Sovos ShipCompliant

How to Grow Your DtC Wine Business with Real-Time Software

www.sovos.com/shipcompliant

Introduction

Rapidly changing regulations and increased scrutiny on shippers are ratcheting up the pressure on wineries to get compliance and sales tax right. States including Texas, Illinois and Michigan are getting serious about enforcement. If wineries can't successfully report, they face increased oversight of their direct-to-consumer (DtC) wine shipments, and the threat of fines, penalties or loss of licensure.

One way wineries are shielding themselves as they expand their DtC sales is through the use of real-time compliance checks and real-time sales tax determination. With these software tools, wineries get immediate confirmation during checkout that an order complies with the destination state's rules and regulations. Such tools also provide an accurate sales tax rate for the destination, down to the street level, based on the products in the order. When the point of purchase is a digital shopping cart, it's more difficult for wineries to manually track compliance rules and sales tax rates. This is not an accounting challenge; it's a technology challenge—one that wineries can and should solve to make the most of the DtC opportunity.

Real-time compliance checks

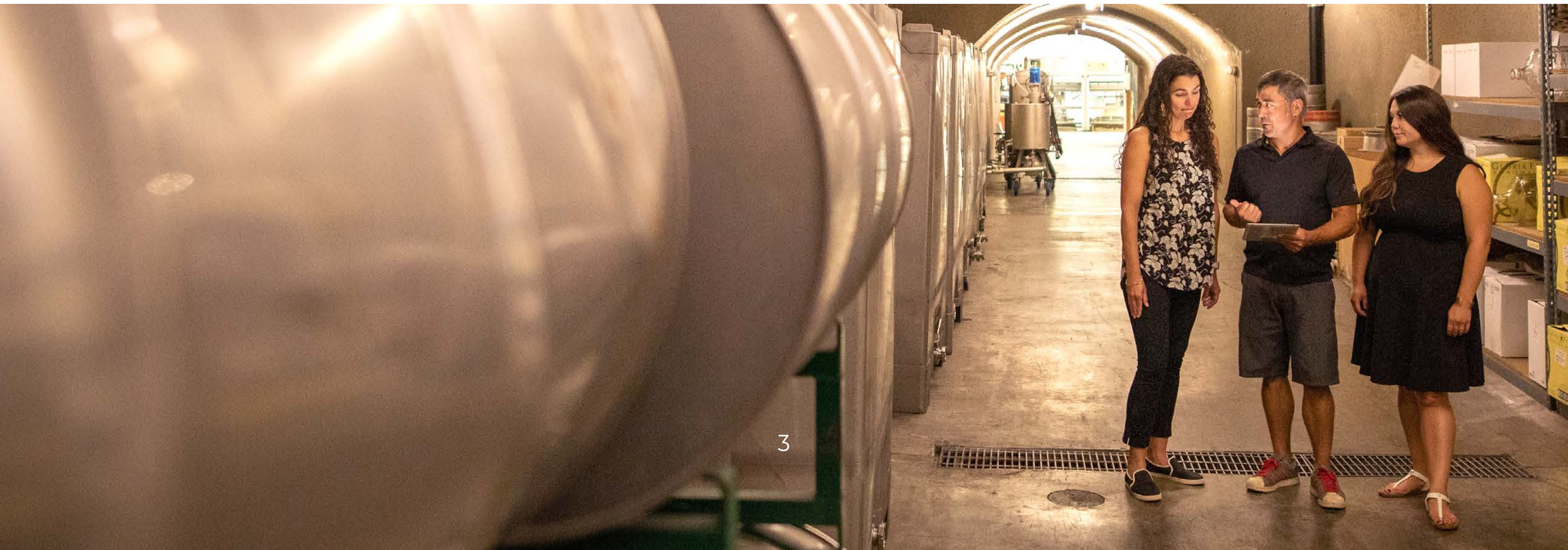
“Non-compliant” is a scary thing to hear. When wineries find themselves in this worst case scenario, it can mean costly penalties or even loss of licensure. In an environment of heightened enforcement and with each state maintaining its own set of rules regarding DtC wine shipping, getting it right has never been more difficult or more important.

For example, in Massachusetts wineries are limited to shipping no more than 12 cases per individual per calendar year, but in Oklahoma the limit is six cases and in Colorado there is no limit. Not only do these three states have different shipping volume restrictions they also all have different rules and reporting timelines for excise tax.

How to stay on top of all of that? DtC wine shippers can automate their real-time compliance checks to make sure they are following all laws and guidelines related to the ship-to (destination) state. Real-time compliance also streamlines and automates a once slow, manual process while improving accuracy and performance, thus eliminating potentially costly issues before they arise.

No winery wants to find itself in the unenviable position of having to let a customer know their recent purchase cannot be fulfilled, or worse, face disciplinary action from state regulators. By recognizing at the point-of-sale whether a DtC shipment of wine is compliant, a winery can avoid complications with both consumers and the government.

