

THE STATE OF BEVERAGE ALCOHOL TAX COMPLIANCE

How producers and
retailers are managing
their businesses



REPORT



Tax compliance done right

Introduction

The beverage alcohol industry has grown exponentially in recent decades. There are now over 6,600 operating wineries and 1,900 operating distilleries in the U.S., the U.S. Treasury Department reported. While two breweries dominate the U.S. market, consumers' taste for craft brews has helped drive up the number of smaller producers on the scene. Today, there are more than 6,400 operating breweries, a colossal jump from fewer than 100 that existed in the early 1980s.

U.S. sales of wine totaled \$63.69 billion in 2021. Trends point in different directions, with some researchers predicting the market will grow at 6.8% annually, spurred by millennials and younger drinkers.

Research highlights:

Companies spend an average of 50 hours per week on tax management and compliance.

82% of survey respondents sell on their own website.

28% of survey respondents have a dedicated tax department.

Data from the Distilled Spirits Council of the United States shows that spirits industry revenue grew to **\$35.8 billion** in 2021, driven by restaurant reopenings, consumer demand for premium products, and an increase in online sales for in-home consumption.

Meanwhile, the Brewers Association valued the U.S. beer market at **\$100 billion** in 2021, with small and independent brewers accounting for just under 27% of the total at \$26.8 billion.

Direct-to-consumer (DTC) shipping played a significant role in how beverage alcohol businesses fared during the pandemic. **Annual revenues from online sales of alcohol in the U.S. rose 28% to \$14.95 billion in 2021** and are projected to grow an additional \$4 billion by 2027.

Compliance challenges frequently go hand in hand with growth. As beverage alcohol businesses expand product lines and sell into new markets, they must adhere to numerous government regulations. For example, a small winery that ships just a single bottle to a customer in a new state must register to collect and remit tax there. Managing exemptions and filing returns for sales tax, excise tax, and markup tax, as well as shipment reports, can place an enormous burden on departments responsible for tax compliance. Noncompliance can take a bite out of a company's bottom line. For instance, businesses that fail to verify a purchaser's age or ensure a sales transaction complies with local shipping laws can face penalties.

Avalara worked with leading research firm Potentiate to find out how wineries, breweries, distilleries, and retailers are managing compliance. This report shares key insights from that study that can help companies learn how their peers manage tax compliance to better inform their own strategies. Potentiate surveyed 625 individuals between August 13 and September 23, 2022.

CONTENTS

Where beverage alcohol businesses are selling

GO

Beverage alcohol businesses face a myriad of compliance challenges

GO

How beverage alcohol businesses manage compliance

GO

Beverage alcohol businesses' top compliance goals and barriers

GO

Key technology considerations among beverage alcohol businesses

GO

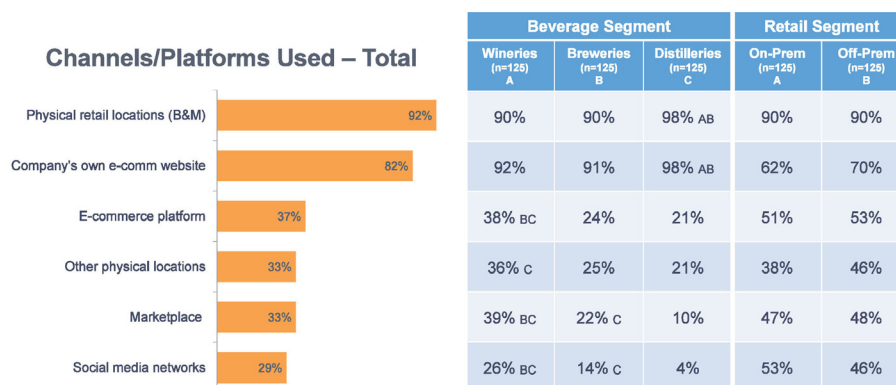


WHERE BEVERAGE ALCOHOL BUSINESSES ARE SELLING

Brick-and-mortar (B&M) retail locations continue to be the most prevalent sales channel used by beverage alcohol businesses, but online platforms increasingly play an important role in how they sell their products. **According to survey respondents, 82% of businesses sell on their own website, while 37% use other ecommerce platforms, and a third sell on [marketplaces](#).**

Sales Channels Used

- Among this audience, physical retail locations (B&M) are the most prevalent sales channel (92%) followed by a company's own e-commerce website (82%).
- Top sales channels are generally consistent across audience segments.



