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Wine Industry

Winery excise tax cut extension approved as part of larger spending bill

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Alpha Omega Winery. Owner Robin Baggett said the winery put the savings from the excise tax cuts towards new winemaking equipment and raises for winery staff.
St. Helena Star file photo

The federal government has passed an extension of the Craft Beverage Act, renewing excise tax reductions for wineries, breweries and other producers of craft alcohol.

The year-long extension comes as part of the Senate's approval of the $1.4 trillion federal spending package, which was passed by the House on December 17. The bill will become law once signed by President Trump, who was expected to approve the measure Friday, thus avoiding a government shutdown. It had originally been due to expire Dec. 31.

For Napa's wineries – and for wineries nationwide – the act will continue to create extra revenue to be used to reinvest in businesses and communities alike, according to Rex Stults, Napa Valley Vintners' director of industry relations.

Stults said one member, in particular, had told him their winery had used the extra money to invest in a new piece of environmentally friendly equipment; others have hired additional staff. Another vintner Stults met, from Texas, said the cuts had allowed him to purchase a better benefits package for his staff.

The measure lowers excise taxes for wineries, breweries and other producers of craft alcohol. Excise taxes, which are taxes paid per purchase, are often included in the price of goods.

The federal excise tax on gasoline, for example, is 18.4 cents per gallon. Under this legislation, wineries are taxed at a $1 per gallon for the first 30,000 gallons produced, and at decreasing rates for each gallon produced after that. These taxes are not directly paid by consumers, though they often force increases in retail prices.

Lowering the rates of the tax, paid by merchants, means wineries have seen and will continue to see an increase in their profit margin, experts say.

Alpha Omega Winery owner Robin Baggett said he'd used the savings to invest in his staff, through compensation, and improved winemaking equipment. The cuts originally came soon after the wildfires in 2017, he said – a difficult year after which his staff had initially recommended no wage increases. After the passage of the bill, he said, Alpha Omega was able to raise compensation rates across the board 5 percent.

"It would have been a mess if this hadn't been extended – we would have been back to square one," Baggett added, emphasizing that the tax cuts don't translate into additional profits for vintners personally. "We'll continue to use the savings to invest in our people and equipment."

Stults noted the measure only extends the tax cuts for until Dec. 31, 2020. The Vintners – along with a host of other alcoholic beverage industry trade groups, like Wine Institute and Wine America – would like to see cuts approved for the long-term, ensuring a level of certainty for business owners.

"This wasn't the multiple-year solution we were seeking, but it's certainly better than no extension," Stults said, noting it had take "a significant amount of work" to arrive at the extension in the first place.

The legislation, part of the 2017 Beverage Modernization and Tax Reform Act, was passed as part of the Trump Administration's push to lower taxes for corporations. Its passage marked the first excise tax wine reduction in 80 years; it also deemed sparkling wine eligible for the credits and lowered tax rates on higher alcohol by volume wines.

It was a significant reduction in taxes for the industry: for 30,000-gallon-a-year wineries, of which Napa has many, it reduced tax payments by almost 60 percent (from $5,100 to $2,100 per year). For wineries producing more than 2 million gallons, at the lowest end of the spectrum, taxes were reduced 21 percent (to $1.68 million down from $2.14 million).

Bobby Koch, president and CEO of Wine Institute, which represents over 1,000 wineries and wine related businesses in California, said in a press release that the measure was "a critical step" towards ensuring the growth of the state's wine industry.

"California wineries were able to re-invest over $150 million in tax savings in 2018 and 2019," he said in the release.

Tax credits can cyclically benefit wine country communities, creating jobs and additional tax revenue, according to Hank Wetzel, chairman of Wine Institute and partner at Alexander Valley Vineyards in Healdsburg.

Some 46,000 people in Napa County are directly or indirectly employed by the wine industry, according to Stults, who added that the success of Napa's wine industry is "tremendously meaningful to almost everyone" in the valley.

Stults said the Vintners will make a long-term extension a cornerstone of their platform in 2020.

"It's hard to make significant, long-term, strategic investment decisions when this might go away one year from now," he said. "Work to try to extend this to a multi-year solution begins next month."