

# SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

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Prepared By: Regulated Industries Committee

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BILL: CS/SB 282

SPONSOR: Regulated Industries Committee and Senator Dockery

SUBJECT: Beverage Law/Direct Shipment of Wine

DATE: March 27, 2006

REVISED: \_\_\_\_\_

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Oxamendi</u>	<u>Imhof</u>	<u>RI</u>	<u>Fav/CS</u>
2.	_____	_____	<u>CJ</u>	_____
3.	_____	_____	<u>GA</u>	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____
6.	_____	_____	_____	_____

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## I. Summary:

The CS legalizes the direct shipment of wine to Florida consumers. It creates an alcoholic beverage license classification for direct shippers. It also prohibits retail vendors from purchasing or acquiring wine from a direct shipper for the purpose of resale.

The CS limits direct shipment to licensed manufacturers of wine that are located within or outside of the state, and hold a wine producer and blenders permit issued in accordance with the Federal Alcohol Administration Act.<sup>1</sup> A licensed direct shipper may ship wine directly to a person in this state who is at least 21 years of age for that resident's personal use and not for resale. The CS requires a \$100 license and renewal fee.

The CS provides procedures for age verification at the time the wine is sold and at the time the wine shipment is received.

The CS provides the following requirements for legal direct shipping of wine:

- Comply with the one gallon wine container limitation in s. 564.05, F.S.;
- Maintain all current state and federal licenses;
- Register as a Primary American Source of Supply under s. 564.045, F.S.;
- Verify the age of the purchaser at the time of sale and the recipient at delivery.
- Comply with the bill container labeling requirement;
- Collect and remit all applicable excise taxes on wine to the Division of Alcoholic Beverage and Tobacco (division) and sales taxes to the Department of Revenue.

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<sup>1</sup> See Federal Alcohol Administration Act, codified at 27 U.S.C. s. 203.

- File with the division a \$5,000 bond;
- Make monthly reports to the division;
- Comply with the bill's record keeping requirement;
- Submit to state audits; and
- Pay the costs of an audit if a material violation is found, and the all attorney's fees and costs in an action to collect unpaid taxes.

The CS exempts applicants for a direct shipper's license from the fingerprinting and license investigation if the applicant holds a license in another state with similar, equivalent, or greater license qualification requirements.

The CS provides that, by obtaining a direct shippers license, a licensee consents to the jurisdiction of the division, any other state agency, and the courts of this state concerning compliance with state laws.

The CS provides a good faith defense under certain circumstances to any civil action, except for an administrative action by the division, for direct shipper licensees and common carriers that sell, give, deliver, or transfer an alcoholic beverage to a person not of legal age.

The CS provides the division with authority to suspend or revoke a direct shipper's license or impose a fine of not more than \$2,500. It provides a third degree felony violation for the sale of alcoholic beverage to persons under the age of 21 by a direct shipper. It provides a second degree misdemeanor felony violation for the delivery of alcoholic beverage to persons under the age of 21 by a common carrier.

The CS authorizes the division to adopt rules to administer the provisions of this bill.

The CS provides that an order placed over the Internet and received at a vendor's licensed place of business may be construed as a sale actually made at the vendors licensed place of business.

The CS would take effect upon becoming law.

This bill creates section 561.575, Florida Statutes. This bill substantially amends the following sections of the Florida Statutes: 561.14, 561.54, 561.545, and 561.57.

## **II. Present Situation:**

### **Florida's Three-Tier System**

In the United States, the regulation of alcohol has traditionally been through what is termed the "three-tier system." The system requires that the manufacture, distribution, and sale of alcoholic beverages be separated. Retailers must buy their products from distributors who in turn buy their products from the manufacturers. Manufacturers cannot sell directly to retailers or directly to consumers. The system is also deeply rooted in the perceived evils of the "tied house" in which a

bar is owned or operated by a manufacturer or the manufacturer exercises undue influence over the retail vendor.<sup>2</sup>

There are some exceptions to this regulatory system, usually for special circumstances. Typically the exemptions include allowing beer brewpubs to manufacture malt beverages and to sell them to consumers,<sup>3</sup> allowing individuals to bring small quantities of alcohol back from trips out-of-state,<sup>4</sup> and allowing in-state wineries to manufacture and sell directly to consumers.<sup>5</sup>

