



Updated July 21, 2021

Craft Alcoholic Beverage Industry: Overview and Regulation

American production of craft alcoholic beverages—whether beer, wine, liqueurs, distilled spirits, cider/perry, mead, or fermented drinks—has increased in recent years in response to rising demand. In 2020, there were an estimated 21,745 businesses producing craft beverages in the United States, with sales of roughly \$32 billion annually (Table 1). Sales from craft alcoholic beverage businesses account for roughly 8% of total annual U.S. alcohol sales.

In July 2021, President Biden announced an executive order on “promoting competition in the American economy” intended to address market concentration across a range of industries. The executive order includes actions intended to “protect the vibrancy of the American markets for beer, wine, and spirits, and to improve market access for smaller, independent, and new operations.” Congress has previously taken steps to support smaller alcoholic beverage producers. It passed the Taxpayer Certainty and Disaster Tax Relief Act of 2020 (P.L. 116-260), which made permanent temporary reductions in federal excise taxes on alcoholic beverages (Table 2). These industries also receive indirect support through agricultural research and farm programs in periodically updated omnibus farm bill legislation.

Definitions of Craft Beverages

There is no statutory or universally agreed upon definition of what constitutes *craft* production in the U.S. beverage industry. The concept of what is considered craft is often controversial. In general, the craft beverage industry is characterized by small-scale production—usually by independent or startup companies—and by localized production and distribution, including direct-to-consumer sales. Often the term *artisan* is used to indicate small-batch production or the use of non-traditional ingredients (e.g., alternate grains, herbs, and botanicals) in production. Some definitions also focus on the degree of innovation, on-site venues, and community involvement.

Distilled Spirits

The American Craft Spirits Association (ACSA) defines a *small-scale distilled spirit plant* as producing less than 750,000 proof gallons, or about 394,314 cases (12 750-milliliter bottles of 80-proof spirits/case) annually. ACSA reports there were 2,265 small-scale distillers in the United States in 2020 with sales totaling \$6.1 billion, or about 2% of total annual U.S. spirit sales (Table 1). In contrast, the American Distilling Institute defines a *craft distillery* as producing up to 100,000 proof gallons annually (about 52,575 cases) and corresponding to levels eligible for reduced federal excise taxes (Table 2). However, there is limited data and information on this segment of the industry. Available data indicate that there were 1,703 active permits for distilleries producing fewer than 100,000 proof gallons in 2019, along with another 45 active permits

for facilities with between 100,000 and 750,000 proof gallons. Separate data are also not available for craft liqueurs.

Table 1. U.S. Craft Alcoholic Beverage Market, 2020

Selected Craft Definition	Number Operations	Sales (\$billion)	%Total Sales
Spirits (<750,000 proof gal.)	2,265 ^a	6.1 ^a	2.3%
Beer (<6 million barrels)	8,764	22.2	23.6%
Wine (up to 49,999 cases)	10,716	3.7 ^b	5.5%
Total	21,745	32.0	~8%

Source: CRS from ACSA, Brewer’s Association, and Wines & Vines.

Notes: Data will vary under different “craft” producer definitions.

a. Data for distilleries with <100,000 proof gallons are not available.

b. Partial estimate, reflecting direct-to-consumer wine shipments only.

Beer

The Brewers Association defines *craft brewer* as producing annually fewer than 6 million 31-gallon beer barrels—about 83 million cases (24 12-ounce cans/case). In 2020, there were 8,764 craft breweries in the United States with retail sales of \$22 billion—about 24% of the U.S. beer market, according to the Brewers Association. By volume, craft beer accounted for about 12% of the total U.S. beer market, highlighting the relatively higher market value of craft beer.

Beer includes both malt- and sugar-based hard seltzers (27 C.F.R. Part 25). Additional federal labeling and advertising rules apply to malt-based hard seltzers (27 C.F.R. Part 7).

Wine

Small-scale wineries span a more diverse range of business sizes and product categories. Wines & Vines, an industry marketing company, defines a *small vintner* as one that produces 5,000-49,999 cases of wine annually. A *very small vintner* is defined as one that produces 2,378-4,999 cases, and a *limited production vintner* produces fewer than 1,000 cases. Wines & Vines reports there were 10,716 wineries in the United States producing up to 49,999 cases of wine in 2020. Total retail sales data for this market segment are not readily available. A possible proxy—direct-to-consumer shipments—were valued at \$3.7 billion, but this likely understates overall sales for smaller-sized wineries.

Wine industry statistics include not only grape and other fruit (or rice) wines but also other types of *agricultural wines*, such as cider and perry (made with apples and pears, respectively) and mead (considered a honey wine). Depending on how it is produced and its alcohol content, some cider, perry, and mead may be considered to be more similar to beer. Separate industry statistics for cider, perry, and mead production are not readily available, but many of these producers are likely smaller-sized operations. It is not clear, however, whether reported wine or beer sales include

ciders, perry, and mead. Separate data are also not available for other types of fermented drinks, such as kombucha.

