



2020 BREWERY OWNERS GUIDE
TAX & ACCOUNTING

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barencheer

CPAs AND BUSINESS ADVISORS

BREWERY TAX ISSUES

BE EQUIPPED.

The Brewery Business in Minnesota

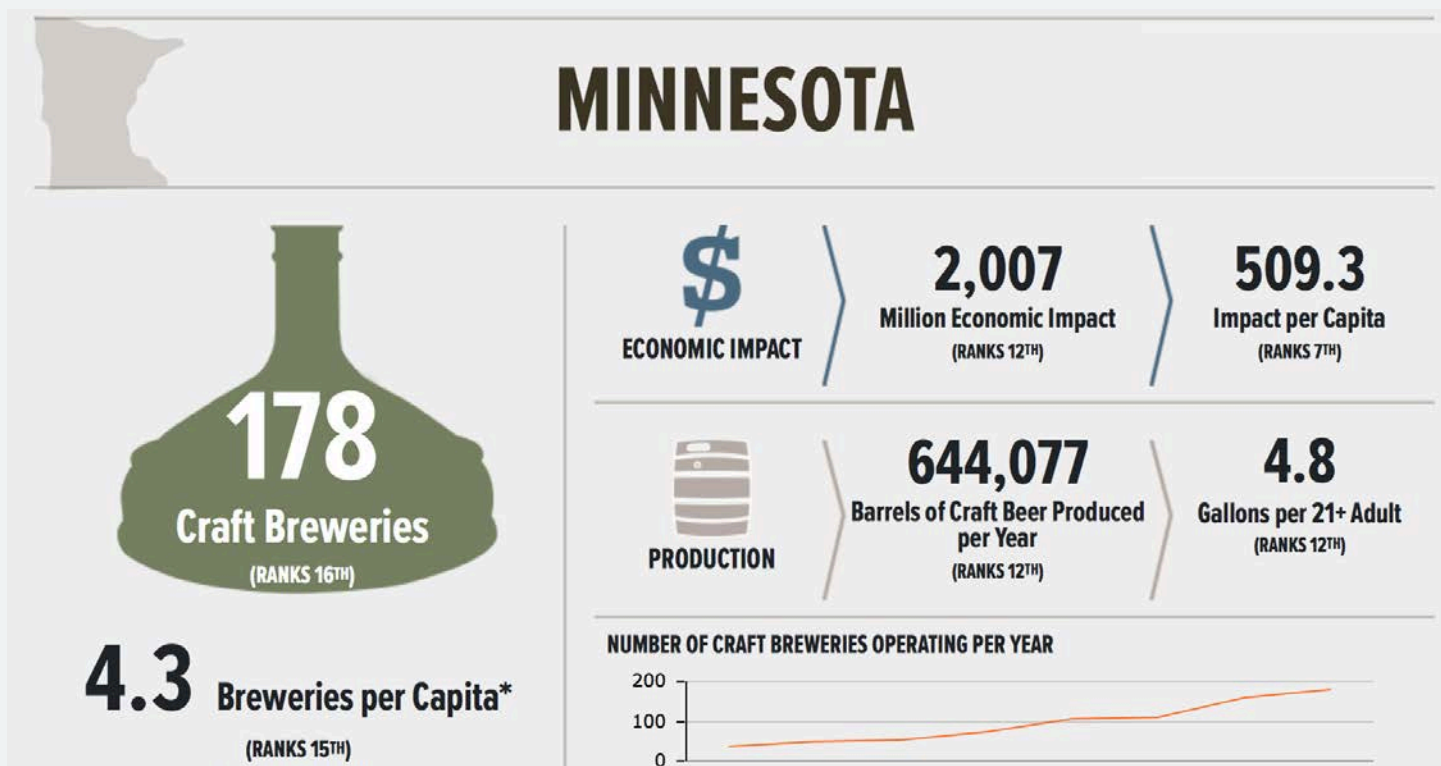
Breweries are not a fad. The main question I get asked when I mention that I specialize in brewery tax and accounting is “Is the bubble about to burst?” and my canned response is “we haven’t even formed the bubble”.

In this guide we will highlight a few topics and try to explain them in enough detail to arm brewery owners with the knowledge to head into tax season with a few more weapons in their tax arsenal. Each item mentioned below has several caveats that are too specific to explore here, so please be sure to consult with a CPA that is well-versed in brewery-specific tax guidelines.

