California: Board of Equalization issues new sales tax guidance for winemakers

David M. Kall | Monday, September 19, 2016

In 2015, the Golden State accounted for 60 percent of all wine shipments to the United States, according to the Wine Institute. At 229 million cases, with an estimated retail value of $31.9 billion, last year represented an all-time high for California's wine sales. When considering both domestic and international shipments, California sold 276 million cases, also a record.

Commercial vineyards have been around in California since the 1800s. One reason for such tremendous demand, brags *The Wine Cellar Insider*, is the uniqueness of California's wines, which, in turn, stems from the divergent array of the soil, topography, and climate throughout the state. In total, California has more than 525,000 acres planted for wine grapes. Of that acreage, 95,000 are devoted to Chardonnay, and 80,000 to Cabernet Sauvignon, the two most popular grapes.

Within all this land, about 110 different American Viticultural Areas (AVA) exist. *The Wine Cellar Insider* defines an AVA as a specific area for distinct wine-growing grapes, with its own soils, microclimate and terroir, leading to a specific style of wine that is only produced in that area.

The Wine Institute attributes the continued performance of California wines to their outstanding quality and value. In addition, sustainable growing practices and marketing efforts that have educated consumers create ongoing interest.

Tax Guidance

All those sales make California the largest wine producing state in the country, and the fourth largest wine producer in the world. Because wine is such an important part of California's economy, the Board of Equalization (BOE) has created a new, online Sales Tax Guide for Winemakers (Guide) to help California's winemakers learn what they need to know about sales and use taxes. In a September 2016 Special Notice, the BOE highlights some of the details contained in the Guide:

- Common tax issues
  - A winery operator is considered to be a manufacturer because he transforms one product (grape) into another (wine);
  - As a manufacturer, a winery operator may qualify for a partial

  - sales and use tax on the purchases of certain equipment, and leases;
  - A vineyard operator may qualify for partial exemptions on certain purchases of farm equipment.
- Application of tax rules to ingredients and products used in the winemaking process
  - Some sales may not be subject to tax, depending on whether they qualify as food products, raw materials, or manufacturing aids.
  - Sales of food products intended for human consumption are not subject to tax, so ingredients used in winemaking such as grapes, berries, and yeast that are considered food products are not subject to tax;
  - Sales of raw materials, or non-food products or ingredients to winemakers that are purchased for incorporating into the finished product, are not taxed;
  - Sales of manufacturing aids, or non-food products or ingredients that are purchased for use in manufacturing or producing the wine and not for the purpose of physically incorporating the item into the finished product are subject to taxation.

The Guide also assists winemakers by providing information on exemption certificates, record-keeping requirements, the application of sales tax to property used in manufacturing, and how sales tax applies to food and wine tasting events.

David M. Kall
Team member bio