HOUSE BILL No. 2718

By Committee on Taxation

3-3

AN ACT concerning alcoholic beverages; dealing with beer and cereal malt beverages; amending K.S.A. 41-103 and K.S.A. 2015 Supp. 41-102, 41-304, 41-308, 41-310 and 79-4108 and repealing the existing sections.

4 5 6

28

29

30

31

32

33

34

35

36

1 2

3

Be it enacted by the Legislature of the State of Kansas:

7 New Section 1. Any licensed manufacturer of a cereal malt beverage 8 product shall provide the secretary of revenue no less than 30 days notice 9 prior to ceasing the manufacture of any brand registered in Kansas. Upon 10 receiving such notice, the secretary shall calculate the projected tax 11 revenue reduction, based on the brand's prior sales performance. Whenever 12 the secretary determines that the actual or projected state tax revenue from 13 the cereal malt beverage gallonage tax has or will decline by not less than 25%, when compared to the previous year's calendar month, the secretary 14 shall certify such fact to the governor, and the governor shall declare that 15 16 cereal malt beverage with 3.2% or less of alcohol content is no longer available in this state in sufficient quantity to sustain economically viable 17 sales of such product by persons licensed to sell cereal malt beverages in 18 19 the original and unopened containers and not for consumption on the 20 licensed premises. Upon such declaration, any such licensee may apply for 21 and receive from the director, upon payment of the fee for a retailer's 22 license prescribed by K.S.A. 41-310(k), and amendments thereto, a beer 23 license which shall entitle the licensee to sell beer at retail in the original 24 and unopened containers and not for consumption on the licensed 25 premises. Any such licensee shall have all the rights and privileges and be 26 subject to all the restrictions applicable to a retailer under the Kansas 27 liquor control act, except that:

- (a) Such licensee may sell or offer for sale only beer or cereal malt beverages.
- (b) Notwithstanding the provisions of K.S.A. 41-311(b), and amendments thereto, a beer license may not be issued by the director to:
 - (1) An individual who is not a resident of this state;
- (2) an individual who has not been a resident of this state for at least four years immediately preceding the date of such individual's application for a beer license;
 - (3) a person who has a beneficial interest in a manufacturer,

distributor, farm winery, microbrewery or microdistillery licensed under the Kansas liquor control act, except that the spouse of an individual who is an applicant for a beer license may own and hold a farm winery license, microbrewery license, or both, if the spouse does not hold a retailer's license issued under the Kansas liquor control act;

- (4) a person who is not engaged in a convenience store or a grocery store business; or
- (5) a corporation, if any officer, director or manager of the licensed premises, or any stockholder owning in the aggregate more than 25% of the stock of the corporation would be ineligible to receive a beer license for any reason specified in K.S.A. 41-311(a), and amendments thereto, other than citizenship requirements.
- (c) The provisions of K.S.A. 41-308, and amendments thereto, shall not apply to the holder of a beer license.
 - (d) The holder of a beer license may:
- (1) Sell lottery tickets and shares to the public in accordance with the Kansas lottery act, if the licensee is selected as a lottery retailer;
- (2) include in the sale of beer any goods included by the manufacturer in packaging with the beer, subject to the approval of the director;
- (3) distribute to the public, without charge, consumer advertising specialties bearing advertising matter, subject to rules and regulations of the secretary limiting the form and distribution of such specialties, so that they are not conditioned on or an inducement to the purchase of beer;
- (4) store beer in refrigerators, cold storage units, ice boxes or other cooling devices, and sell such beer to consumers in a chilled condition; and
 - (5) sell any other goods or services on the licensed premises.
- (e) Prior to obtaining a beer license, a corporation must comply with the requirements imposed by K.S.A. 41-313, and amendments thereto, on other corporate licensees under the Kansas liquor control act.

New Sec. 2. As used in this act:

- (a) "Convenience store" means a retail business with primary emphasis placed on providing the public a convenient location to quickly purchase from a wide array of consumable products (predominantly food or food and gasoline) and services, and includes stores classified under the North American industry classification system (NAICS) as NAICS 44512, 445120 or 447110 on the effective date of this act; or
- (b) "grocery store" means an establishment primarily engaged in retailing a general line of groceries, including, but not limited to, packaged food, fresh and frozen food, prepared foods and other consumable products, and includes establishments primarily engaged in retailing a general line of groceries in combination with general lines of new merchandise, including, but not limited to, establishments classified under

the North American industry classification system (NAICS) as NAICS 445110, 446110 or 452910 on the effective date of this act.

