Wine Spectator

News

President Signs Tax Cut Extension for Wineries, Brewers and Distillers, but for Just One Year

Congress included a temporary extension in a federal budget bill; vintners had hoped for permanent extension of excise tax reductions

Congress passed two large budget bills, one of which included excise tax cut extensions. (istockphotos)

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The wine industry received a stocking stuffer from the federal government, but not as big a gift as they hoped for. Congress included a one-year extension of the excise tax cuts passed in 2017 in a budget bill for 2020. The House passed the bill on Dec. 17 and the Senate approved it two days later. President Donald Trump signed the measure into law on Dec. 20, hours before federal funding expired and 11 days before the tax cuts expired.

The extension was desperately sought by alcohol producers, small and large, across the nation. According to the Wine Institute, a trade group, California wineries alone used the tax savings in 2018 and 2019 to reinvest more than $150 million.

After the House voted for the budget bill, tension turned to cautious optimism. If Congress and the President had failed to agree on a budget, the tax reductions would have expired at the end of this year. That would have meant consumers would pay higher prices for most wines. (They're already facing higher prices for many European wines, as trade disputes continue.)

But while the extension did pass, vintners had hoped for a permanent extension of the tax cuts. Now they have to start lobbying again. "The real problem is the uncertainty of it," Michael Kaiser, vice president of WineAmerica, an advocacy group for the industry, told Wine Spectator.

WineAmerica, alongside eight other trade groups, including the American Craft Spirits Association, the Wine Institute and the Distilled Spirits Council of the United States, has been lobbying Congress since the original temporary cuts were passed. The Craft Beverage Modernization and Tax Reform Act was proposed to be permanent, but Congress added a two-year "sunset provision" when they attached it to the much larger Republican tax bill, which needed certain limits to pass Congressional budget rules.

A permanent extension was introduced this year, and quickly attracted broad, bipartisan support. "We're really pleased with the sheer amount of co-sponsors," said Kaiser. The bill has over 325 co-sponsors in the House of Representatives, and 74 co-sponsors in the Senate—split almost exactly between Democrats and Republicans.

But the bill failed to move to a full vote, and with the end of the year approaching, Congress quickly switched to a temporary extension. Attaching that provision to a larger budget bill made it easier to pass.

The tax cuts reduced excise taxes on the first 750,000 gallons of wine—more than 300,000 cases—that a winery makes. The measure also adjusted tax levels so that wine with between 14 to 16 percent alcohol paid the same rate as wine below 14 percent. Sparkling wine was also taxed at a lower rate.

Vintners were happy to have the extension. "We are encouraged by the House of Representatives passing this bipartisan bill that will help wineries remain competitive in this evolving and challenging market, which has included fires and increasing pressure from imports," Tobin Ginter, COO and CFO of Rodney Strong Wine Estates, told Wine Spectator via email. Rodney Strong owns two wineries and dozens of vineyards throughout California.

Rep. Mike Thompson, a House co-sponsor of the bill who represents large parts of Napa and Sonoma counties, agreed. "Our local wine community is a critical part of our district's economy and agriculture, and we are immensely proud of the wine our producers make. That's why I have been working for years to ensure our tax code is modernized to allows producers to keep pace with the changing demands," he told Wine Spectator via email.

Sen. Ron Wyden of Oregon, a co-sponsor of the bill in the Senate, said in a statement, "I've seen firsthand how incentives for craft beverage producers have helped Oregon small businesses grow, hire and provide new benefits to their workers. I will keep fighting to make both incentives permanent."

That uncertainty of renewal is causing trouble for winemakers. When producers don't know if they will have the money, it's safer to plan as if they won't, which results in less money being invested in both their business and supporting industries. **"The bottom line is that the money [from the tax cuts] was reinvested in technology and people," said Robin Bagget, co-proprietor of Alpha Omega winery in Napa Valley and incoming chairman of the Napa Valley Vintners (NVV), a trade association. "90 percent or more of the wineries in Napa Valley produce small amounts of wine; 90 percent are family-owned businesses. This money is going right back into the community."**

Rex Stults, the senior director of Industry Relations at NVV was excited to see the extension pass, but worries it won't be enough. "[The tax cuts were] one of our main sticking points—and we're excited to have it extended," he said. "Our members are businesspeople, they like certainty."

The advocates have found that talking to congressional leaders isn't enough. "Face-to-face isn't really helping as much anymore—it's about more grassroots-style now," said Kaiser. WineAmerica, joined by other advocates, called on their supporters to flood Capitol Hill with calls for the extension last week. More than 14,000 letters were sent to Congress from winemakers, industry figures and friends and fans. If the extension passes, they plan to restart their efforts for next year.