Nick Swedberg, CPA

Partner & Brewery Specialist with Boyum Barendscheer

2018 Brewery Statistics according to the Brewers Association



Tax Cuts and Jobs Act

Unless you have been living under a rock somewhere, you have most likely heard about the Tax Cuts and Jobs Act (TCJA) of 2017. Whether what you heard was accurate or not is a whole different story.

The three key highlights for business owners are:

Qualified Business Income Deduction

Allows an individual taxpayer to deduct 20% of qualified business income. There are many limitations and phase-outs for this new deduction but, in general, breweries clear those hurdles with no problem! In simple terms, if you make \$100,000 taxable net income in the brewery, the IRS will only tax you on \$80,000!

Bonus Depreciation

Unlimited 100% first-year depreciation for new or used qualified assets acquired and placed in service after 9/27/17 and before 1/1/23. Basically, any furniture or equipment you buy can be completely expensed right away! It is good to discuss the pros and cons of this since that leaves nothing to deduct in future years and if you’re paying for the equipment for five years it can be nice to have the deduction parallel the cash flow.

R&D Credit

The R&D tax credit is not just for huge companies with an R&D department. When you read the full language, it sounds like it was written for breweries. The activity must be technical in nature, involve a process of experimentation, eliminate uncertainty and relate to a new/improved business component. Those four items scream new beer releases! Other activities around the brewery might also qualify. Make sure to bring this up with your tax professional and start working on the documentation for this credit. There is an IRS and MN level to this credit if the activities and purchases are done in MN. The main point to stress is to have good intentional documentation. This is not a small credit so it can be highly audited.

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Meals and Entertainment

In the past, meals and entertainment expenses were mostly 50% deductible when associated with the active conduct of business. The new law made tracking a little tougher with 3 buckets:

100% Meals – Company parties, meals offered to the public for seminars or promotion.

50% Meals – Business meals with clients, prospective clients, etc. where business IS discussed. Office meals and meals while traveling.

0% Meals and Entertainment – Meals where business is NOT discussed. All entertainment expenses (rounds of golf, sporting event tickets, etc.)

Capitalization Policies

Rarely does a new IRS rule make a brewery owner's life easier. However, the capitalization policies effective 1/1/2016 (and still effective in 2020) truly do that. In prior tax years, all items costing \$500 or more had to be capitalized and depreciated over the assets' useful life which was generally five to seven years. This resulted in the need to track every piece of brewery equipment and make sure to catalog all items that broke and were replaced during the year. This became far too cumbersome for any active brewery owner.

The IRS listened and will now allow you to immediately expense all items costing \$2,500 or less. There is a higher threshold for certain taxpayers but most independent breweries do not meet this criteria. We highly recommend adopting this as a written policy of your brewery. While the written policy is not required by the IRS, it won't hurt and provides a bit of formality to your adoption of the rule.

There is an annual election that needs to be made with any tax return where this policy was followed. Best practice is to file this election with every return whenever this rule may apply.



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Federal Excise Tax

Passing just two days before the TCJA was the Craft Beverage Modernization and Tax Reform Act. The main highlight for the breweries in Minnesota is that the federal excise tax was reduced to \$3.50 per barrel on the first 60,000 barrels for breweries producing less than 2 million barrels annually. Most breweries file and pay this quarterly until your yearly excise tax exceeds \$50,000, then you must file and pay monthly. This act was originally set to expire in 2019 but has been extended through December 31, 2020.

WHAT OUR CLIENTS SAY

“Nick Swedberg and the staff at Boyum Barencheer have been the best CPA firm we have worked with. Their expertise, professionalism and insight have been invaluable. I appreciate their balanced approach of mentorship in all things financial and their ability to listen to our goals as a company.”

