

Department of Legislative Services
Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
Third Reader

House Bill 1316

(Delegate Arentz)

Economic Matters

Education, Health, and Environmental Affairs

Alcoholic Beverages - Class 9 Limited Distillery Licenses

This bill authorizes the Comptroller to issue a Class 9 limited distillery license to a Class B beer, wine, and liquor (BWL) license holder or a Class D BWL license holder in the State, if the Class B BWL or Class D BWL license authorizes sales for both on- and off-premises consumption. Class 9 limited distillery licenses are authorized in Annapolis, Baltimore City, and the counties, instead of only in Worcester County.

The bill takes effect July 1, 2016.

Fiscal Summary

State Effect: General fund revenues increase by \$500 annually for each Class 9 limited distillery license issued in the State beginning in FY 2017. Alcoholic beverages and sales tax revenues may also increase by a minimal amount. The Comptroller's Office incurs a one-time expenditure increase of \$19,100 in FY 2017 to change forms and make information technology programming changes.

Local Effect: The bill does not materially affect local government finances or operations.

Small Business Effect: Minimal overall, but potential meaningful positive impact for any small business that applies for and obtains a Class 9 limited distillery license.

Analysis

Bill Summary: A holder of a Class 9 limited distillery license and a Class B BWL license may sell products manufactured under the Class 9 limited distillery license at retail in a manner consistent with the Class B license. However, a holder of a Class B BWL license

may not sell more than 15,500 gallons of the product manufactured under the Class 9 limited distillery license on the Class B BWL license premises in a license year. A holder of a Class 9 limited distillery license and a Class B BWL license that distills more than 100,000 gallons in a calendar year must divest itself of any Class B retail license and obtain a Class 1 distillery license.

Current Law:

Limited Distillery License

Chapter 449 of 2015 established a Class 9 limited distillery license in the State. The license must be issued by the Comptroller and only to the holder of a Class D BWL license in Worcester County for use on the licensed premises. A Class 9 limited distillery license authorizes the user to distill, rectify, bottle, or sell no more than 100,000 gallons of brandy, rum, whiskey, alcohol, and neutral spirits under specified conditions. The annual license fee is \$500.

A holder of a Class 9 limited distillery license may establish and operate a plant in Maryland for distilling, rectifying, and bottling brandy, rum, whiskey, alcohol, and neutral spirits if the holder meets specified conditions. A license holder may (1) acquire bulk alcoholic beverages from the holder of a distillery or rectifying license or from the holder of a nonresident dealer's permit; (2) after acquiring an individual storage permit, store products manufactured on the licensed premises; (3) sell and deliver those products to specified entities; (4) sell the products at retail in a manner consistent with the underlying Class D license; (5) conduct guided tours of the licensed premises, as specified; and (6) serve not more than three one-half ounce samples of products to persons who have attained the legal drinking age, participated in a guided tour of the premises, and are present in the portion of the premises used for the limited distillery operation.

A license holder may not (1) apply for or possess a wholesaler's license; (2) sell bottles of the products on that part of the premises used for the distillery operation; (3) distill, rectify, bottle, or sell more than 100,000 gallons of product in a calendar year; (4) sell at retail on the premises of the Class D license, for on- or off-sale consumption, more than 15,500 gallons of the products manufactured under the Class 9 limited distillery license each calendar year; and (5) own, operate, or be affiliated in any manner with another manufacturer.

To distill more than 100,000 gallons per calendar year, a holder of a Class 9 limited distillery license must divest itself of any Class D retail license and obtain a Class 1 manufacturer's (distillery) license.

Class 1 Manufacturer's License (Distillery License)

A Class 1 distillery license is issued by the Comptroller's Office and authorizes the establishment and operation of a plant for distilling brandy, rum, whiskey, alcohol, and neutral spirits. It also authorizes the sale and delivery of those alcoholic beverages, with specified restrictions. The annual license fee is \$2,000.

Background: Currently, no Class 9 limited distillery licenses have been issued in the State. There are currently 14 Class 1 distillery licenses issued in the State.

State Fiscal Effect: General fund revenues from license fees increase by \$500 annually for each Class 9 limited distillery license issued by the Comptroller. Alcoholic beverages and sales tax revenues may increase minimally from additional liquor being produced and sold by limited distilleries. Any increase in tax revenues cannot be reliably estimated and depends on the amount of product distilled; however, it is not anticipated to be significant. The sales tax on alcoholic beverages is 9%, and the alcoholic beverages tax on distilled spirits is \$1.50 per gallon. If the distilled spirits contain a percentage of alcohol greater than 100 proof, an additional tax of 1.5 cents per gallon is added for each 1 proof over 100 proof. Revenues from these taxes and licensing fees are deposited into the general fund.

The Comptroller's Office incurs a one-time expenditure increase of \$19,100 in fiscal 2017 to change forms and make information technology programming changes. The Comptroller's Office advises that it would need a revenue specialist to process new Class 9 limited distillery licenses. However, since no Class 9 limited distillery licenses have been issued in Worcester County, and there are only 14 Class 1 distillery licenses in the State, the Department of Legislative Services does not anticipate a significant increase in new licenses being issued. Thus, the Comptroller's Office can likely issue new licenses with existing resources.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Department of Legislative Services

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md/hlb

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