

# HOUSE BILL REPORT

## SSB 5537

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**As Passed House:**  
April 11, 2017

**Title:** An act relating to authorizing licensed spirits and wine distributors to sell spirits and wine products to their employees in certain circumstances.

**Brief Description:** Authorizing licensed spirits and wine distributors to sell spirits and wine products to their employees in certain circumstances.

**Sponsors:** Senate Committee on Commerce, Labor & Sports (originally sponsored by Senators King and Keiser).

**Brief History:**

**Committee Activity:**

Commerce & Gaming: 3/14/17, 3/21/17 [DP].

**Floor Activity:**

Passed House: 4/11/17, 76-21.

**Brief Summary of Substitute Bill**

- Authorizes licensed spirits distributors to sell spirits that cannot reasonably be sold in the normal course of business, directly to full-time employees of the distributor, subject to restrictions.
- Authorizes licensed wine distributors to sell wine that cannot reasonably be sold in the normal course of business, directly to full-time employees of the distributor, subject to restrictions.

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### HOUSE COMMITTEE ON COMMERCE & GAMING

**Majority Report:** Do pass. Signed by 8 members: Representatives Sawyer, Chair; Kloba, Vice Chair; Vick, Assistant Ranking Minority Member; Blake, Farrell, Kirby, Ryu and Young.

**Minority Report:** Do not pass. Signed by 3 members: Representatives Condotta, Ranking Minority Member; Barkis and Jenkin.

**Staff:** Peter Clodfelter (786-7127).

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

## **Background:**

### Licensed Spirits Distributors.

Spirits distributors are licensed by the Liquor & Cannabis Board (LCB). Licensed spirits distributors may sell spirits purchased from distillers, manufacturers, other spirits distributors, importers, and others. Sales may be made to spirits retailers that sell spirits for on- or off-premises consumption. Spirits may also be exported. Spirits distributors must pay to the LCB a spirits distributor license issuance fee, which is deposited into the Liquor Revolving Fund. For the first 27 months of licensure, the fee is 10 percent of the total revenue from all spirits sales made during the month for which the fee is due. In the twenty-eighth month of licensure and every month after that, the fee is 5 percent of the total revenue from all spirits sales made during the month for which the fee is due.

### Licensed Wine Distributors.

Wine distributors are licensed by the LCB. Licensed wine distributors may sell wine purchased from licensed Washington wineries, wine certificate of approval holders, licensed wine importers, or suppliers of foreign wine located outside of the United States, to licensed wine retailers and other wine distributors. Wine may also be exported. The license fee is \$660 annually for each distributing unit.

## **Summary of Bill:**

### Licensed Spirits Distributors.

Licensed spirits distributors may sell spirits directly to full-time employees of the spirits distributor if the spirits cannot reasonably be sold in the normal course of business, such as because of damage to the label on individual bottles, and subject to the following requirements:

- The spirits may not be sold for less than the licensed spirits distributor's cost of acquisition.
- The sale is subject to the spirits distributor license issuance fee and taxes that apply to retail sales of spirits to consumers.
- The spirits may be sold only to a person who has been employed by the spirits distributor for 90 or more days and who is 21 years of age or older.
- The person purchasing the spirits must use the spirits for personal use and may not sell any of the purchased spirits by the drink or otherwise to a third person.

### Licensed Wine Distributors.

Licensed wine distributors may sell wine directly to full-time employees of the wine distributor if the wine cannot reasonably be sold in the normal course of business, such as because of damage to the label on individual bottles, and subject to the following requirements:

- The wine may not be sold for less than wine distributor's cost of acquisition.
- The sale is subject to the same taxes that apply if the sale were made to a consumer.
- The wine may be sold only to a person who has been employed by the wine distributor for 90 or more days and who is 21 years of age or older.
- The person purchasing the wine must use the wine for personal use and may not sell any of the purchased wine by the glass or otherwise to a third person.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.

**Staff Summary of Public Testimony:**

(In support) This will help distributors liquidate products that normally could not be sold to retailers like restaurants, bars, and other customers because of damage to the labels on bottles. This will allow distributors to recapture some of the money that distributors would otherwise lose when product is damaged. If a bottle breaks and spills while in the possession of a distributor, surrounding bottles are often also damaged, and cannot be relabeled or sold by the distributor. This proposal allows sales of the damaged product to employees of spirits and wine distributors, not to the general public. In other states, like Oregon, distributors can sell damaged product directly to consumers, but this proposal is more limited. This proposal is consistent with the three-tier liquor system. Stakeholders are confident no product will be intentionally damaged. The bill was amended in the Senate to specify that all of the taxes that normally apply to retail sales of spirits and wine apply to any sales of damaged spirits or wine by a distributor to the distributor's employee; otherwise, this bill is the same as the companion, House Bill 1599.

(Opposed) None.

**Persons Testifying:** Ron Main, Association of Washington Spirits and Wine Distributors; and Joe Daniels, Young's Market Company.

**Persons Signed In To Testify But Not Testifying:** None.