In Florida, alcoholic beverages are regulated by the Beverage Law.<sup>6</sup> These provisions regulate the manufacture, distribution, and sale of wine, beer, and liquor via manufacturers, distributors, and vendors.<sup>7</sup> The Division of Alcoholic Beverage and Tobacco within the Department of Business and Professional Regulation is the agency authorized to administer and enforce the Beverage Law.<sup>8</sup>

In a three-tier system, each license classification has clearly delineated functions. For example, in Florida, only licensed vendors are permitted to sell alcoholic beverages directly to consumers at retail.<sup>9</sup> Manufacturers of wine may not be licensed as a distributor.<sup>10</sup> Florida law also prohibits any distributor or vendor from having an interest in any manufacturer.<sup>11</sup>

In *Granholm v. Heald* (*Granholm*),<sup>12</sup> the U.S. Supreme Court held that states can regulate alcoholic beverages through a three-tier system, but states cannot provide an exception to that system that is limited to in-state businesses, i.e., in-state wine manufacturers.

Sales, by out-of-state alcoholic beverage manufacturers and retailers to consumers in another state, made outside established three-tier systems are commonly termed “direct shipment.” The term also includes sales made directly to consumers by in-state manufacturers.

### ***Granholm vs. Heald***

In *Granholm v. Heald*, consolidated cases from Michigan and New York, the U.S. Supreme Court held that a state cannot allow in-state wineries to sell wine directly to consumers in that state while simultaneously prohibiting out-of-state wineries from also selling wine directly to

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<sup>2</sup> Erik D. Price, *Time to Untie the House? Revisiting the Historical Justifications of Washington’s Three-Tier System Challenged by Costco v. Washington State Liquor Control Board*, a copy can be found at: <http://www.wsba.org/media/publications/barnews/2004/june-04-price.htm> (last visited September 20, 2005).

<sup>3</sup> See s. 561.221(2), F.S., which permits the limited manufacture of beer by vendors (brew pubs).

<sup>4</sup> See s. 562.16, F.S., which permits the possession of less than one gallon of untaxed alcoholic beverages when purchased by the possessor out-of-state in accordance with the laws of the state where purchased and brought into the state by the possessor.

<sup>5</sup> See s. 561.221, F.S.

<sup>6</sup> The Beverage Law means chs. 561, 562, 563, 564, 565, 567, and 568, F.S. See s. 561.01(6), F.S.

<sup>7</sup> See s. 561.14, F.S.

<sup>8</sup> Section 561.02, F.S.

<sup>9</sup> Section 561.14(3), F.S. However, see discussion below regarding the exception for certified Florida Farm Wineries in s. 561.221, F.S.

<sup>10</sup> See s. 561.24, F.S. However, see discussion below regarding the exception for Florida manufacturers of wine in s. 561.221, F.S.

<sup>11</sup> See s. 561.42, F.S.

<sup>12</sup> *Granholm v. Heald*, 544 U.S. 460 (2005).

consumers. The decision invalidated laws in Michigan and New York that discriminated between in-state and out-of-state wine manufacturers in this manner.

Michigan and New York regulate the sale and importation of wine through three-tier systems and require separate licenses for manufacturers, wholesalers, and retailers. These schemes allow in-state, but not out-of-state, wineries to make direct sales to consumers. The Court held that this differential treatment violated the Commerce Clause, Art.I, s. 8, cl. 3 of the U.S. Constitution, which provides that “[t]he Congress shall have Power . . . To regulate Commerce with foreign Nations, and among the several States, and with the Indian Tribes . . . .”

### **Michigan Law**

Under Michigan law, wine producers must distribute their wine through wholesalers. Michigan has an exception for the approximately 40 in-state wineries that are eligible for a wine maker license that allows the direct shipment of wine to in-state consumers. Out-of-state wineries can apply for an out-of-state seller of wine license that allows them to sell to in-state wholesalers, but not directly to Michigan consumers.