Compliance, as it turns out, is key to customer experience. Today’s DtC customer is not only more likely to opt for higher-value wines, they are also more likely to apply the same expectations for exceptional service they bring to any other luxury item they purchase online. They want premium packaging. They want two-day delivery. They want the prestige of finding something unavailable at their local big-box store. And they want to know that when they click “purchase,” the winery with which they’ve chosen to do business can handle the rest. All of these expectations make compliance and sales tax automation crucial to building and expanding a loyal customer base.



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Risking it without real-time compliance checks

Maintaining compliance is difficult and there are penalties to pay if you get it wrong. Without real-time checks on your licenses, the contents of each order, and the ability of each purchaser to receive the wine shipment, it's nearly impossible to ensure compliance.

Varying by state, there can be limits on the alcohol by volume (ABV) per shipment, the size of the order and packaging, the amount an individual can receive DtC in a time period and specific shipping label requirements.

States are increasing "sting" operations on DtC shippers. For example, a state agency will attempt to purchase wine with an underage or invalid license. If they are able to complete the purchase it's clear that particular DtC wine shipper is illegally selling wine and not following the state's rules and regulations established. States are also **instituting more audits** to ensure that DtC shippers are reporting correctly. Real-time checks ensure that if you are part of a sting or selected for an audit, your business is protected.

What to look for in real-time DtC compliance software

Real-time compliance checks prevent the awkward situation of having to go back to a customer after their purchase and say "Actually, we can't sell you that wine, sorry." When looking for real-time compliance software make sure it includes the following capabilities:

1

Address validation to ensure correct address, not only for shipping but also for tax calculation

2

Instantaneous checks against the destination state's rules and regulations to ensure the winery can legally ship to destination state

3

Tax calculation to make sure the winery is not over- or under-collecting sales tax at the time of purchase

Real-time sales tax determination

Wineries are not only responsible for complying with all state and federal regulations on DtC wine shipments, but they are also required to collect and remit the correct sales tax amount on those shipments. These obligations come as a precondition to having a DtC license or from economic nexus, the legal requirement to collect and pay tax on income in a state where they conduct business. The landmark **South Dakota v. Wayfair** supreme court case in 2017 ruled that nexus is no longer determined by physical presence but based on the sales revenue and transaction volume generated in a given state, regardless of physical presence. States like **California** are moving to get their share of the revenue by adopting the new standards established from the South Dakota v. Wayfair case for determining economic nexus.

Let's say a medium-sized winery in Oregon gets three orders for their limited release Pinot Noir. The customers are in Minnesota, Florida and New Mexico. If the winery attempts to collect sales tax for each order using the Florida rate of 6 percent they will end up overcharging the customer in New Mexico where the rate is 5.125 percent and undercharging the Minnesota customer where the rate is 6.875 percent. This miscalculation at the point of purchase will require the winery to make up the difference to the state from undercharging the Minnesota customer and to return the overages from the New Mexico customer, a situation that doesn't inspire confidence or foster a long-term relationship with that customer.

If wineries are not collecting the appropriate sales tax for each jurisdiction at the time of purchase, a tax gap is created. This puts wineries in the crosshairs for legal action from both states and consumers.

Real-time tax determination can ensure accurate address-specific sales tax rates based on the products of the order when shipping DtC. This eliminates the risk of charging the incorrect sales tax rate in a specific city or county with destination-based rates.

What is a tax gap? And why does it matter?

A tax gap occurs when a business over- or under-collects sales tax. If a winery over-collects tax from a consumer, the winery is prohibited from keeping the “extra” tax that was collected and is legally mandated to return it. If it does not comply, it may be sued by the consumer for deceptive practices. In addition, the state may also take action in the form of levying fines or pursuing criminal prosecution.

If a winery under-collects from a consumer, the winery is required to pay the balance out of their own pocket. If remittance of this payment is not timely, the winery will face additional penalties. An under-collection of sales tax hurts the winery’s bottom line and may cost a winery its ability to conduct business if it doesn’t satisfy the difference to the state.

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Inconsistent state and local sales tax rates

Each state sets its own sales tax rates, and many allow individual counties and townships to add their own rates, creating a tax landscape that is nearly impossible to navigate manually. A majority of states also require DtC wine shippers to collect the local tax in addition to the base state rate. In order to be compliant, wineries must be able to accurately assess both state and local rates across all relevant jurisdictions, which are constantly changing. This can be extremely difficult without real-time software. Last year alone, Sovos processed over 900 sales tax rate changes across the United States.