A1a. Please indicate which of the following sales channels/platforms your company is currently using (n=625)

Wineries can ship DTC in most states (only Mississippi and Utah ban all DTC shipping). Out-of-state [breweries](#) can ship to consumers in 10 states plus Washington, D.C., and out-of-state [distilleries](#) can ship into just six states and Washington, D.C.

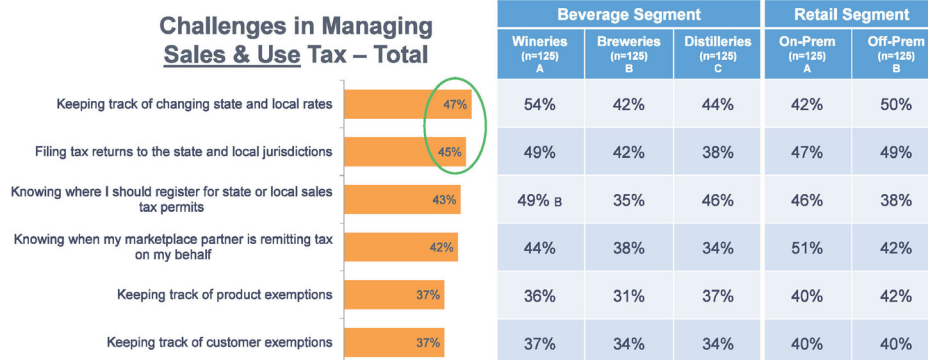
BEVERAGE ALCOHOL BUSINESSES FACE A MYRIAD OF COMPLIANCE CHALLENGES

Beverage alcohol businesses surveyed reported a myriad of sales and use tax compliance challenges. All sectors indicated they have a hard time keeping track of changing state and local rates, with wineries (54%) and retailers who sell off-premises (50%) most likely to voice this as their top pain point.

Businesses also said filing sales tax returns with the appropriate state and local jurisdictions was a major challenge, with nearly half of wineries and retailers who sell off-premises identifying this area as a top concern. **Distilleries (46%) and wineries (49%) were most likely to report obstacles around knowing where they should register for sales tax permits.** In addition, 37% of all businesses said they have difficulties keeping track of product exemptions and customer exemptions.

Top Challenges for Managing Sales & Use Tax

- Among this group of respondents, the top challenges related to sales & use tax are keeping track of changing state and local rates and filing tax returns to state and local jurisdictions.



B3. In which of these areas, if any, does your company experience the greatest challenges or have the greatest need for process improvements? (n=625)

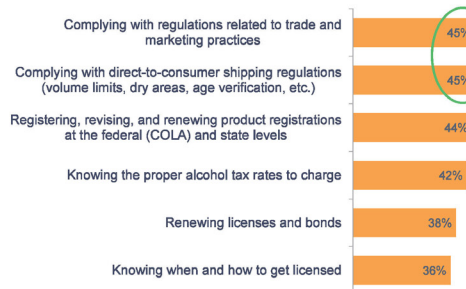
The survey also asked businesses to identify their top compliance challenges specific to the beverage alcohol industry. Complying with DTC shipping regulations and adhering to regulations related to trade and marketing practices tied for first place, with 45% of all respondents singling these out as compliance hurdles.

More than half (51%) of retailers that sell off-premises and 46% of wineries mentioned registering, revising, and renewing product registrations as a problematic area. Other concerns included knowing the proper alcohol rates to charge, renewing licenses and bonds, and knowing when and how to get licensed.

Top Challenges for Managing Bev/Alc Compliance

- Top challenges related to beverage alcohol compliance are complying with regulations related to trade and marketing practices and complying with direct-to-consumer shipping regulations.