In the Michigan case, Michigan residents, joined by an out-of-state winery, sued Michigan officials, claiming that the state’s laws violated the Commerce Clause. The state and an in-state wholesalers association responded that the direct shipment ban was a valid exercise of Michigan’s power under the Twenty-first Amendment of the U.S. Constitution. The Twenty-first Amendment provides in section 2 that “[t]he transportation or importation into any State, Territory, or possession of the United States for delivery or use therein of intoxicating liquors, in violation of the law thereof, is hereby prohibited.” The United States District Court for the Eastern District of Michigan sustained the scheme, but the Sixth Circuit reversed,<sup>13</sup> rejecting the argument that the Twenty-first Amendment immunizes state liquor laws from Commerce Clause provisions and holding that there was no showing that the state could not meet its policy objectives through nondiscriminatory means.

### **New York Law**

New York’s licensing scheme is somewhat different from Michigan’s. It also provides for distribution through the three-tier system and makes exceptions for in-state farm wineries. Wineries that produce wine only from New York grapes can apply for a license that allows direct shipment to in-state consumers. An out-of-state winery may ship directly to consumers only if the winery becomes licensed as a New York Winery, establishes a distribution operation in New York, and has a physical presence in the state, i.e., a warehouse, office, or storeroom. Moreover, out-of-state wineries that establish the requisite in-state presence are still not eligible for the farm winery license that provides the most direct means of shipping to New York consumers. Instead, they must obtain a separate license that authorizes direct shipping to consumers. New York law does not require a separate direct shipping license for its farm wineries.

In the New York case, out-of-state wineries and their New York customers filed suit against state officials, seeking a declaration that the State’s direct shipment laws violated the Commerce

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<sup>13</sup> *Heald v. Engler*, 342 F.3d 517 (6<sup>th</sup> Cir. 2003).

Clause. State liquor wholesalers and retailers' representatives joined in support of the state. The United States District Court for the Southern District of New York granted the plaintiffs' summary judgment against the state, but the Second Circuit reversed, holding that New York's laws fell within the state's powers under the Twenty-first Amendment.<sup>14</sup>

### Supreme Court Decision

The United States Supreme Court consolidated the Michigan and New York cases into a single case to address this issue:

Does a State regulatory scheme that permits in-state wineries to directly ship alcohol to consumers but restricts the ability of out-of-state wineries to do so violate the dormant Commerce Clause in light of Section 2 of the Twenty-first Amendment?

The U.S. Supreme Court held in *Granholm* that:

the laws in both States discriminate against interstate commerce in violation of the Commerce Clause, Art. I, s.8, cl. 3, [United States Constitution] and that the discrimination is neither authorized nor permitted by the Twenty-first Amendment. Accordingly, we affirm the judgment of the Court of Appeals for the Sixth Circuit, which invalidated the Michigan laws; and we reverse the judgment of the Court of Appeals for the Second Circuit, which upheld the New York laws.

*Granholm* explicitly noted that states may regulate the distribution and sale of wine via a three-tier system of licensed manufacturers, distributors, and retailers. The court also noted that states may prohibit the direct shipment of alcoholic beverages to consumers.<sup>15</sup> However, states may not impose requirements on interstate commerce that discriminate in favor of in-state interests. States can regulate imported wine only to the same extent and in the same manner that they regulate domestically produced wine. The court applied the rule that the court must still consider whether a state's regulatory regime "advances a legitimate local purpose that cannot be adequately served by reasonable nondiscriminatory alternatives."<sup>16</sup>

In *Granholm*, the court noted that New York could provide adequate safeguards for direct shipping of wine with licensing and self-reporting, because these methods were sufficient for wine distributed through the three-tier system. The court also noted that licensees could be required to submit regular sales reports and remit taxes. The court observed that licensing, reporting, and tax requirements have been used by other states that permit direct shipping and that these states have reported no problems with tax collection.<sup>17</sup> The court also noted that this is the approach sanctioned by the National Conference of State Legislatures in their Model Direct Shipping Bill.

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<sup>14</sup> *Swedenburg v. Kelly*, 358 F.3d 223 (2<sup>nd</sup> Cir. 2004).

<sup>15</sup> The court's analysis is based, in part, upon the Webb-Kenyon Act, 27 U.S.C. s. 122, which prohibits the shipping of alcoholic beverages into a state in violation of that state's laws, and Twenty First Amendment of the U.S. Constitution.

<sup>16</sup> See *Granholm* at 1890, quoting *New Energy Co. of Ind. v. Limbach*, 486 U.S. 269, 278 (1988).