- New Sec. 3. Notwithstanding the provisions of K.S.A. 41-713, and amendments thereto, a beer licensee:
- (a) May authorize or allow a person at least 18 years of age to sell at retail, beer at the point of sale; and
- (b) may permit any employee of the licensee, who is under the age of 21 years, to work on the licensed premises when such employee is under the on-premises supervision of either the licensee or any employee of the licensee who is 21 years of age or older.
- New Sec. 4. The secretary may adopt rules and regulations to implement the provisions of this act. Such rules and regulations may be adopted prior to the events described in section 1, and amendments thereto, but shall not take effect until beer licenses may be issued pursuant to section 1, and amendments thereto.
- Sec. 5. K.S.A. 2015 Supp. 41-102 is hereby amended to read as follows: 41-102. As used in this act, unless the context clearly requires otherwise:
- (a) "Alcohol" means the product of distillation of any fermented liquid, whether rectified or diluted, whatever its origin, and includes synthetic ethyl alcohol but does not include denatured alcohol or wood alcohol.
- (b) "Alcoholic liquor" means alcohol, spirits, wine, beer and every liquid or solid, patented or not, containing alcohol, spirits, wine or beer and capable of being consumed as a beverage by a human being, but shall not include any cereal malt beverage.
- (c) "Beer retailer" means a convenience store or a grocery store as those terms are defined in section 2, and amendments thereto.
- (d) "Beer" means a beverage, containing more than 3.2% alcohol by weight, obtained by alcoholic fermentation of an infusion or concoction of barley, or other grain, malt and hops in water and includes beer, ale, stout, lager beer, porter and similar beverages having such alcoholic content.
- (d) (e) "Caterer" has the meaning provided by K.S.A. 41-2601, and amendments thereto.
- (e) (f) "Cereal malt beverage" has the meaning provided by K.S.A. 41-2701, and amendments thereto.
- (f) (g) "Club" has the meaning provided by K.S.A. 41-2601, and amendments thereto.
- (g) (h) "Director" means the director of alcoholic beverage control of the department of revenue.
- (h) (i) "Distributor" means the person importing or causing to be imported into the state, or purchasing or causing to be purchased within the state, alcoholic liquor for sale or resale to retailers licensed under this

1 2

act or cereal malt beverage for sale or resale to retailers licensed under K.S.A. 41-2702, and amendments thereto.

- (i) (j) "Domestic beer" means beer which contains not more than 10% alcohol by weight and which is manufactured in this state.
- (j) (k) "Domestic fortified wine" means wine which contains more than 14%, but not more than 20% alcohol by volume and which is manufactured in this state.
- (k) (l) "Domestic table wine" means wine which contains not more than 14% alcohol by volume and which is manufactured without rectification or fortification in this state.
- (1) (m) "Drinking establishment" has the meaning provided by K.S.A. 41-2601, and amendments thereto.
- (m) (n) "Farm winery" means a winery licensed by the director to manufacture, store and sell domestic table wine and domestic fortified wine.
- (n) (o) "Manufacture" means to distill, rectify, ferment, brew, make, mix, concoct, process, blend, bottle or fill an original package with any alcoholic liquor, beer or cereal malt beverage.
- (o) (p) (1) "Manufacturer" means every brewer, fermenter, distiller, rectifier, wine maker, blender, processor, bottler or person who fills or refills an original package and others engaged in brewing, fermenting, distilling, rectifying or bottling alcoholic liquor, beer or cereal malt beverage.
- (2) "Manufacturer" does not include a microbrewery, microdistillery or a farm winery.
- (p) (q) "Microbrewery" means a brewery licensed by the director to manufacture, store and sell domestic beer.
- (q) (r) "Microdistillery" means a facility which produces spirits from any source or substance that is licensed by the director to manufacture, store and sell spirits.
 - $\frac{f}{s}$ "Minor" means any person under 21 years of age.
- (s) (t) "Nonbeverage user" means any manufacturer of any of the products set forth and described in K.S.A. 41-501, and amendments thereto, when the products contain alcohol or wine, and all laboratories using alcohol for nonbeverage purposes.
- (t) (u) "Original package" means any bottle, flask, jug, can, cask, barrel, keg, hogshead or other receptacle or container whatsoever, used, corked or capped, sealed and labeled by the manufacturer of alcoholic liquor, to contain and to convey any alcoholic liquor. Original container does not include a sleeve.
- 41 (u) (v) "Person" means any natural person, corporation, partnership, trust or association.
 - (v) (w) "Powdered alcohol" means alcohol that is prepared in a

1 2

 powdered or crystal form for either direct use or for reconstitution in a nonalcoholic liquid.

