H.R. 3476

REPEAL THE RUM EXCISE TAX COVER-OVER

PUTTING AMERICAN PRODUCERS ON A LEVEL PLAYING FIELD

The rum tax cover-over has placed rum producers in the continental United States at a distinct disadvantage to their counterparts in Puerto Rico and the U.S. Virgin Islands. H.R. 3476 repeals the cover-over and creates a fair and level playing field for rum producers, regardless of their location.

Under current law, the excise tax on rum is $13.50 per proof gallon and is collected on rum produced in or imported into the United States. Of the $13.50 per proof gallon collected, $13.25 is transferred or "covered over" to the Treasuries of Puerto Rico and the U.S. Virgin Islands (USVI).

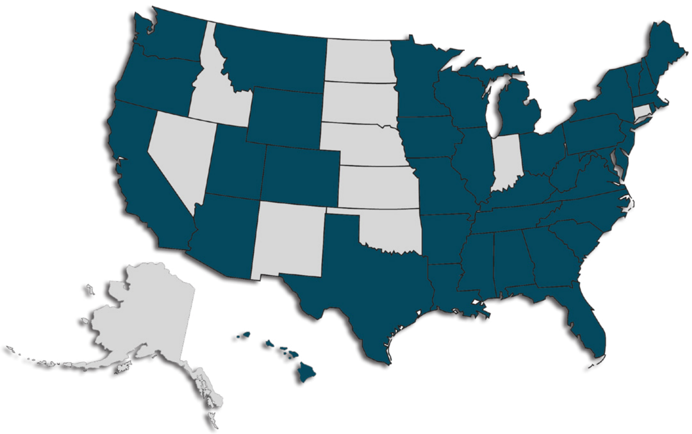
Cover-over provisions for rum extend back to 1917 for Puerto Rico, with the addition of the U.S. Virgin Islands following in 1954. However, no restrictions exist on how the territories can use the transferred revenues. The result is both territories using some portion of the funds to subsidize rum production in Puerto Rico and the USVI. Between 1994 and 2011, the rum tax cover-over has returned nearly $7.2 billion in tax revenues to Puerto Rico and the USVI.

For Puerto Rico and the USVI, the share of cover-over revenue received depends on local production quantity, leading both territories to seek high production rates through direct and indirect subsidies. Over the past decade, subsidies have increased in both territories - being used for direct financial assistance, marketing, and development of supporting infrastructure. This disparity has left rum producers in the continental United States attempting to compete on an uneven playing field.

H.R. 3476 would repeal the rum tax cover-over, ensuring that tax revenues are returned to their locality of production. This change in policy creates greater equity without regard to production location, promotes open competition, and maintains free-market principles. It is estimated that removing the rum tax cover-over would yield an estimated $6 billion windfall to the U.S. Government over the next 10 years.

KEY POINTS

- 98 percent of federal excise tax collected per proof gallon is transferred or "covered over" to the governments of Puerto Rico and the U.S. Virgin Islands.
- Current law does not provide any restrictions on how rum tax cover-over revenues can be used in Puerto Rico or the U.S. Virgin Islands.
- Both Puerto Rico and the U.S. Virgin Islands have used cover-over revenues to heavily subsidize rum production in their territories.
- These subsidies place rum producers in the continental United States at a distinct disadvantage
- H.R. 3476 removes the rum tax cover, leveling the playing field and ensuring that tax revenues are returned to their locality of production.



There are more than 160 rum producers in the continental United States, spanning 39 states.