<sup>17</sup> See *Granholm* at 1906.

### **Florida's Direct Shipping Prohibition**

Section 561.545(1), F.S., prohibits the direct shipping of all alcoholic beverages to consumers from out-of-state. It also prohibits common carriers from transporting alcoholic beverages from an out-of-state location to anyone in this state who does not hold a valid manufacturer, wholesaler, or exporter's license, or who is not a state-bonded warehouse.

A first violation of this prohibition results in the issuance of an order to show cause why a cease and desist order should not be issued. A violation within two years of a cease and desist order, or within two years of a previous conviction, constitutes a felony of the third degree.

Section 561.545(5), F.S., provides an exception for the direct shipping of sacramental alcoholic beverages to bona fide religious organizations as authorized by the division. It also exempts registered exporters.

Section 561.54(1), F.S., prohibits deliveries of alcoholic beverages from out-of-state by common or permit carriers, operators of privately owned cars, trucks, buses, or other conveyances, except to manufacturers, wholesalers, or exporters, or bonded warehouses in this state. Section 561.54(2), F.S., provides a cause of action for any licensee who is aggrieved by a violation of this prohibition. The court must assess damages equal to three times the amount of delivery charges or the fair market value of the merchandise unlawfully brought into the state. The court must also award the plaintiff its costs and reasonable attorney's fees.

Florida's prohibition against direct shipping is limited to the direct shipping of alcoholic beverages from out-of-state to Florida; it does not prohibit direct shipping from a Florida winery to another state or from a Florida winery to a person in Florida.

### **Sales by Florida Wineries**

Florida law provides an exception to the general prohibition against manufacturers of alcoholic beverages selling directly to consumers. Florida permits in-state wine<sup>18</sup> manufacturers to sell their wines directly to consumers. The premises licensed to conduct vendor sales must be situated on property contiguous to the manufacturing process.<sup>19</sup> Florida also permits wineries that are certified by the Department of Agriculture and Consumer Services as a Florida Farm Winery to conduct tastings and sales of wine directly to consumers at Florida fairs, trade shows, expositions, and festivals.<sup>20</sup>

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<sup>18</sup> Section 564.01(1), F.S., defines the term "wine to mean:

all beverages made from fresh fruits, berries, or grapes, either by natural fermentation or by natural fermentation with brandy added, in the manner required by the laws and regulations of the United States, and includes all sparkling wines, champagnes, combination of the aforesaid beverages, vermouths, and like products. Sugar, flavors, and coloring materials may be added to wine to make it conform to the consumer's taste, except that the ultimate flavor or the color of the product may not be altered to imitate a beverage other than wine or to change the character of the wine.

<sup>19</sup> See s. 561.221(1), F.S.

<sup>20</sup> See s. 561.221(2), F.S.

Florida wine manufacturers may also function in all three tiers of the state's regulatory system. Wineries may distribute any alcoholic beverages, including beer and liquor.<sup>21</sup> Although s. 561.24, F.S., prohibits manufacturers from being licensed as a distributor, this prohibition does not apply to Florida wineries.

### **Certified Florida Farm Wineries**

To qualify as a certified Florida Farm Winery, a winery must meet each of the following standards:

1. Produce or sell less than 250,000 gallons of wine annually.
2. Maintain a minimum of 10 acres of owned or managed vineyards in Florida.
3. Be open to the public for tours, tastings, and sales at least 30 hours each week.
4. Make annual application to the department for recognition as a Florida Farm Winery, on forms provided by the department.
5. Pay an annual application and registration fee of \$100.<sup>22</sup>

According to industry representatives, many Florida wines are blended with citrus or grapes grown outside the state. Current law does not require that wines from certified Florida Farm Wineries must consist of any particular percentage of Florida-grown grapes or other Florida-grown agriculture products.

### ***Bainbridge v. Turner***

Florida's direct shipping prohibition was challenged in the case of *Bainbridge v. Turner* (*Bainbridge*) by wine consumers and out-of-state wineries.<sup>23</sup> This law suit challenged Florida's statutory scheme prohibiting out-of-state wineries from shipping their products directly to Florida consumers while permitting in-state wineries to do so.