Challenges in Managing Bev / Alc Compliance – Total



Beverage Segment			Retail Segment	
Wineries (n=125) A	Breweries (n=125) B	Distilleries (n=125) C	On-Prem (n=125) A	Off-Prem (n=125) B
51%	39%	44%	42%	51%
54% BC	35%	38%	52%	46%
46%	36%	42%	43%	51%
44%	33%	38%	48%	45%
43%	43%	37%	34%	30%
34%	35%	33%	45%	34%

B3. In which of these areas, if any, does your company experience the greatest challenges or have the greatest need for process improvements? (n=625)



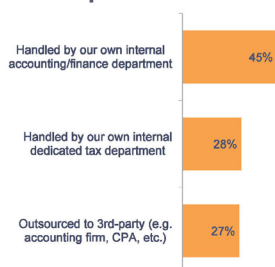
HOW BEVERAGE ALCOHOL BUSINESSES MANAGE COMPLIANCE

More beverage alcohol businesses handle tax compliance in-house than outsource to third-party firms, according to the report. **Compliance is handled by an internal accounting or finance department at 45% of businesses surveyed while 28% have a dedicated tax department.**

Departments Responsible for Managing Tax Compliance

- Among all companies surveyed, just under half (45%) manage their tax compliance using their own internal accounting/finance department.
- Just over one-quarter (28%) have a dedicated tax department to manage tax compliance.

Who is Responsible for Managing Tax Compliance? – Total



Beverage Segment			Retail Segment	
Wineries (n=125) A	Breweries (n=125) B	Distilleries (n=125) C	On-Prem (n=125) A	Off-Prem (n=125) B
43%	57% A	46%	40%	42%
31% B	16%	26% B	34%	32%
26%	27%	28%	26%	26%

D1. What department/team at your company is responsible for managing tax compliance? (n=625)



On an aggregate basis, **companies spend an average of 50 hours per week on tax management and compliance**. This includes time spent on beverage alcohol licensing, registering products and renewals, calculating beverage alcohol taxes, and preparing and filing beverage alcohol returns. Wineries spend more time and dedicate more people to these activities than breweries and distilleries, which is to be expected given that breweries and distilleries can ship DTC to far fewer states than wineries.

Hours Spent on Tax Management Activities – Weekly

- On an aggregate basis, companies are spending an average of 50 hours per week on tax management activities (equally split between the various activities).

Estimated Weekly Hours Spent on Each Tax Activity (Mean)	Total (n=459)	Beverage Segment			Retail Segment	
		Wineries (n=93) A	Breweries (n=91) B	Distilleries (n=90) C	On-Prem (n=93) A	Off-Prem (n=92) B
Beverage alcohol licensing	11.7	12.7 c	10.4 c	7.6	12.4	15.2
Product registration / renewals	12.4	15.5 BC	10.0	8.5	12.7	15.0
Calculation of beverage alcohol taxes	13.0	14.1 c	11.8 c	8.1	13.0	17.7 A
Prep/file of beverage alcohol returns	13.2	15.4 BC	10.7	10.2	13.3	16.3
Calculated total	50.3	57.7	42.9	34.4	51.4	64.2

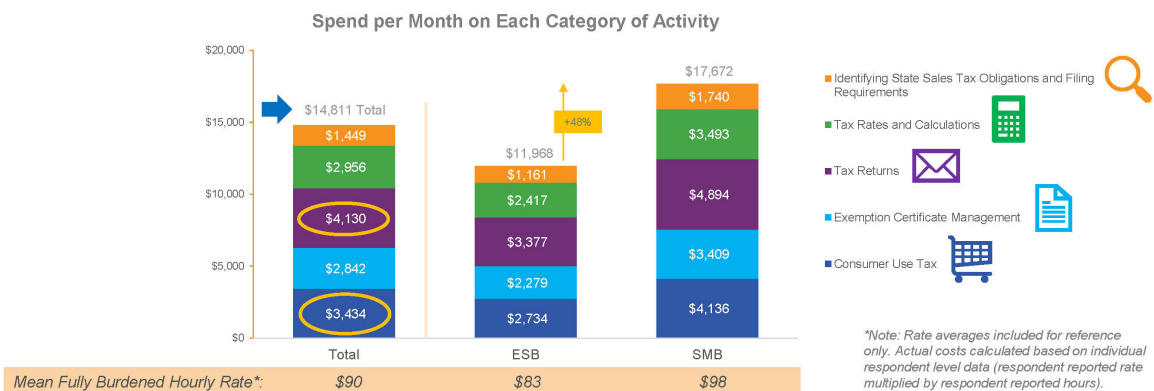
D3. On average, how many total hours does your company spend each week on the following tax management activities?