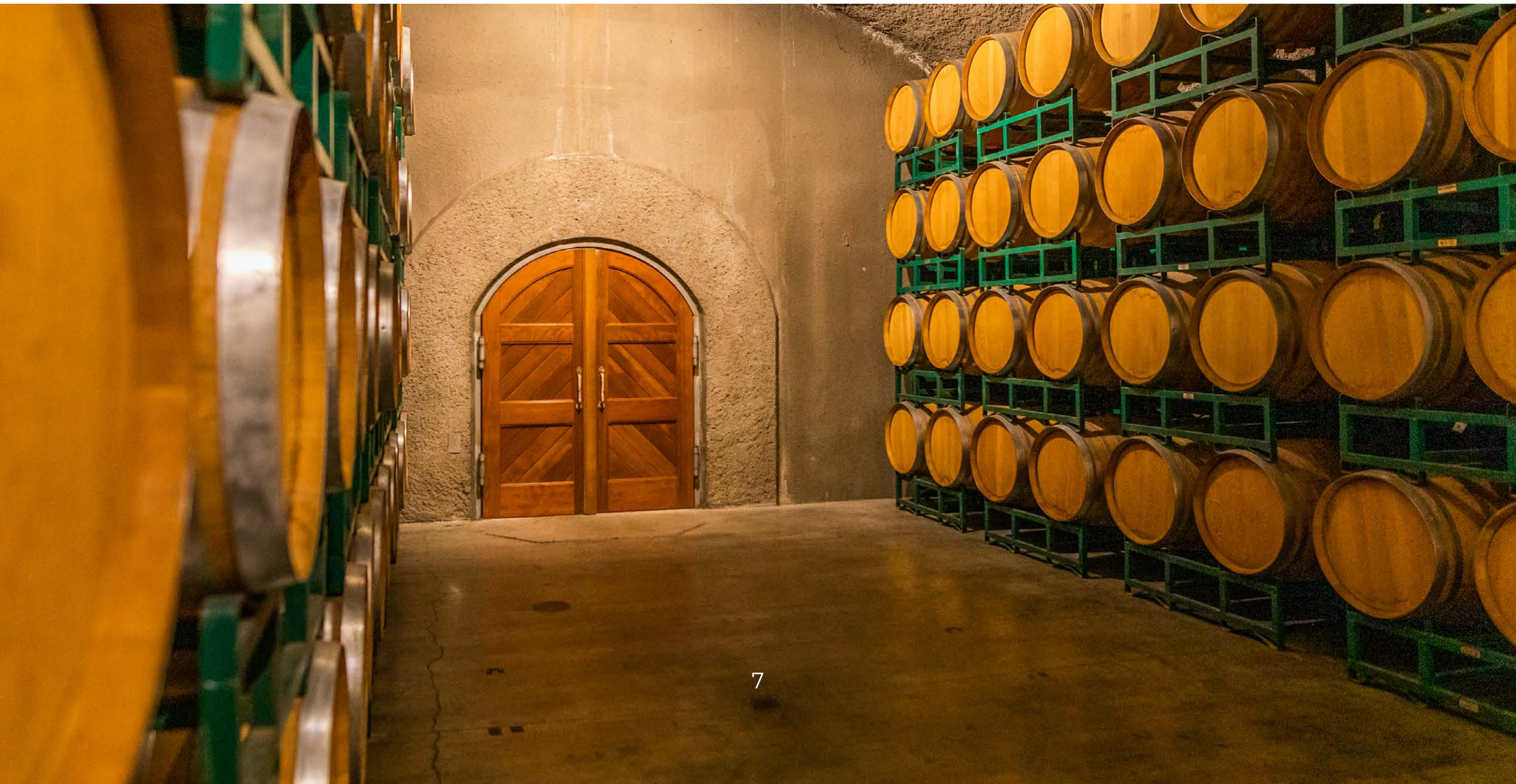
Instead of trying to manually track and manage differing sales tax rates from the more than 12,000 different tax jurisdictions in the U.S, automated compliance software for shipping validation and reporting can help save significant time and mitigate risk.

Real-time compliance and sales tax software is a necessity

Now is a perfect time for DtC shipping. E-commerce makes it easier than ever for wineries to reach more consumers, whether their labels are on the shelves of liquor stores across the country or not. Along with this opportunity, however, comes added tax and compliance complexities. In the constantly changing regulatory environment, having real-time software that enables sales tax collection, filing and remittance with the press of a button has become a necessity.

The DtC wine shipping market grew 7.4 percent in value and 4.7 percent in volume in 2019, with more room to expand. Take advantage of DtC shipping while protecting operations and ensuring a positive customer experience with real-time software to verify a purchase is compliant and the correct sales tax rate is being collected at the time of order. In DtC shipping, the risks are far too great to leave tax and compliance to chance, protect operations with real-time software.

Learn how Sovos ShipCompliant safeguards your business with **real-time compliance checks and sales tax determination.**



About Sovos ShipCompliant

Sovos ShipCompliant has been the leader in automated alcohol beverage compliance tools for more than 15 years, providing a full suite of cloud-based solutions to wineries, breweries, distilleries, importers, distributors and retailers to ensure they meet all federal and state regulations for direct-to-consumer and three-tier distribution.

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