. Named after the American revolutionary and founding father, Sam Adams, Boston Lager was born in April of 1985. Six weeks later, it won "Best Beer in America" at the Great American Beer Festival.

Our family of beers today includes 60 different and constantly changing beer styles. We are now available in all 50 states and more than 30 foreign countries. Today we're a team comprised of 1300 people with breweries in Boston, Cincinnati, and Pennsylvania. We have invested over three hundred million dollars in our breweries over the last three years, and we are proud that today, the craft beer industry, which once made up a few dozen companies, has grown to more than 3,600 local businesses around the nation. Despite that growth, today almost 90% of the beer made in the US is made by foreign owned companies. And foreign owned breweries have begun acquiring American craft brewers with nine of the most successful ones having been acquired in recent years. So I am concerned because growing, and expanding an American owned brewery is increasingly difficult because of how our corporate tax structure currently places American owned companies at a competitive disadvantage compared with their foreign competitors.

It is not uncommon for me to receive visits from investment bankers interested in facilitating the sale or merger of Boston Beer Company to foreign ownership. One of the principal financial benefits of such transaction is the ability to reduce the tax rate we currently pay. We are vulnerable because we currently report all of our income in the United States and pay a tax rate of about 38% on that income. Under foreign ownership, that rate, I am told, would be reduced to the range of 25-30% through various practices like expatriation of intellectual property, earnings stripping and strategic use of debt, offshoring of services, and transfer pricing. That means that a dollar of pre-tax earnings is worth about sixty two cents under American ownership but about seventy two cents under foreign ownership. To put it another way, Boston Beer Company is worth 16% more to a foreign owner simply because of the current US corporate tax structure.

So the question is, why haven't we sold Boston Beer to some multinational brewer or another foreign entity? The simple answer, it's just not who we are. Like Samuel Adams, our Patriot

namesake, we were born in America, have grown because of the advantages available in the United States and don't mind paying our taxes here in the United States in gratitude for the opportunities available in this great country.

But please don't mistake our core values for good financial decision making. I have to explain to shareholders why we have not taken advantage of some of strategies available to reduce the corporate tax burden-including by moving overseas. In response to economic pressures, other companies are or saving millions or even hundreds of million of dollars through complex tax planning every year. Rest assured Senators, while we are sitting here talking about corporate tax reform and what is needed to bring it about, there are folks in offices and boardrooms all over the world making their own kind of tax reform happen every day. The difference is that not one of them is accountable to constituents. Congress's inaction on this subject has created a system of do it yourself corporate tax reform available to few and understood by even fewer. Because of our broken corporate tax system, I can honestly say that I will likely be the last American owner of the Boston Beer Company.

Due to hard work, innovation, and diligence, American craft brewers have created thousands of well-paying skilled manufacturing jobs and brought respect around the world for American beer. In fact, there is no other manufacturing sector I know of in the United States that has grown for thirty years and has achieved double digit growth for 16 quarters straight. But, when these foreign acquisitions occur, American jobs are often cut or shipped overseas, less investment is made here in the US and other cost cutting measures on management and sales force are implemented along with reductions in local philanthropy and community involvement.

There are solutions: Cut the highest-in-the-world U.S. corporate tax rate to the mid-20s. And bring America's international tax system in line with the rest of the industrialized world, by allowing U.S. companies to bring their overseas earnings home without additional taxes—just like the British and Canadians (among others) allow their businesses to do. Senator Portman's recent proposal with Senator Schumer provides a strong, bipartisan road map on the international piece of tax reform. With these reforms, I believe we can unleash a lot more job creation and innovation in this country. Without them, I fear America will continue to fall behind economically.

Thank you again for having me here today and for listening to some of my thoughts on this subject. I am pleased to answer any questions the panel may have.