Before the Supreme Court issued its decision in *Granholm*, the case resulted in two written federal appellate court opinions. In the first opinion, *Bainbridge v. Martelli* (*Bainbridge I*),<sup>24</sup> the United States District Court for the Middle District of Florida held that s. 561.54, F.S., and the statutory scheme that bars direct shipping violated the Commerce Clause. In *Bainbridge v. Turner* (*Bainbridge II*),<sup>25</sup> the Eleventh Circuit Court of Appeals held that, if Florida could demonstrate that its statutory scheme was closely related to raising revenue and is not a pretext to mere protectionism, Florida's statutory scheme could be upheld against a Commerce Clause challenge. The appellate court remanded the case to the district court for further consideration of this issue.

The case was held in abeyance because of the pending cases before the U.S. Supreme Court. On August 5, 2005, the United States District Court for the Middle District of Florida issued an

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<sup>21</sup> See s. 561.14(1), F.S.

<sup>22</sup> See s. 599.004, F.S., which establishes the Florida Farm Winery program within the Department of Agriculture and Consumer Services.

<sup>23</sup> *Bainbridge v. Turner*, No. 8:99-CV-2681-T-27TBM (M.D. Fla.).

<sup>24</sup> *Bainbridge v. Martell*, 148 F.Supp.2d 1306 (M.D. Fla. 2001).

<sup>25</sup> *Bainbridge v. Turner*, 311 F.3d 1104 (11<sup>th</sup> Cir. 2002).

order finding ss. 561.54(1)-(2) and 561.545(1), F.S., violated the Commerce Clause and were therefore unconstitutional under the authority in *Granholm*, and enjoined the enforcement of these provisions.<sup>26</sup> The court found that these statutes discriminate against out-of-state wineries by prohibiting them from selling and delivering wine directly to customers in Florida when in-state wineries are not so prohibited.

### **Enforcement by the Division of Alcoholic Beverage and Tobacco**

According to the DBPR, the *Bainbridge* final order bars the enforcement of ss. 561.54 and 561.545, F.S., against out-of-state wineries. According to the division, it is interpreting the *Bainbridge* order as applicable only to out-of-state wine manufacturers. The division initially advised that it intended to issue vendor permits to allow out-of-state wine manufactures that hold all current, valid federal permits to legally direct ship wines to Florida consumers, and that it did not intend to issue vendor permits to out-of-state retailers who wish to direct ship wines into the state. However, the division's response to the *Bainbridge* ruling on its Internet site does not reference any licensure requirement for out-of-state direct shippers of wine. It states that the ruling "precludes enforcement of the ban on direct wine shipments from non-Florida wineries to Florida consumers, but does "not limit the state's authority to collect taxes on wine or to enforce the prohibition of the sale of alcoholic beverages, including wine, to a person under the age of 21."<sup>27</sup> The division's statement on its website provides information for the payment of sales and excise taxes, the prohibition against sales in dry counties, and the underage sales prohibition.

According to the department, it has received excise tax payments from 14 direct shippers totaling \$200 since the department's response to the *Bainbridge* decision was posted on its website in mid-February, 2006.

### **Primary American Source of Supply Brand Registration**

Section 564.045, F.S., requires registration of wine brands for the purpose of tax revenue control. Before being shipped, sold, or offered for sale to a distributor or importer in Florida, a wine brand must be registered by the brand's "primary American source of supply," which s. 564.045(1), F.S., defines as the:

manufacturer, vintner, winery, or bottler, or their legally authorized exclusive agent, who, if the product cannot be secured directly from the manufacturer by an American distributor, is the source closest to the manufacturer in the channel of commerce from whom the product can be secured by an American distributor, or who, if the product can be secured directly from the manufacturer by an American distributor, is the manufacturer. It shall also include any applicant who directly purchases vinous beverages from a manufacturer, vintner, winery, or bottler who represents that there is no primary American source of supply for the brand and such applicant must petition the division for approval of licensure.

The annual license fee for each brand is \$15. All Florida wineries that conduct direct sales to consumers must register the brands they sell and pay the fee for each brand. According to the

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<sup>26</sup> *Bainbridge v. Turner*, No. 8:99-CV-2681-T-27TBM (M.D. Fla. August 5, 2005).

<sup>27</sup> See [http://www.myflorida.com/dbpr/abt/hot\\_topics/wine\\_shipment\\_into\\_florida.shtml](http://www.myflorida.com/dbpr/abt/hot_topics/wine_shipment_into_florida.shtml). (Last visited March 9, 2006.)