- (w) (x) "Primary American source of supply" means the manufacturer, the owner of alcoholic liquor at the time it becomes a marketable product or the manufacturer's or owner's exclusive agent who, if the alcoholic liquor cannot be secured directly from such manufacturer or owner by American wholesalers, is the source closest to such manufacturer or owner in the channel of commerce from which the product can be secured by American wholesalers.
- $\frac{(x)}{(y)}$ (1) "Retailer" means a person who sells at retail, or offers for sale at retail, alcoholic liquors.
- (2) "Retailer" does not include a microbrewery, microdistillery or a farm winery.
- $\frac{(y)}{(z)}$ "Sale" means any transfer, exchange or barter in any manner or by any means whatsoever for a consideration and includes all sales made by any person, whether principal, proprietor, agent, servant or employee.
 - (z) (aa) "Salesperson" means any natural person who:
- (1) Procures or seeks to procure an order, bargain, contract or agreement for the sale of alcoholic liquor or cereal malt beverage; or
- (2) is engaged in promoting the sale of alcoholic liquor or cereal malt beverage, or in promoting the business of any person, firm or corporation engaged in the manufacturing and selling of alcoholic liquor or cereal malt beverage, whether the seller resides within the state of Kansas and sells to licensed buyers within the state of Kansas, or whether the seller resides without the state of Kansas and sells to licensed buyers within the state of Kansas
 - (aa) (bb) "Secretary" means the secretary of revenue.
- (bb) (cc) (1) "Sell at retail" and "sale at retail" refer to and mean sales for use or consumption and not for resale in any form and sales to clubs, licensed drinking establishments, licensed caterers or holders of temporary permits.
- (2) "Sell at retail" and "sale at retail" do not refer to or mean sales by a distributor, a microbrewery, a farm winery, a licensed club, a licensed drinking establishment, a licensed caterer or a holder of a temporary permit.
- (ee) (dd) "To sell" includes to solicit or receive an order for, to keep or expose for sale and to keep with intent to sell.
- (dd) (ee) "Sleeve" means a package of two or more 50-milliliter (3.2-fluid-ounce) containers of spirits.
- (ee) (ff) "Spirits" means any beverage which contains alcohol obtained by distillation, mixed with water or other substance in solution, and includes brandy, rum, whiskey, gin or other spirituous liquors, and such liquors when rectified, blended or otherwise mixed with alcohol or

other substances.

 (ff) (gg) "Supplier" means a manufacturer of alcoholic liquor or cereal malt beverage or an agent of such manufacturer, other than a salesperson.

(gg) (hh) "Temporary permit" has the meaning provided by K.S.A. 41-2601, and amendments thereto.

- (hh) (ii) "Wine" means any alcoholic beverage obtained by the normal alcoholic fermentation of the juice of sound, ripe grapes, fruits, berries or other agricultural products, including such beverages containing added alcohol or spirits or containing sugar added for the purpose of correcting natural deficiencies.
- Sec. 6. K.S.A. 41-103 is hereby amended to read as follows: 41-103. The legislature hereby declares the public policy of this state to be that: (a) Cereal malt beverage shall be sold at retail separately from sales of alcoholic liquor, *other than beer*, at retail; (b) cereal malt beverage shall be sold and dispensed at retail in rooms or premises separate and distinct from rooms or premises where alcoholic liquor is sold, *other than beer*; and (c) no retailer's license for the sale of alcoholic liquor shall be granted to any applicant making application therefor if the premises sought to be licensed are located outside the corporate limits of any city within this state, except as provided in K.S.A. 41-303, and amendments thereto.
- Sec. 7. K.S.A. 2015 Supp. 41-304 is hereby amended to read as follows: 41-304. Licenses issued by the director shall be of the following classes: (a) Manufacturer's license; (b) spirits distributor's license; (c) wine distributor's license; (d) beer distributor's license; (e) beer retailer's license;—(e) (f) retailer's license;—(f) (g) microbrewery license;—(g) (h) microdistillery license;—(h) (i) farm winery license; and—(i) (j) nonbeverage user's license.
- Sec. 8. K.S.A. 2015 Supp. 41-308 is hereby amended to read as follows: 41-308. (a) Except as provided in K.S.A. 2015 Supp. 41-308d, and amendments thereto, a retailer's license shall allow the licensee to sell and offer for sale at retail and deliver in the original package, as therein prescribed, alcoholic liquor *and cereal malt beverages* for use or consumption off and away from the premises specified in such license. A retailer's license shall permit sale and delivery of alcoholic liquor *and cereal malt beverages* only on the licensed premises and shall not permit sale of alcoholic liquor *and cereal malt beverages* for resale in any form, except that a licensed retailer may:
- (1) Sell alcoholic liquor to a temporary permit holder for resale by such permit holder; and
 - (2) sell and deliver alcoholic liquor to a caterer or to the licensed premises of a public venue, club or drinking establishment, if such premises are in the county where the retailer's premises are located or in an

