

Department of Legislative Services
Maryland General Assembly
2013 Session

FISCAL AND POLICY NOTE

House Bill 704
Economic Matters

(Delegate Haddaway-Riccio)

Alcoholic Beverages - Micro-Breweries - Annual Production Limit

This bill increases the annual production limit for Class 7 micro-breweries from 22,500 barrels to 60,000 barrels of malt beverages.

The bill takes effect July 1, 2013.

Fiscal Summary

State Effect: General fund revenue from alcoholic beverages taxes and sales taxes may increase beginning in FY 2014, to the extent that micro-breweries increase production in excess of the 22,500 barrels of malt beverages allowed under current law. Licensing revenue may be affected to the extent that Class 5 breweries obtain Class 7 micro-brewery licenses. Expenditures are not affected.

Local Effect: None.

Small Business Effect: Potential meaningful. Micro-breweries may benefit from additional avenues by which to produce and sell more beer.

Analysis

Current Law: Class 7 micro-brewery (on- and off-sale) licenses are issued by the Comptroller's Office for use in 20 jurisdictions – Allegany, Anne Arundel, Baltimore, Calvert, Carroll, Charles, Dorchester, Frederick, Garrett, Harford, Howard, Kent, Montgomery, Prince George's, Talbot, Washington, Wicomico, and Worcester counties; Baltimore City; and the City of Annapolis. In general, the license is issued only to a holder of a Class B beer, wine, and liquor (on-sale) license that is issued for use on the

premises of a restaurant with exceptions for the Town of Berlin in Worcester County and Kent, Montgomery, Prince George's, and Washington counties.

License holders may sell up to 4,000 barrels of beer to customers for consumption on the premises and may collectively brew, bottle, or contract for up to 22,500 barrels of malt beverages each calendar year.

Background: There are currently 19 Class 7 micro-brewery licenses issued in the State. There are 2,754 Class B beer, wine, and liquor license holders and 658 Class D beer, wine, and liquor license holders in the State.

According to the Comptroller's *Alcohol & Tobacco Tax Report* for fiscal 2012, Maryland brewers sold 3.9 million gallons of beer in fiscal 2012. Of this amount, 32.4% was sold to wholesalers, 8.6% was sold at the brewery, and 58.2% was sold out of state.

The State sales tax rate on alcoholic beverages is 9% and the alcoholic beverages tax on beer is \$0.09 per gallon.

State Fiscal Effect: General fund revenue from alcoholic beverages taxes and sales taxes may increase beginning in fiscal 2014, to the extent that micro-breweries increase production of malt beverages in excess of the 22,500 barrels allowed under current law. The amount of the revenue increase depends on the amount of malt beverages that are brewed and sold in excess of what is currently allowed, which cannot be reliably estimated at this time.

Each barrel of beer that is brewed and sold is subject to both the alcoholic beverages tax and the sales tax. As noted, the alcoholic beverages tax on beer is \$0.09 per gallon. There are 31 gallons in each barrel of beer, so for each barrel that is brewed in excess of what is currently allowed, alcoholic beverages tax revenue will increase by \$2.79. As a point of reference, if each of the 19 current Class 7 micro-brewery license holders brews an additional 500 barrels of beer, alcoholic beverages tax revenue will increase by \$26,505.

State sales tax revenues will also increase for each additional barrel of malt beverages that is brewed. The amount of the increase cannot be reliably estimated and depends on the sale price of each barrel of malt beverages that is brewed.

The bill authorizes a 167% increase in the amount of malt beverages that micro-breweries can brew or have brewed under contract. It is not known how many micro-breweries will increase their production of malt beverage, but even with the production limit increase provided by the bill, it is assumed that micro-breweries will not produce more beer than they can sell.

The bill may allow Class 5 (brewery) manufacturer's licensees to obtain a micro-brewery license, provided they currently brew less than 60,000 barrels of beer. The current license fee is \$1,500 for a Class 5 brewery license and \$500 for a Class 7 micro-brewery license.

Additional Information

Prior Introductions: None.

Cross File: SB 755 (Senators Colburn and Mathias) - Education, Health, and Environmental Affairs.

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

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