According to a separate study on the [cost of manual tax compliance](#), conducted by Potentiate in 2021, **small- and medium-sized businesses in a variety of industries spent \$14,811 per month managing tax compliance**. Retailers reported an even greater cost at \$24,032 per month. Companies that were audited spent an average of 35 hours and \$3,640 responding to and managing the audit process.

Spend Per Month – By Company Size Segments

- Among all businesses surveyed, the total calculated cost (hours spent multiplied by cost per hour) is \$14,811 per month.
 - ESB average = \$11,968
 - SMB average = \$17,672 (48% increase over ESB segment)
- Sales tax return activity represents the greatest proportion of total costs, followed by consumer use tax.

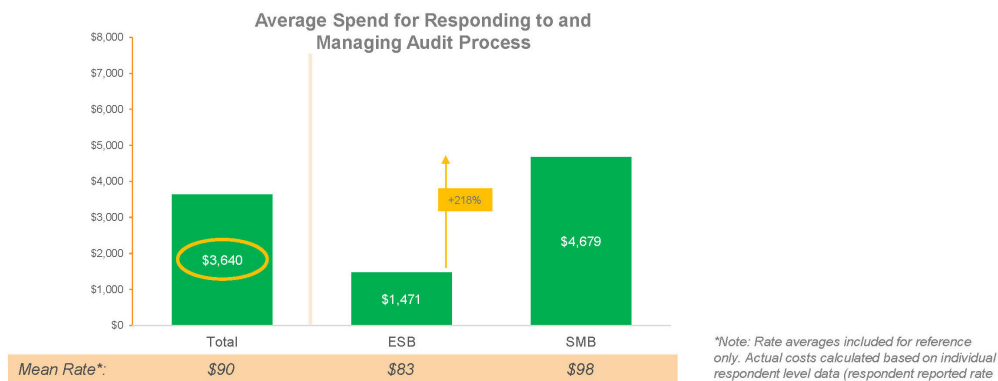


Q13a. Please estimate the average fully burdened hourly wage for an employee dedicated to tax management at your organization (n=500)
 Q14/15/16. Please estimate the total employee hours (full and part-time) that are dedicated to the following tax management activities each month. (n=500)

Confidential | © 2021 Potentiate USA 16

Sales Tax Audit Management – Total Spend

- Among all businesses that experienced a sales tax audit, the total calculated cost (hours spent multiplied by cost per hour) for managing the audit process was \$3,640.
 - ESB average = \$1,471
 - SMB average = \$4,679 (218% increase over ESB segment)



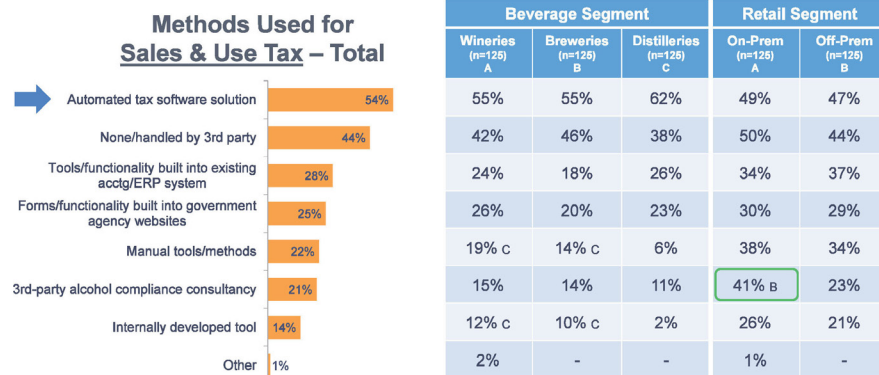
Q13a. Please estimate the average fully burdened hourly wage for an employee dedicated to tax management at your organization.
 Q19a. How many total employee hours (full and part-time) were dedicated to responding to and managing the audit? (n=71)

Confidential | © 2021 Potentiate USA 25

Just over half of businesses (54%) surveyed have automated sales and use tax, while 49% are using an automated solution to manage beverage alcohol-related taxes. Wineries were less likely than breweries and distilleries to automate tax and more likely to use manual methods and tools. Their reliance on manual processes could be a primary contributor to why wineries are spending more time on compliance. Conversely, distilleries were most likely to have automated compliance and spent the least time on tax management.