adjacent county, for resale by such public venue, club, establishment or caterer.

- (b) The holder of a retailer's license shall not sell, offer for sale, give away or permit to be sold, offered for sale or given away in or from the premises specified in such license any service or thing of value whatsoever except alcoholic liquor in the original package, except that a licensed retailer may:
- (1) Charge a delivery fee for delivery to a public venue, club, drinking establishment or caterer pursuant to subsection (a);
- (2) sell lottery tickets and shares to the public in accordance with the Kansas lottery act, if the retailer is selected as a lottery retailer;
- (3) include in the sale of alcoholic liquor any goods included by the manufacturer in packaging with the alcoholic liquor, subject to the approval of the director; and
- (4) distribute to the public, without charge, consumer advertising specialties bearing advertising matter, subject to rules and regulations of the secretary limiting the form and distribution of such specialties so that they are not conditioned on or an inducement to the purchase of alcoholic liquor.
- (c) No licensed retailer shall furnish any entertainment in such premises or permit any pinball machine or game of skill or chance to be located in or on such premises.
- (d) A retailer's license shall allow the licensee to store alcoholic liquor in refrigerators, cold storage units, ice boxes or other cooling devices, and the licensee may sell such alcoholic liquor to consumers in a chilled condition.
- Sec. 9. K.S.A. 2015 Supp. 41-310 is hereby amended to read as follows: 41-310. (a) At the time application is made to the director for a license of any class, the applicant shall pay the fee provided by this section.
- (b) The fee for a manufacturer's license to manufacture alcohol and spirits shall be \$5,000.
 - (c) The fee for a manufacturer's license to manufacture beer and cereal malt beverage shall be:
 - (1) For 1 to 100 barrel daily capacity or any part thereof, \$400.
 - (2) For 100 to 150 barrel daily capacity, \$800.
 - (3) For 150 to 200 barrel daily capacity, \$1,400.
 - (4) For 200 to 300 barrel daily capacity, \$2,000.
- 39 (5) For 300 to 400 barrel daily capacity, \$2,600.
 - (6) For 400 to 500 barrel daily capacity, \$2,800.
 - (7) For 500 or more barrel daily capacity, \$3,200.
- As used in this subsection, "daily capacity" means the average daily barrel production for the previous 12 months of manufacturing operation.

 If no basis for comparison exists, the licensee shall pay in advance for operation during the first term of the license a fee of \$2,000.

- (d) The fee for a manufacturer's license to manufacture wine shall be \$1,000.
- (e) (1) The fee for a microbrewery license, a microdistillery license or a farm winery license shall be \$500.
 - (2) The fee for a winery outlet license shall be \$100.
- (3) The fee for a microbrewery packaging and warehousing facility license shall be \$200.
- (4) The fee for a microdistillery packaging and warehousing facility license shall be \$200.
- (f) The fee for a spirits distributor's license for the first and each additional distributing place of business operated in this state by the licensee and wholesaling and jobbing spirits shall be \$2,000.
- (g) The fee for a wine distributor's license for the first and each additional distributing place of business operated in this state by the licensee and wholesaling and jobbing wine shall be \$2,000.
- (h) The fee for a beer distributor's license, for the first and each additional wholesale distributing place of business operated in this state by the licensee and wholesaling or jobbing beer and cereal malt beverage shall be \$2,000.
 - (i) The fee for a nonbeverage user's license shall be:
 - (1) For class 1, \$20.
 - (2) For class 2, \$100.
 - (3) For class 3, \$200.
 - (4) For class 4, \$400.
 - (5) For class 5, \$1,000.
- (j) In addition to the license fees prescribed by subsections (b), (c), (d), (f), (g), (h) and (i):
 - (1) Any city in which the licensed premises are located may levy and collect a biennial occupation or license tax on the licensee in an amount not exceeding the amount of the license fee required to be paid under this act to obtain the license, but no city shall impose an occupation or privilege tax on the licensee in excess of that amount; and
 - (2) any township in which the licensed premises are located may levy and collect a biennial occupation or license tax on the licensee in an amount not exceeding the amount of the license fee required to be paid under this act to obtain the license, but no township shall impose an occupation or privilege tax on the licensee in excess of that amount; the township board of the township is authorized to fix and impose the tax and the tax shall be paid by the licensee to the township treasurer, who shall issue a receipt therefor to the licensee and shall cause the tax paid to be placed in the general fund of the township.