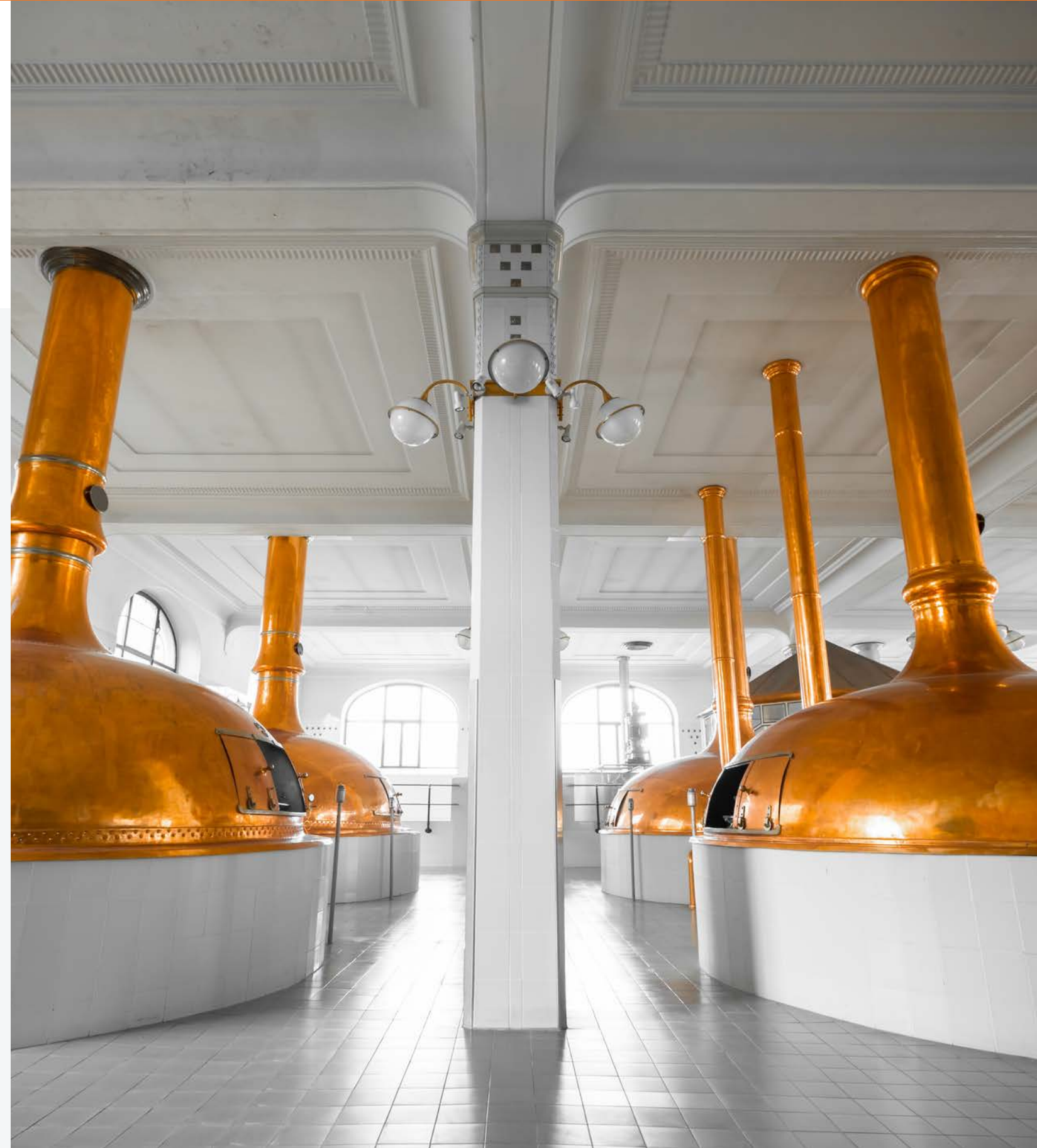
*Sarah Bonvallet, Co-Owner
Dangerous Man Brewing Company*

“I moved all of our accounting to Boyum Barencheer in 2018. Since then, our numbers have continuously improved and I’ve never felt safer, more secure, or excited in my professional life, for the future of my business”

*Pat McDonough, Owner
Blue Door Pub*

“Nick Swedberg is a great CPA! He helps keep you focused on what you need to do to be successful in this industry.”

*Jean McGarry, Owner
McGarry’s Pub*



CONTACT

BREWERY EXPERTISE.

Keeping up on the ever-changing tax environment from various government agencies can be daunting. Hopefully after reading the items in this guide, and with a great team around you, tax season can be a little less mysterious. If you would like additional information on our tax, audit and accounting services for breweries, contact Nick Swedberg, CPA at nswedberg@myboyum.com or 952.858.5585.

Nick Swedberg, CPA

Partner Specializing in Restaurants & Breweries

Since joining Boyum Barencheer in 2008, Nick has become a firm leader in client service. His tax planning and preparation work along with CFO services for clients led him to play a significant role in the firm's Business Advisory Services department.

Nick's "go-to" beer is generally a citrus forward IPA but he firmly believes that every beer has a time and place. He enjoys visiting local taprooms and has a hefty collection of growlers in his office. But Nick's favorite past-time is playing with his twin four-year old boys and new baby girl!



3050 Metro Drive, Suite 200
Minneapolis, MN 55425
952.854.4244

4801 Highway 61, Suite 201
White Bear Lake, MN 55110
651.777.1331

www.myboyum.com