Methods Used for Sales & Use Tax

- Among all companies surveyed, just over half (54%) are using an automated solution for managing sales & use tax.
- Within the Retail segment, use of a 3rd party alcohol compliance consultancy is higher among on-premise retailers.

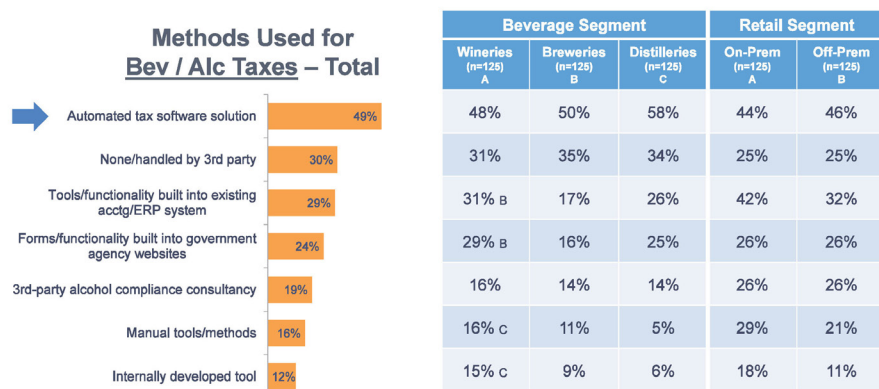


B1. For each of the property tax compliance activities listed below, please indicate which method/tools you use for conducting each. (n=625)

potentiate
Confidential | © 2022 Potentiate USA

Methods Used for Beverage Alcohol Related Taxes

- Among all companies surveyed, just under half (49%) are using an automated solution for managing beverage alcohol related taxes.



B1. For each of the property tax compliance activities listed below, please indicate which method/tools you use for conducting each. (n=625)

potentiate
Confidential | © 2022 Potentiate USA

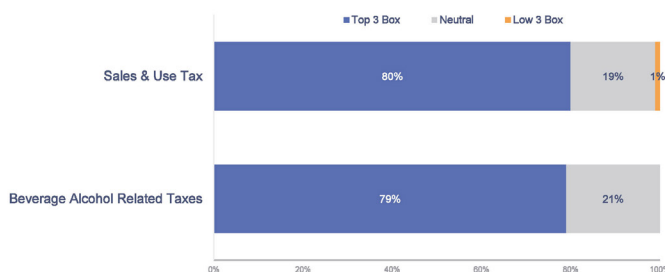
BEVERAGE ALCOHOL BUSINESSES' TOP COMPLIANCE GOALS AND BARRIERS

The majority of businesses surveyed are satisfied with the methods and solutions they use to handle sales and use tax (80%) and beverage alcohol taxes (79%). Yet, when businesses were asked to identify their company's primary beverage alcohol compliance goal, they most frequently reported a desire to increase efficiency and streamline systems.

Satisfaction with Methods/Solutions Used

- Satisfaction with the current methods/tools used for sales & use tax and beverage alcohol related taxes is generally high (Top-3 Box scores ranging from 79-80%).

Satisfaction with Methods/Solutions Used for Each - Total



B2. How satisfied are you with your company's current method/solution used for each of the following? (n=625)

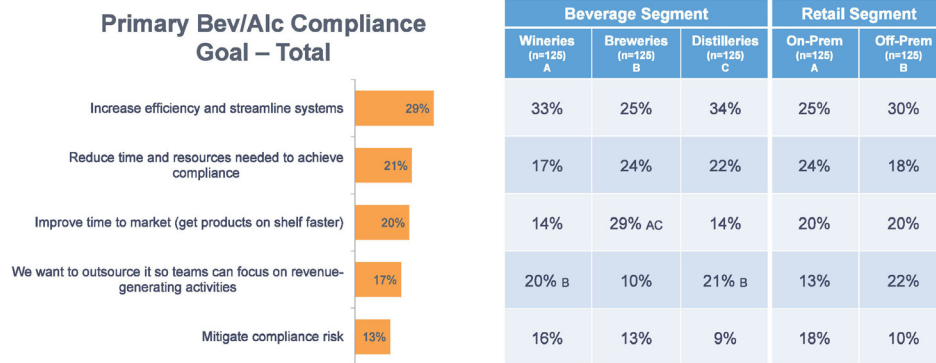
Top 3 Box Satisfaction with Methods/Solutions Used

Beverage Segment			Retail Segment	
Wineries (n=125) A	Breweries (n=125) B	Distilleries (n=125) C	On-Prem (n=125) A	Off-Prem (n=125) B
82%	76%	71%	83%	90%
78%	76%	82%	77%	82%



Primary Compliance Goal

- Among all companies surveyed, the top goal related to beverage alcohol compliance is to increase efficiency and streamline systems.



