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Navigating Joint Ventures in Colorado's Brewing Industry

Colorado's craft brewing industry is one of the most dynamic and collaborative in the country. From the Front Range to the Western Slope, brewers often team up to create limited-run beers, share production facilities, and expand their distribution networks. These collaborations frequently take the form joint ventures (JVs), which can offer significant advantages when carefully structured. But like any business arrangement, they also come with legal, financial, and regulatory responsibilities that shouldn't be overlooked. This article walks through the key considerations for breweries thinking about a joint venture.

Understanding Joint Ventures

A joint venture usually involves two or more businesses joining forces to pursue a shared goal. A joint venture is usually narrowly focused—often built around a single project, such as launching a new seasonal beer or opening a collaborative taproom. These ventures might not involve forming a new legal entity; they can be based entirely on a written contract outlining what each party brings to the table and how the venture will operate or they can be formed by verbal or actions accomplishing the same thing, but with more ambiguity.

What many brewers don't realize is that even informal collaborations can be considered legal partnerships under both federal and Colorado law. That means a handshake agreement could still carry tax obligations and liability exposure. To avoid confusion—and potential legal headaches—breweries should put together a detailed joint venture agreement. That document should address ownership of intellectual property, capital contributions, who gets to make decisions, each party's responsibilities, how profits are split, and what happens if the venture ends. Just as tall fences make for good neighbors, clear expectations make for better partnerships and fewer surprises.

Benefits of Joint Ventures

Joint ventures offer a range of benefits, especially for smaller or newer breweries trying to grow. Partnering with a more established operation can give you access to equipment, distribution networks, and industry knowledge that might otherwise be out of reach. Co-producing beers or sharing warehouse space can significantly cut down on overhead. Such ventures may also include cross-industry collaborations, such as whiskey aged beers or CBD infused beers.

Collaborations also help expand market reach. For example, two breweries in different parts of the state can join forces on a product that gets distributed in both regions, introducing each brand to a new audience.

Partnerships like these encourage innovation by bringing together diverse styles, techniques, and brand identities, often leading to unique products that resonate with a wider customer base.

Another advantage is risk-sharing. When multiple businesses invest in a new venture, they split the financial risks as well as the rewards. This can make bold moves—like launching a second location or entering into a new wholesale market—feel more manageable and less financially daunting.

Potential Drawbacks of Joint Ventures

Of course, not every partnership is smooth sailing. One of the most common challenges is decision-making. If partners have different management styles or priorities, it can lead to disagreements and inefficiencies. That's why it's important to clearly define roles and responsibilities from the outset.

Disputes over revenue sharing or capital contributions are also common. If the agreement doesn't set out a fair and transparent way to split profits or allocate responsibilities, one party might feel like they're doing more than they're being compensated for or that their resources are being taken advantage of. That kind of resentment can damage the relationship and threaten the venture's success.

Liability is another big concern. Unless the partnership is set up through a limited liability structure (like an LLC), each partner may be personally responsible for the other's actions. This can include contract breaches, debts, or even legal claims from third parties. Working with a legal advisor to set up the appropriate structure is essential.

Then there's the issue of compliance. Brewing is a highly regulated industry, and partnerships can make compliance more complicated. Licensing, health inspections, labeling laws, and local zoning rules all have to be followed to the letter, and mistakes by one partner can affect everyone involved.

Tax Implications

On the tax front, joint ventures are generally treated as partnerships by the IRS, even if there's no formal partnership agreement in place. This means the venture must file Form 1065 (U.S. Return of Partnership Income) and issue a Schedule K-1 to each partner showing their share of the income or losses.

A lot of brewers mistakenly believe that an informal collaboration won't trigger tax reporting. But if the venture earns income and the partners are sharing decision-making, the IRS could still treat it as a taxable partnership. Failing to file the right forms can lead to penalties, so it's best to consult a tax professional early.

Because partnerships are pass-through entities, each partner reports their share of the profits (or losses) on their personal tax return. This can create a cash flow issue if profits are allocated but not actually distributed—meaning a partner could owe tax on money they never received. It's smart to build distribution policies and cash reserves into the partnership agreement to avoid this problem.

In Colorado, the flat state income tax rate for individuals and businesses is currently 4.4%. Depending on where the brewery operates, there may also be local taxes or fees to consider. Planning ahead with a knowledgeable tax advisor is key to staying compliant and minimizing surprises.

