



## Burr Alert: Toasting Tax Reform's Impact on Brewers, Vintners, Distillers and Distributors

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In addition to the more publicized portions of the recent tax legislation, certain provisions also positively impact your favorite local craft brew, regional small batch wine or even a locally distilled alcoholic beverage. While the producers of craft beverages receive extra relief with the enactment of the Tax Cuts and Jobs Act of 2017 (the "TCJA"), others in the industry are discovering that some changes negatively impact the way they historically conducted business. The following is a brief overview of the provisions of the TCJA which impact brewers, vintners, distillers and their distributors.

### **A Brief Summary of the TCJA Provisions Affecting All Businesses**

Many businesses hold the opinion that tax reform is mostly a positive development for the U.S. economy and thus U.S. businesses. While certain expenses may no longer be deductible, most corporations are willing to trade the loss of those deductions in exchange for a maximum corporate tax rate of 21% (down from 35%). If the business is a pass-through tax entity (where the tax on business income is paid by the owners and not the operating company), trading the loss of deductions in exchange for a reduction in the effective Federal income tax rate imposed on the business income of approximately 10% to 12% (from a maximum rate of nearly 40% to something closer to 30%, perhaps even less) is likewise seen as quite favorable. Most of the rate reduction for pass-through entities is a result of the new 20% qualified business income deduction. Before even considering those provisions of the TCJA specifically targeting craft brewers, small vintners and artisan distillers, the good news is the alcohol beverage industry benefits just like other businesses from the tax rate reductions.

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## **Industry Specific Tax Reform**

With respect to producers of craft beers, wine and distilled spirits, the TCJA addresses complaints voiced by industry trade associations by lowering the excise taxes levied on the production of beer and other beverages containing alcohol. Excise tax relief is not the only extra tax benefit included in the TCJA for small producers of beer, wine or distilled spirits. These taxpayers benefit from a change in accounting methods for such producers. As of January 1 stand so long as the fermentation process takes less than two (2) years, producers of beer, wine and distilled spirits are no longer required to capitalize certain interest payments into their inventory. Prior law effectively delayed the deduction of such interest until the sale of the product. Accordingly, whether the taxpayer is a craft brewery, a family winery or an artisan distiller and if the fermentation process for their product is less than two (2) years, the prior rules which required the allocation of certain interest costs to the product being sold (usually referred to as the "UNICAP rules" or IRC Section 263A), no longer apply. This change allows the producers of such beverages to currently deduct such costs (subject, of course, to any other limitation(s) which might apply) instead of waiting until the sale of the beverage.

Download the full article, "Burr Alert: Toasting Tax Reform's Impact on Brewers, Vintners, Distillers and Distributors" written by Jim McCarten and Ed Brown.