Table 2. Selected Excise Tax Rates on Distilled Spirits, Beer, and Wine

Beverage	Production Tier to Which Lowest Excise Tax Rates per CY Apply	Excise Tax Rates per Unit That Apply for the Lowest Production Tier	Excise Tax Rates per Unit That Apply to Higher Production Tiers
Distilled Spirits	First 100,000 proof gallons	\$2.70	\$13.34-\$13.50
Beer	First 60,000 barrels	\$3.50	\$16.00-\$18.00
Still Wine			
≤16% alcohol by vol. (incl. mead)	First 30,000 wine gallons	\$0.07	\$0.17-\$1.07
>16% alcohol by vol.	First 30,000 wine gallons	\$0.57-\$2.15	\$0.67-\$3.15
Artificially Carbonated Wine	First 30,000 wine gallons	\$2.30	\$2.40-\$3.30
Sparkling Wine	First 30,000 wine gallons	\$2.40	\$2.50-\$3.40
Hard Cider	First 30,000 wine gallons	\$0.164	\$0.17-\$0.23

Source: CRS based on tax rates from TTB, “Tax and Fee Rates,” at https://www.ttb.gov/tax_audit/taxrates.shtml. CY = calendar year.

Notes: The Tax Cuts and Jobs Act (P.L. 115-97) temporarily reduced many alcohol excise tax rates for CY2018-CY2019. Those temporary changes were made permanent by P.L. 116-260. For beer, wine, and distilled spirits, some reduced tax rates and tax credits may be available if certain criteria related to production, processing, or foreign assignments apply. For beer, the reduced rate applies only to a domestic brewer who produces 2 million barrels or less per calendar year. The wine rates are effective rates after wine gallon credits are applied.

Finished Product Regulation

The Alcohol and Tobacco Tax and Trade Bureau (TTB) within the U.S. Department of Treasury is the primary federal regulatory agency responsible for licensing, advertising, labeling, tax, and formulation of alcoholic beverages at distilleries, breweries, and wineries. TTB establishes standards and guidance on how alcoholic beverages may be produced, labeled, and sold in the marketplace. TTB’s principal authority is through the Federal Alcohol Administration Act (FAA, 27 U.S.C. §§ 201-219a). As such, TTB regulations specify certain “standards of identity” for the several classes and types of distilled spirits (27 C.F.R. Parts 5.22, 5.27, and 5.35), beer and malted beverages (27 C.F.R. Part 25), and grape and other agricultural wines, including cider and mead (27 C.F.R. Part 24). TTB standards of identity establish a common name and set the content for a product, defining its composition and prescribing both mandatory and optional ingredients. If the appropriate content or labeling requirements are not met, the product is considered misbranded and in violation of U.S. laws. TTB also oversees designations and reviews petitions to establish new or expand existing American Viticultural Areas in the United States, identifying and delimiting particular grape-growing regions based on certain distinguishing features.

In some cases, the Food and Drug Administration (FDA) is responsible for the regulation and labeling of some low alcohol wine and beer that fall outside TTB’s jurisdiction. These generally include wines containing less than 7% alcohol by volume (ABV); wine coolers and ciders and wine made from non-grape fruits or from other agricultural products (such as saké); and some beers made from a malted barley substitute (such as corn, rice, or wheat) or made without hops and not considered to be malt beverages. These types of wine and beer products, however, may be subject to food labeling and packaging regulations under the Federal Food, Drug, and Cosmetic Act (21 U.S.C. §§ 341 et seq.), the Fair Labeling and Packaging Act (15

U.S.C. § 1454), and other FDA implementing regulations. FDA labeling requirements cover ingredient and nutrition facts, allergen declarations, standards of identity, and other product identification information. FDA is also responsible for food facility registration and safety inspections.

Excise Taxation

TTB collects and enforces taxes and fees on the production and sale of alcoholic beverages (26 U.S.C. Subtitle E). Excise taxes are levied at the manufacturer and importer level based on the per-unit production or importation of alcoholic beverages (i.e., spirits, wine, beer) for sale in the U.S. market. Although beer and wine may be produced for at-home consumption without paying taxes, distilled spirits may not be produced for sale without paying taxes and without prior approval to operate a still. Violations can result in criminal penalties (26 U.S.C. §§ 5601-5602).

The Tax Cuts and Jobs Act (P.L. 115-97) temporarily reduced tax rates on beer and distilled spirits and provided tax credits for wine, which effectively lowered the rates (CY2018-CY2019). P.L. 116-260 made those changes permanent (Table 2). The \$3.50 reduced tax rate for beer applies only to a domestic brewer who produces 2 million barrels or less per calendar year. For wine and spirits, reduced rates apply for specific base production levels after which higher graduated rates apply, therefore providing an advantage to producers that produce under the lower tier if they meet certain criteria. Lower tax rates also apply for certain meads and low alcohol wines.

Agricultural Ingredient Support

The alcoholic beverage industry also receives support through a range of agricultural research and farm programs that are periodically updated by omnibus farm bill legislation and administered by the U.S. Department of Agriculture (USDA). For example, products used in the production of wine, mead, cider, and beer—such as fruit, honey, and hops—are considered *specialty crops* and

receive support from USDA programs that support market development, research, and export and product promotion. Wine is also considered a specialty crop if it contains more than 50% of the specialty crop by weight, exclusive of added water. The production of grains used to make beer and distilled spirits—such as corn, wheat, rye, and barley—is also broadly supported through USDA farm programs.

Renée Johnson, Specialist in Agricultural Policy
Sean Lowry, Analyst in Public Finance

IF10973

Disclaimer

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS's institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.