- (k) The fee for a retailer's license shall be \$500.
- (1) The fee for a beer retailer's license shall be \$500.
- (m) In addition to the license fee prescribed by—subsection—subsections (k) and (l):
- (1) Any city in which the licensed premises are located may levy and collect a biennial occupation or license tax on the licensee in an amount not less than \$200 nor more than \$600, but no other occupation or excise tax or license fee shall be levied by any city against or collected from the licensee; and
- (2) any township in which the licensed premises are located may levy and collect a biennial occupation or license tax on the licensee in an amount not less than \$200 nor more than \$600; the township board of the township is authorized to fix and impose the tax and the tax shall be paid by the licensee to the township treasurer, who shall issue a receipt therefor to the licensee and shall cause the tax paid to be placed in the general fund of the township.
- (m) (n) The license term for a license shall commence on the date the license is issued by the director and shall end two years after that date. The director may, at the director's sole discretion and after examination of the circumstances, extend the license term of any license for not more than 30 days beyond the date such license would expire pursuant to this section. Any extension of the license term by the director pursuant to this section shall automatically extend the due date for payment by the licensee of any occupation or license tax levied by a city or township pursuant to this section by the same number of days the director has extended the license term.

Sec. 10. K.S.A. 2015 Supp. 79-4108 is hereby amended to read as follows: 79-4108. (a) All revenue collected or received by the director of taxation from taxes imposed by K.S.A. 79-4101 to 79-4105, and amendments thereto, shall be remitted to the state treasurer in accordance with the provisions of K.S.A. 75-4215, and amendments thereto. Upon receipt of each such remittance, the state treasurer shall deposit the entire amount in the state treasury to the credit of the state general fund, except that 3% of the revenue remitted to the state treasurer during the prior calendar year quarter and deposited in the state treasury shall be credited to the local cereal malt beverage sales tax fund, which is hereby created in the state treasury. Moneys credited to the local cereal malt beverage sales tax fund shall be distributed quarterly as part of the January, April, July and October sales tax distribution to each city and county which levied a local retailers' sales tax. The amount to be distributed to each city and county shall be determined by the department of revenue based on a weighted population average. The weighted population average shall be computed by multiplying the total tax rate in effect for the city or county

by the population of such city or county. The weighted population average for each city and county shall then be divided by the total Kansas population. The resulting quotient is the percentage of distribution for such city or county. The population data shall be updated annually with the issuance of the certified population data through the division of the budget. The state treasurer shall transfer any moneys remaining in the county and city alcoholic liquor control enforcement fund on the effective date of this act to the state general fund.

- (b) The local cereal malt beverage sales tax fund shall be used for the purposes set forth in K.S.A. 79-4101 et seq., and amendments thereto, and for no other governmental purposes. It is the intent of the legislature that the local cereal malt beverage sales tax fund shall remain intact and inviolate for the purpose set forth in K.S.A. 79-4101 et seq., and amendments thereto, and moneys in the local cereal malt beverage sales tax fund shall not be subject to the provisions of K.S.A. 75-3722, 75-3725a and 75-3726a, and amendments thereto.
- New Sec. 11. Sections 1 through 4, and amendments thereto, shall be a part of and supplemental to the Kansas liquor control act.
- 19 Sec. 12. K.S.A. 41-103 and K.S.A. 2015 Supp. 41-102, 41-304, 41-20 308, 41-310 and 79-4108 are hereby repealed.
 - Sec. 13. This act shall take effect and be in force from and after the governor's declaration upon the determination by the secretary of revenue that revenues from the cereal malt beverage tax have declined by 25% as provided in section 1 of this act and its publication in the statute book.