Wine Institute, some states require brands and labels to be registered before shipping those brands to consumers in the state.

### **Federal Wine Producer Permits**

The Federal Alcohol Administration Act (FAA Act) requires a basic permit issued by the Alcohol and Tobacco Tax and Trade Bureau (Tax and Trade Bureau or bureau) within the U.S. Department of the Treasury (formerly the Bureau of Alcohol, Tobacco, and Firearms) to engage in the business of importing into the United States distilled spirits, wine, or malt beverages. A basic permit is required to engage in the business of distilling distilled spirits, producing wine, rectifying or blending distilled spirits or wine, or bottling, or warehousing and bottling, distilled spirits in the business of distilling spirits or producing wine, and for persons who engage in the business of purchasing for resale at wholesale distilled spirits, wine or malt beverages.<sup>28</sup> According to the Tax and Trade Bureau, as of January 4, 2006, there were 4,389 active federal basic permits in the U.S. for wine premises. Retailers and beer manufacturers (brewers) are not required to obtain a basic permit under the FAA Act.

### **Interim Project 2006-146**

The Senate President approved Interim Project Report 2006-146 to study the issues presented by the direct shipment of wine to Florida consumers by unlicensed out-of-state persons. This study included a review of the status of the current law and surveying the concerns of the affected interests.<sup>29</sup> The interim project resulted in the recommendation that the legislature either continue to prohibit all direct shipment of wines into Florida and eliminate the ability of in-state wine manufacturers to sell wine directly to consumers, or legalize the direct shipment of wine and regulate the practice.

The study recommended that a single license classification to license out-of-state and in-state direct shippers of wines should be created and that, and that licensure should be required as a condition of legal direct shipping. The study recommended the following licensure options:

- Licensure may be limited to persons who operate a winery located in the United States and hold all state and federal permits necessary to operate the winery;
- The Legislature may permit persons operating a winery outside the United States to qualify for licensure;
- In addition, the Legislature may permit non-manufacturers, e.g., out-of-state retailers, to be licensed direct shippers; and
- If the Legislature opts to limit licensed direct shippers to wine manufacturers, it may require that a winery licensed as a direct shipper must produce or sell less than 250,000 gallons of wine annually.

In addition to licensure, the study recommended consideration of the following options for regulating direct shipment of wine:

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<sup>28</sup> See Federal Alcohol Administration Act, codified at 27 U.S.C. s. 203. See also, 27 C.F.R. 1.20.

<sup>29</sup> See Committee on Regulated Industries, *Direct Shipment of Wine to Florida Consumers*, report no. 2006-146, October 2005.

- Require, as a condition of licensure, that out-of-state direct shippers must satisfy all of the minimum license qualification requirements required under the Beverage Law for a Florida alcoholic beverage license;
- Require, as a condition of licensure, that the license holder submit to the jurisdiction of the regulatory agency and the courts of this state in regards to compliance with the laws of this state;
- Limit direct shipment sales to sales for personal consumption, and prohibit the resale at retail of wines purchased directly from a direct shipper;
- Require age verification procedures for the point of delivery, point of sale, or both, that, at minimum, require that an adult provide proof of age with a valid photographic identification at the time of the delivery;
- Require that containers of wine shipped directly to consumers must be conspicuously labeled with words that identify them as containing alcohol requiring the signature of a person 21 years of age or older before delivery can be made;
- Impose specific shipping requirements on common carriers, including requiring that the common carrier must require that the recipient of wine provide proof of age, and that the recipient of the wine must sign an acknowledgment of receipt. The common carrier should also be required to refuse delivery if the recipient refuses to provide proof of age;
- Require that direct shippers remit to the state all applicable Florida excise and sales taxes;
- Require that direct shippers register all wine brands before shipping, selling, or offering for sale any wine to a consumer in Florida;
- Require payment of a license fee comparable to the fee required for an in-state wine vendor;
- Require that direct shippers maintain records of sales and shipments of wine into Florida, and require that the direct shippers permit state regulators to have access to these records;
- Require that direct shippers pay all attorney's fees and costs in any action to collect unpaid taxes;
- Require monthly reporting to the Division of Alcoholic Beverage and Tobacco that details all shipment of wine made into Florida, including the number of bottles shipped, to whom the wine was shipped, the identity of the common carrier making the shipment, and the brands shipped.
- Require periodic audits of direct shippers by the division, that all required reports should be signed by a certified public accountant, or both; and
- Require that direct shippers pay all travel related costs necessary to conduct a compliance audit of an out-of-state direct shipper if the state auditor must travel out-of-state to conduct the audit.

