



Chairman McNamara,

Thank you for the opportunity to testify today.

My name is Reid Teschner and I am the director of state government affairs for Anheuser-Busch. Anheuser-Busch is honored to be a major manufacturer in Virginia, with more than 740 employees across four different facilities, including our Williamsburg brewery and our craft partner, Devils Backbone. Our presence in Virginia generates more than \$16 million in state excise taxes, and across the Commonwealth, the beer industry creates more than 52,000 jobs and generates more than \$8 billion in economic output.

We are committed to helping our nation recover from the pandemic, and I would like to take the opportunity today to draw your attention to a policy that could significantly limit our ability to continue to invest and plan for long-term growth within Virginia.

Last year, Anheuser-Busch announced an investment of \$1 billion over the next two years in our U.S. operations to help lead the safe and strong recovery of our economy. Our planned investment expands our U.S. operations, supports ongoing industry job creation and retention, stimulates economies in communities across the country, and enables sustainable innovations.

At our Williamsburg Brewery, we have been brewing beer for 50 years, and our brewery produces nearly 400 different beer packages. Our Williamsburg team has played a critical role in our innovation pipeline as the first brewery to brew Natural Light Naturdays, Bud Light Orange, and Michelob ULTRA Infusions, to name a few. Over the last year, we've invested nearly \$9 million in the brewery to expand and upgrade our capabilities, and we're planning to hire more than 40 employees this year to support our operations.

The regulatory and tax environment in which we operate directly impacts our ability to invest at this scale, but unfortunately a change in federal law will cause many Virginia businesses' taxes go up in 2022, including ours. This is because the federal law for determining interest deductibility has become a lot more restrictive.

This new change in federal law impacts Virginia businesses because Virginia currently conforms with a provision within the 2017 Tax Cuts and Jobs Act ("TCJA"). The TCJA provision, known as IRC §163(j), impacts business interest deductibility. Under IRC §163(j), deductible interest expense was generally limited to 30% of a taxpayer's operating profits, known as "EBITDA," or "Earnings Before Interest, Taxes, Depreciation and Amortization." Virginia applies the federal limitation at the Commonwealth level.

Unfortunately, IRC §163(j) increases taxes during an economic downturn. When businesses grow, they earn more and borrow less, resulting in less non-deductible interest. But during economic downturns, businesses earn less and borrow more, resulting in higher non-deductible interest, and therefore higher taxes from this provision. The same result happens during a period of increasing interest rates.

Now, because of the change in federal law, instead of 30% of EBITDA, employers won't be able to add back investment-related depreciation when computing the base. The EBITDA limitation becomes a much different financial metric, EBIT, which concerningly does not relate to measuring how much a business can borrow.



This change dramatically increases taxes on employers making capital investments. If nothing is done, Virginia businesses will take on a much bigger tax hike in 2022. Studies say this will be disproportionately borne by manufacturers, who are exactly the type of businesses that America is relying on to bring us out of the pandemic.

The ability to deduct interest as an ordinary and necessary business expense is a longstanding principle of U.S. tax policy that reduces the cost of capital, which helps encourage investment and expansion. States Virginia competes with, including South Carolina, Georgia, and Tennessee, have already addressed this and no longer apply the federal tax provision on interest deductibility. In Florida, 2022 legislation is in play to repeal the interest limitation and North Carolina just passed a total phase-out of their corporate income tax.

As a strong supporter of Virginia's economy, Anheuser-Busch encourages efforts to keep Virginia competitive through increased investment and job growth. However, if Virginia fails to preserve interest deductibility, the Commonwealth would be raising taxes on businesses during a time of high inflation, increasing interest rates and debilitating supply chain disruptions.

I urge the legislature to consider the substitute that will increase the deduction to 40% starting in 2022 and 60% in 2023 and support American workers and job creators in our efforts to enable long-term investments across the Commonwealth.

Thank you again for your time today and for the opportunity to testify.

###