

TESTIMONY OF STEPHEN D. VISOCAN

PRESIDENT, POP INN

HELENA, MT

BEFORE THE

SENATE FINANCE COMMITTEE'S

HEARING ON

SMALL BUSINESS AND RURAL ECONOMIC DEVELOPMENT

Tuesday, June 4, 2002

Good afternoon, Mr. Chairman. My name is Steve Visocan, and I am a small businessman from Montana. As president of Pop Inn, I own three convenience stores and three taverns, around Helena, Montana, and have 76 employees.

I would first like to thank you for inviting me to testify on tax issues relating to small businesses. I will focus my testimony today on repeal of the special occupational tax (SOT) on alcohol. This is a particularly bad form of taxation and today I would like to help members of this committee understand why this tax should be repealed.

First, I believe you will agree with me that this tax has outlived its purpose. Congress has a long history with alcohol occupational taxes. The first version of the SOT was enacted over 200 years ago, but was repealed in 1817. Today's version of the SOT was established in the 1860's to generate revenue for the Civil War. Despite the end of the Civil War, this tax remained virtually unchanged for more than a century. Then, in 1987, Congress passed the Omnibus Budget Reconciliation Act and raised the SOT to its current levels. The Civil War has ended.

Second, I would like you to reflect on the extreme regressiveness of the SOT. The 1987 law increased the tax from \$54 and \$24 annually per store for liquor and beer retailers respectively, to \$250 per year per store. This was an incredible 1000% tax increase! Retailers must annually pay \$250 per location; wholesalers pay \$500; and vintners and distillers pay \$1,000. Retail outlets are generally small businesses, and repealing the SOT would be an immediate and visible tax cut.

Because the SOT is levied on a per location basis, small business owners like me are hit the hardest. Three convenience stores and three taverns generate an SOT tax of \$1,500. That's \$500 more in annual taxes than the nation's largest single site brewery or distillery plant. By the same token, a single Elks Lodge pays the same in tax per year as a single Wal-Mart Supercenter -- \$250.

Small retail companies, like mine, were most affected by the increase in 1987. Whether it's a seasonal restaurant, an Elks or Eagles Lodge, an American Legion, bowling center, campground, florist that delivers wine with flowers, or a convenience store operator, no one is spared from the tax. In fact, more than 90% of all SOT revenue comes from retailers.

Not only is this tax regressive, its revenue isn't even targeted to offset the costs of alcohol enforcement. The tax is administered by the Bureau of Alcohol, Tobacco and Firearms, but the revenue collected does not go towards BATF activity. Rather, it is channeled back into the General Treasury.

Mr. Chairman, as you well know, repeal of the SOT has garnered congressional support from both sides of the aisle. I want to personally thank you and Senator Thompson for introducing S. 808, which repeals the SOT. I also want to thank Senator Nickles and the other 15 Senators who have agreed to cosponsor your legislation. The House has also introduced a companion measure, which enjoys large bipartisan support.

Not only does repeal of the SOT have bipartisan support in Congress, the Joint Committee on Taxation recommended the repeal of the SOT in their simplification recommendations to Congress last year. Moreover, the General Accounting Office has examined the effectiveness of the SOT several times and consistently found it to be flawed.

Mr. Chairman, the SOT is not only a burdensome tax on small businesses, but it is a flawed tax. I wholeheartedly agree with you when you said on the Senate floor that, “This is an inequitable tax that has outlived its original purpose and is a clear example of an antiquated approach to federal taxation.”

With the economy slowly rebounding, small business owners need your help. Just as the tax rebate last year that put \$300 in the pocket of every American was economic stimulus, so too is putting \$250 back in the hands of small businesses around this country. Believe me, getting my SOT tax back would be welcome relief for me.

Again, thank you Mr. Chairman for your time today. I look forward to continuing our work together on tax issues for small businesses. I am happy to answer any questions from the committee.