### **III. Effect of Proposed Changes:**

The CS creates s. 561.575, F.S., to legalize the direct shipment of wine, and to regulate the practice.

#### **License Classifications**

The CS amends s. 561.14, F.S., to create an alcoholic beverage license classification for direct shippers licensed under s. 561.575. It also prohibits retail vendors from purchasing or acquiring

wine from direct shippers for the purpose of resale. This provision permits a vendor to purchase wine from a direct shipper that is also licensed as a distributor.

### **Licensure Qualifications**

The CS limits direct shipment to manufacturers of wine that are located within or outside of the state. To qualify for the license, the direct shipper are licensed to manufacture wine in this state or another state, must hold a wine producer and blender permit<sup>30</sup> issued in accordance with the Federal Alcohol Administration Act.<sup>31</sup> A licensed direct shipper may ship wine directly to a person in this state who is at least 21 years of age for that resident's personal use and not for resale.

The applicant must file an application with the division, pay a \$100 license fee, and provide proof of its federal and state permits. The renewal fee is also \$100. Direct shippers must renew their license on or before August 1 of each year.

To qualify for the license a direct shippers must also:

- Comply with s. 564.05, F.S., which limits the size of wine containers to one gallon;
- Maintain current all state and federal licenses; and
- Obtain and maintain a current license as a Primary American Source of Supply under s. 564.045, F.S.

The CS exempts applicants for a direct shipper's license from the finger printing and license investigation requirements in ss. 561.17 and 561.18, F.S., if the applicant holds a license in another state with license qualification requirements that are substantially similar to, equivalent to, or greater than the qualifications required of applicants in this state. The CS directs the division to specify by rule the procedures for determining whether an applicant qualifies for this exemption.

### **Jurisdiction**

The CS provides that, by obtaining a direct shippers license, a licensee consents to the jurisdiction of the division, any other state agency, and the courts of this state concerning compliance with state laws.

### **Age Verification Requirements**

The CS requires that direct shippers use an age verification process that is approved by the

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<sup>30</sup> The application for a basic permit issued by the Alcohol and Tobacco Tax and Trade Bureau (Tax and Trade Bureau or bureau) within the U.S. Department of the Treasury (formerly the Bureau of Alcohol, Tobacco, and Firearms) lists two types of wine permits: a producer and blender permit and a blender permit. See Tax and Trade Bureau form 5100.24, and 27 CFR 1.21. According to the bureau, as of January 4, 2006, of the 4,389 active federal basic permits in the U.S. for wine premises, 4,367 have a basic permit to produce wine and 22 companies have a basic permit to blend wine (but not to produce wine). A copy of the basic permit application can be found at: <http://www.ttb.gov/forms/pdfs/5100/f510024.pdf> (Last visited on March 27, 2006).

<sup>31</sup> See Federal Alcohol Administration Act, codified at 27 U.S.C. s. 203.

division. The process must ensure that any sale made to a resident in this state is to a person at least 21 years of age. The CS does not specify the process that must be used, but the process used must be sufficient to verify the age and identity of the purchaser.

The CS provides a labeling requirement for each container of wine shipped directly to a resident of this state. Direct shippers must ensure that each container is conspicuously labeled with the following information:

- That the package contains alcohol.
- An adult signature is required.
- The recipient must be at least 21 years of age.

If a common carrier is used to make the delivery, the direct shipper must require that the common carrier use the age verification requirements in the CS. The direct shipper must also use the age verification procedure provided by the common carrier that complies with these requirements.

The direct shippers must also require, before delivery, the signature of a person 21 years of age or older using one of the valid forms of identification specified in the CS, including a valid Florida driver's license or identification card, and the specified acceptable forms of identification for persons who are physically handicapped, a comparable identification card issued by another state, a passport or United States Uniformed Services Identification card.