E1a. What would you say is your company's primary goal or orientation toward beverage alcohol tax compliance? (n=625)

potentiate
Confidential | © 2022 Potentiate USA

In addition, a portion of wineries (20%), distilleries (21%), and retailers that sell off-premises (22%) said their primary goal is to outsource compliance so teams can focus on revenue-generating activities.

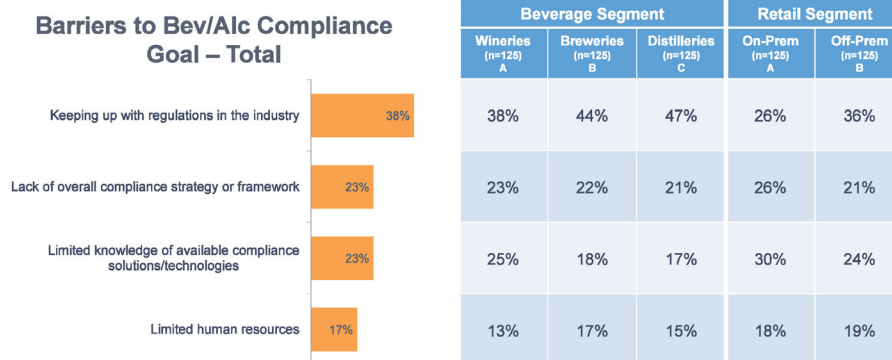


Overall, those surveyed reported a high understanding of beverage alcohol compliance.

Thirty-eight percent of businesses said keeping up with industry regulations is their most significant barrier to achieving compliance goals. Retailers who sell on-premises were most likely to report limited knowledge of available compliance solutions and technologies as a primary obstacle. Other factors standing in the way of beverage alcohol businesses include the lack of an overall compliance strategy or framework and limited human resources.

Barriers to Achieving Compliance Goals

- Among this audience, the top barrier to achieving compliance goals is keeping up with regulations in the industry.



E1b. And which of the following do you consider to be your company's primary barrier to achieving your compliance goals? (n=625)

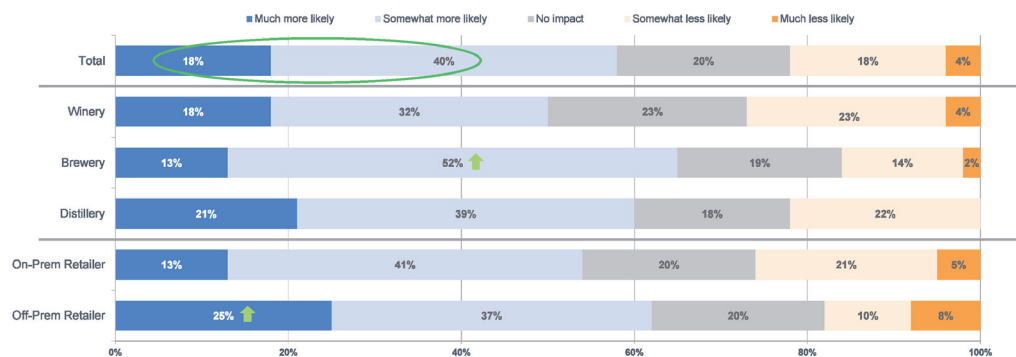


KEY TECHNOLOGY CONSIDERATIONS AMONG BEVERAGE ALCOHOL BUSINESSES

The pandemic, shift to remote work, and current economic climate are influencing how beverage alcohol businesses invest in technology. Among those surveyed, 58% said they are more likely to purchase new technology solutions in the next 12 months because of how they've been impacted.

Impact of COVID-19 on Technology Purchasing

- The majority of all companies surveyed (58%) claim that the current COVID-19 pandemic, remote work environment and current economic climate, have made them more likely to purchase new technology solutions in the next 12 months.