Shared Brewing Spaces

Shared facilities—sometimes called co-op breweries or contract brewing setups—are gaining popularity across Colorado. These arrangements let multiple brewers work out of the same space, using shared equipment and often collaborating on staffing and operations. It’s a cost-effective way to launch a new brand or test a product line without massive capital investment.

But shared spaces also come with legal and logistical challenges. First and foremost is licensing. Each brewery must hold its own license, even if they’re brewing side-by-side. They also need to maintain separate records and comply with batch tracking and labeling rules. It’s essential to coordinate with the Colorado Department of Revenue and local authorities to ensure each licensee is operating legally.

Zoning is another piece of the puzzle. Not every city or county allows multiple licensees to operate from the same facility. It’s important to verify that your building’s zoning supports the proposed use before entering into a lease or partnership.

Operationally, things like scheduling, maintenance, and inventory management need to be clearly defined in a shared facility agreement. Without written rules, disputes can arise over who gets access to equipment, who cleans the tanks, and how raw materials are stored and/or owned. The best shared spaces operate more like well-oiled machines than casual co-working arrangements.

Liquor Licensing

In Colorado, any joint venture that involves the manufacture, distribution, or sale of alcoholic beverages must comply with the licensing requirements enforced by the Colorado Department of Revenue’s Liquor Enforcement Division. Each entity involved in a brewing partnership must hold its own appropriate license—whether it’s a manufacturer’s license, brewpub license, or wholesaler’s license—unless a new legal entity is formed specifically for the joint venture.

Importantly, the Division closely scrutinizes arrangements where brewing equipment or premises are shared, particularly to ensure that there is no unlawful “tier blending” between manufacturers, wholesalers, and retailers. If a joint venture implies shared control over brewing operations or sales without proper licensing, it could trigger enforcement actions or license denials. As such, brewers should proactively consult with a liquor licensing attorney before entering any partnership to confirm that the structure and operations comply with both state and local regulatory frameworks.

Best Practices for Successful Partnerships

To increase the chances of a successful partnership, breweries should invest time in drafting a thorough agreement. That document should cover contributions, decision-making, profit sharing, ownership of intellectual property, exit strategies, and what to do if things go sideways. Mediation or arbitration clauses can help resolve disputes without going to court. Similarly, buy-sell provisions can provide effective means to resolve the inability to work together on an ongoing basis.

Before signing anything, conduct due diligence. This means reviewing your potential partner’s financials, understanding their business practices, and checking references if needed. You want to know exactly who you’re getting into business with.

Communication is also critical. Regular check-ins, planning sessions, and updates help keep everyone aligned and avoid missteps. Transparency builds trust, and trust is the foundation of any successful collaboration.

Finally, make sure to bring in advisors who understand both the brewing industry and Colorado's legal and regulatory framework. A good lawyer and a savvy CPA can save you time, money, and frustration in the long run.

Checklist for Breweries Considering a Joint Partnership

- Define the project scope and shared goals clearly
- Identify and agree on each party's contributions (financial, equipment, labor, intellectual property, etc.)
- Draft and sign a joint venture or partnership agreement or formally create a limited liability company and sign an operating agreement
- Address decision-making authority and dispute resolution methods
- Establish profit-sharing and loss allocation terms
- Decide on an appropriate legal structure (e.g., LLC, LLP, or contractual JV)
- Consult with legal counsel to ensure compliance with federal, state, and local laws
- Verify zoning and licensing requirements for shared spaces or operations
- Coordinate tax planning and understand filing obligations (e.g., IRS Form 1065, Schedule K-1s)
- Plan for cash distributions and reserves to avoid tax liability on undistributed income
- Set clear rules for scheduling, operations, and maintenance in shared spaces
- Schedule regular partnership meetings to ensure alignment, transparency, and accountability

Conclusion

In today's competitive brewing landscape, collaboration can be a powerful tool—but only when approached with intention and clarity. Joint partnerships allow brewers to pool resources, share risks, and create unique offerings that stand out in a crowded market. Still, these ventures aren't without pitfalls. From tax obligations to legal liability and operational disagreements, the stakes are real. Taking the time to structure the relationship thoughtfully—through clear agreements, good communication, and sound professional advice—can help avoid misunderstandings and protect what you've built. For breweries willing to plan carefully and partner wisely, joint ventures can open the door to long-term growth, innovation, and deeper community connections.

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