

Why Rum Markets Shouldn't Worry About the Rum Cover-Over

The purpose of the cover-over program is to help the two territories fund welfare programs for their people & to promote broad-based economic development.

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/EINPresswire.com/ -- Many Caribbean islands are (rightfully) concerned about the US tax program known as "rum cover-over," from which rum companies in Puerto Rico (PR) & the US Virgin Islands (USVI) benefit. This is because the federal excise tax has placed rum producers outside the continental United States at a disadvantage to their counterparts in Puerto Rico & the USVI.



The rum excise tax cover-over extends back to 1917 for PR & 1954 for USVI when the US government agreed to help its economically depressed territories through a kind of revenue source. The core fundamental of this economic initiative has been to help both territories with a tax refund from all the sugarcane spirits sold in the US Market.

Like other alcoholic beverages, rum is under an excise tax of up to USD13.25 per proof gallon. The revenues collected from rum produced in PR & the USVI are transferred to the governments of these islands. The more each makes & sells their rum in the USA, the higher the tax incentive is.

Luis Muñoz Marín, Puerto Rico's first elected governor, clearly understood this equation: "If we produce & sell more Puerto Rican Rum in the US market, we (PR) are going to receive more money that could be used to help grow our local economy & infrastructure."

Muñoz's administration had an active role in stimulating local economic performance, including the rum industry. Teodoro Moscoso—who was in charge of Puerto Rico's economic development, played a key role. Their strategy, called "Puerto Rico's economic miracle," consisted

of a holistic approach by stimulating the island's growth & encouraging foreign investment.

Later, the governments of both PR & USVI began to subsidize the expansion of rum production. Therefore, both territories sought high production rates through direct & indirect subsidies. This resulted from the lack of restrictions on how the territories could use the transferred revenues.

The fierce strategies & incentives to boost local production led to a "subsidies war" between the two territories, which didn't care too much about public spending & subsidies to help their residents. For instance, USVI has steadily increased subsidies (equivalent to 46.5%) in the last few decades to bolster rum production.

This is how the cover-over program's unintended consequences have led PR & USVI to manipulate their economies to maximize federal subsidies. The vision to grow either Puerto Rican Rum or USVI rum has swindled away, as the political arena seems not to care about the program or, at least, understand how the program works. Instead, they prefer to pay political favors & campaigns with the resources.

The tax extenders' unpredictability is only half of the budgeting uncertainties that both US territories have to deal with. As the distribution of the rum tax is dependent on relative production when rum production changes, so do cover-over revenue. As long as this continues, other countries don't need to worry.

Here are some examples:

- Like his predecessors, USVI's current Governor, Albert Bryan Jr., hasn't yet developed a government program to promote USVI rums in the US Market. They prefer to give part of the reimbursed money back to the brands to use as they please.
- None of these territories seems committed to helping develop new brands or assisting current operating start-up companies with ways to find distributors in the US Market.

From a broad perspective, there is still some good in the program.

For instance, Destilleria Serrallés, located in Ponce, PR, has been able to use its subsidies to continue distilling & aging high-quality rum, later selling it to some of the largest American spirits companies that are looking for premium rum at a competitive price. The distillery has also invested in reducing its carbon footprint.

USVI & PR have their National Rum Festival, which targets tourists to come & learn more about the local rums. Unfortunately, the USVI Rum Fest has been discontinued, contrary to Puerto Rico's Rum Fest, which has been celebrated since 2009.

Again, unless the Puerto Rican or USVI Government sees the big picture & focuses on the opportunities in the rum cover-over, their local spirit brands will continue in a flat-line growth. They are facilitating the path for other international brands to access the American market.

Nicholas Zelpensi
Caribbean Critique & News
[email us here](#)

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