J3. In general, how has the current COVID-19 pandemic, remote work environment, and/or economic climate changed the likelihood of your company to purchase any type of new tax technology solution in the next 12 months? (n=625)

potentiate
Confidential | © 2022 Potentiate USA



Survey respondents considered which features of beverage alcohol compliance technology are important to their company. The following capabilities ranked high: handling returns, tax calculation, shipping verification, licensing, and product registrations.

Importance of Solution Features/Capabilities

- All the core product features rated high for importance. This was true among all audience segments.

Top 3 Box Importance Scores – Total



Beverage Segment			Retail Segment	
Wineries (n=125) A	Breweries (n=125) B	Distilleries (n=125) C	On-Prem (n=125) A	Off-Prem (n=125) B
86%	82%	85%	80%	86%
86%	79%	83%	80%	87%
84%	85%	82%	78%	83%
83%	82%	82%	75%	88% A
82%	86%	81%	74%	83%

H3. Below is the list of the key features/benefits from the description above. Please indicate how important each feature/benefit would be to your company. (n=625)
1 = Not at all Important and 9 = Extremely Important

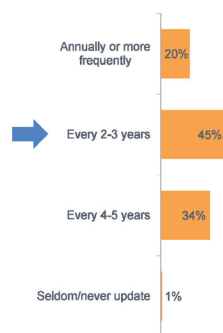
potentiate
Confidential | © 2022 Potentiate USA

Among all companies surveyed, 45% reported they evaluate their tax compliance methods and solutions for possible changes or upgrades every 2–3 years and 34% evaluate every 4–5 years. Only 20% claimed to evaluate at least annually.

Frequency of Evaluating Tax Compliance Solutions

- Among all companies surveyed, just under half (45%) claim to evaluate their tax compliance solutions every 2-3 years.

Frequency of Evaluations – Total



Beverage Segment			Retail Segment	
Wineries (n=125) A	Breweries (n=125) B	Distilleries (n=125) C	On-Prem (n=125) A	Off-Prem (n=125) B
16%	19%	19%	23%	23%
48%	36%	43%	56%	42%
34%	45%	38%	20%	33%
1%	-	-	1%	2%

D5. In general, how often does your company evaluate the methods/solutions used for managing tax compliance for possible changes/upgrades? (n=459)

potentiate
Confidential | © 2022 Potentiate USA

Businesses gave a variety of reasons for evaluating new technology. Wineries and distilleries reported they were most likely to do so to respond to increased monitoring by government agencies. Wineries also were likely to respond to growing complexity associated with different jurisdictions, rates, and rules. Among breweries, the top reasons were legislative and regulatory changes and sales expansion into more states.

These findings suggest businesses aren't evaluating compliance often enough. Most businesses are not keeping up with the pace of changes that impact compliance and the issues automation solves. As a result, businesses that put off reviewing their tax compliance methods and solutions every two years or longer may be ill-prepared to manage the dynamic nature of tax compliance.

The beverage alcohol industry faces enormous pressure to respond to rapidly changing regulations such as [requirements related to sustainable practices, labeling, and licensing and reporting for DTC shippers that use fulfillment houses](#). Businesses have a greater need than ever before to stay on top of compliance changes and automate in every area where they can.



How Avalara can help

Avalara for Beverage Alcohol is a complete compliance solution designed to meet the needs of wineries, breweries, distilleries, alcohol retailers, importers, alcohol marketplaces, and alcohol delivery businesses. Avalara for Beverage Alcohol automates multi-tax calculation, exemption certificate management, licensing, product registration, and returns preparation, reporting, and remittance.

Avalara for Beverage Alcohol integrates with a business's existing platforms for billing, subscription and club management, ecommerce, and enterprise resource planning. Avalara experts research rates, legislation, and regulatory changes, requiring less effort from finance or IT teams.

Beverage alcohol businesses are better able to keep up with regulatory requirements, create efficiency, and grow with confidence.

Ready to take the next step? Our tax automation specialists are here to help, 877-855-9956.

DISCLAIMER

Tax rates, rules, and regulations change frequently. Although we hope you'll find this information helpful, this report is for informational purposes only and does not provide legal or tax advice.