



MARYLAND BEVERAGE PROS REACT TO THE NEW TAX LAW



By Teddy Durgin

There's really no other way to put it. In December, the White House signed a historic tax bill into law that was absolutely loaded with "goodies" for the beer, wine, and spirits business. A number of the Maryland-D.C. area's top beverage industry professionals weighed in on the changes, and their enthusiasm was obvious.

Jaime Windon, owner and co-founder of St. Michaels-based

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Lyon Distilling Co., declared during a recent interview with the *Beverage Journal*, "The tiered changes create a more competitive and equitable tax system, which significantly benefits smaller distilleries and every distillery in Maryland. Historically, the high federal excise tax rate on distilled spirits has been a huge barrier to growth. The largest tax savings apply to distilleries producing less than 100,000 gallons of spirits each year, indeed reducing the rate from \$13.50 per proof gallon to \$2.70 per proof gallon. To put that in perspective, in

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our first year [2012], Lyon made less than 1,000 gallons. In 2018, we plan to make 10,000 gallons. That represents a potential savings of \$108,000 in federal excise tax under the new law."

She continued, "Obviously, we and all of our fellow distillers in Maryland and beyond are thrilled with the tax cuts, and I believe it will certainly spur growth and benefit the craft sector significantly. In fact, all Maryland distillers will benefit from the massive [80 percent] deduction for the first 100,000 gallons, as to my knowledge no distillery in the state is currently producing over that amount annually."

Tucked away in the new legislation is the so-called "Craft Beverage Modernization" provision, which has cut federal excise taxes on alcohol producers, particularly small brewers. Heavy Seas Beer founder and owner **Hugh Sisson** comments, "The primary positives of the new tax law is it saves us some overall cash. There's about a 50 percent reduction in the amount of federal excise taxes that we pay. We're in a capital-intensive business, and this gives us the ability to either hire more people or in-

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vest in more equipment. In our case, it'll probably be a little of both."

Windon agrees. She expects her business will follow Sisson's lead, stating, "As a genuine start-up operation, relying on steady and organic growth, we will reinvest every dollar saved in growing our company, expanding production, and continuing to create the best possible spirits, while investing in our employees and community. For many of our fellow distilleries, this savings will enable them to hire their first employee ~ a crucial step for owner-operators of any business."

Boordy Vineyards President and co-owner **Rob Deford** has similar plans. "What it's going to do is free up money for investment," he said. "This business is constantly hungry for capital. It involves a lot of risk on the agricultural side, and it involves a lot of support for the marketing side. Any free change that's rattling around as a result of this bill WILL be deployed! It won't go into my pocket or any of the other family members who own Boordy. It's going right into the business."

The new law also reduces the beer tax from \$7 to \$3.50 per barrel on the first 60,000 barrels and \$18 to \$16 per barrel on the first six million barrels. In addition, it extends wine tax credits to all domestic wineries whereas the credits currently are limited to small producers. The tax credit ranges between \$0.54 to \$1.00 per gallon. Wines that are made with a higher percentage of alcohol by volume, 14 percent to 16 percent, will now be taxed as others at \$1.07 a gallon ~ down from \$1.57. And such low-alcohol

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wines as mead that are made with higher carbonation will not be taxed at a higher rate than still wines.

Among those most pleased is Deford. He commented, "There is an immediate benefit in that there is some tax relief at the lower end. It will save our company \$3,000 right out of the gate, which is great. I like the bill because it is fair. I've never liked carve-outs specifically for small wineries. Although I feel at the lower end of production, tax relief is necessary because we don't have the economies of scale. But I've never felt that the reduced tax should be limited to some arbitrary number of small producers. I like the fact that this bill is extended to all wineries. And that once you get up to a certain size, it's like a graduated tax. I can't imagine in my lifetime or my son's that we'll ever break the limit of this tax. It's quite high."

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Kevin Atticks, Executive Director of the Maryland Wineries Association, is similarly enthused. "The law extends credits for a certain level of production for all producers," he pointed out. "This becomes a stimulus to the industry, allowing for early reinvestment back into producers' businesses. We are already hearing of plans by our in-state producers to hire more staff or purchase more equipment or build production capacity."

Atticks is also founder and CEO of Grow & Fortify. The Baltimore-based management firm supports businesses and organizations in the fields of agriculture, tourism, and food policy. So was he or any of the other beverage pros interviewed for this article surprised that beer, wine, and spirits got so much care and attention at the federal level? After all, Congress rarely debates alcohol excise taxes. They are one of the oldest levies the federal government imposes, with the first dating back to 1791 after Treasury Secretary Alexander Hamilton had pushed for them. The last time Capitol Hill lawmakers touched alcohol taxes was in 1991, when they increased them.

Atticks replied, "The collective industry had been advocating for small producer tax reductions for the last decade. The various bills had been widely sponsored by prominent members of Congress, so I wasn't surprised to see it in the tax bill."

Windon wasn't surprised either. "[I'm] rather relieved actually that the alcohol industry received so much attention in the new tax law. Small, craft distillers like myself have worked tirelessly to achieve tax parity with craft brewers and small winemakers for years, and we are thrilled about the changes."

She added, "This is the first time I've experienced any federal change that truly and immediately provides relief to help small businesses grow and thrive. We are incredibly proud to be part of a vibrant, American spirits revolution."

Deford was just a touch more cynical than the rest. "I don't actually credit attention for the passage," he half-joked. "I credit distraction. It is a tax relief of sorts. But it's been rattling around for quite some time, and I think that this was a vehicle to get it through that was so big that it was able to bury itself into it."

The only potential negatives to the new tax law were voiced by Sisson and Windon. "The excise tax reduction is currently scheduled for only two years [to 2019 when it will be up for renewal]," Sisson cautioned. "I hope that most of us realize that!"

Windon echoed Sisson's warning, adding, "The only thing that worries me is that this is only a short-term reduction in alcohol excise taxes, and notably the first time alcohol excise taxes have been lowered in centuries. To ensure that the craft industry truly thrives, this tiered system must become permanent, which will continue to generate local economic growth. With every new distillery comes increased tourism, renewed relationships with agricultural producers, and increased demand for other locally-produced goods. The industry in Maryland was all but extinct until just a few years ago. Now, we boast 19 operating distilleries, with many more in the works located in every corner of the state." ■



NEWS AND HAPPENINGS FROM MARYLAND'S WINERIES, BREWERIES, & DISTILLERIES

The past month has seen some exciting events for Maryland's local craft beverage industries...

The **Maryland Wineries Association** celebrated their 6th Annual Winter Wine event at Baltimore's B&O Railroad Museum in late January. The event consisted of a VIP sparkling wine pre-reception, followed by a grand tasting of award winning wines under the museum's impressive roundhouse dome. Furthermore, online wine publication The Cork Report recently featured a piece on Catoctin Breeze Vineyard, highlighting their "honest, earnest wines" and calling it "not your typical winery."



The **Brewers Association of Maryland** (BAM) kicked off FeBREWary, Maryland Craft Beer Lover's month, with a toast from Governor Larry Hogan at the Federal House Bar & Grille in Annapolis on February 1st. Additionally, Beer Connoisseur Magazine named Heavy Seas Brewery 'Brewery of the Year' for 2017. Finally, BAM also recently welcomed Cindy Mullykin of Mully's Brewery as their new Board President.



The **Maryland Distillers Guild** was happy to announce McClintock Distilling Company of Frederick was certified as Maryland's first and only organic distillery and Ocean City's Seacrets Distilling Company received several awards for their Spiced Rum and Orange Vodka at Cigar & Spirits Best of 2017 World Spirits Competition. ■