The CS provides a good faith defense to any civil action, except for an administrative action by the division, to direct shipper licensees and common carriers who sell, give, deliver, or transfer an alcoholic beverage to a person not of legal age. This good faith defense applies if the person receiving the alcoholic beverage falsely evidenced that he or she was of legal age to purchase or consume the alcoholic beverage, and his or her appearance was such that an ordinarily prudent person would believe him or her to be of legal age to purchase or consume the alcoholic beverage. In addition, the direct shipper or common carrier must have relied on the person's misrepresentation and appearance, and must have carefully checked one of the forms of identification specified in the bill.

### **Tax Collection**

The CS requires that direct shippers collect and remit all applicable excise taxes on wine to the division and sales taxes to the Department of Revenue for the preceding month. The CS provides that such taxes shall be calculated as if the sale took place in this state.

As surety for payment of taxes, the CS requires that direct shippers file with the division a \$5,000 bond. The CS authorizes the division to accept a lesser bond if the volume of business done by the direct shippers is such that a lesser bond would be adequate to secure tax payments. The CS further provides that the division may not accept a bond of less than \$1,000, and may also increase a lesser bond to \$5,000.

### **Reporting and Recordkeeping Requirements**

The CS requires that direct shippers report to the division, by the 10<sup>th</sup> of each month, the following information regarding shipments during the previous month to residents of this state:

- Whether any wine was shipped;
- Total amount of wine shipped;
- Quantity and brands of wine shipped;
- Amount of excise tax paid to the division and sales taxes paid to the Department of Revenue; and
- Any other information the division determine is necessary to enforce this section.

The CS exempts direct shippers from this reporting requirement if they file a report under s. 561.55, F.S., that contains all the information required by the CS. This provision's applicability is limited to in-state wineries because out-of-state shippers are not required to file any reports under s. 561.55, F.S. It also grants the division rule making authority to prescribe forms to avoid duplicative filings.

The CS requires that direct shippers keep complete, accurate, and separate records of wine products sold and shipped in this state for at least three years.

### **Audit requirements**

The CS requires that direct shippers must permit the division and the Department of Revenue to audit their records upon request. The CS assigns the cost of the audit to the division. If a material violation is found, the cost of the audit is assigned to the direct shippers. The CS does not define what constitutes a material violation.<sup>32</sup> It also requires that direct shippers pay all attorney's fees and costs in an action to collect unpaid taxes.

### **Penalties**

The CS provides that the division may suspend or revoke a direct shipper's license or impose a fine of not more than \$2,500.<sup>33</sup>

The CS provides a third degree felony violation for a direct shipper licensee that knowingly and intentionally ships, or causes to be shipped, wine to a person under the age of 21. It also provides a second degree misdemeanor violation for a common carrier, permit carrier, or other commercial conveyance that knowingly and intentionally directly delivers wine to a person under the age of 21.

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<sup>32</sup> There are several disciplinary provisions in the Florida Statutes that provide a sanction for a material violation. *See, for example*, s. 481.225(3)(c), F.S., relating to registered architects, s. 481.2251, F.S., relating to registered interior designers, and s. 553.781, F.S., relating to the Florida Building code. There is no clear case law that sets forth a rule on what constitutes a "material violation." However, there is some indication that the term may mean a violation that is more than accidental or inadvertent. *See, for example, Jayne v. Department of Environmental Regulation*, Division of Administrative Hearings, Case No. 84-4242, September 24, 1985, in which an accidental violation relating to a dredge and fill permit was deemed not to be a material violation.

<sup>33</sup> Under s. 561.29(3), F.S., the maximum fine that the division may impose for violations arising out of a single transaction is \$1,000.

**Rulemaking Authority**

The CS authorizes the division to adopt rules to administer this section.

**Other Shipping Provisions**

The CS amends the shipping prohibitions in ss. 561.54 and 561.545, F.S., to exempt deliveries made under s. 561.575, F.S., by licensed direct shippers to persons over 21 years of age or older.

The CS amends s. 561.57, F.S., to provide that an order placed over the Internet and received at a vendor's licensed place of business is construed as a sale actually made at the vendors licensed place of business. Current law permits vendors to make deliveries away from their place of business of sales made at the licensed place of business, including telephone and mail orders received, and these sales are construed as sales actually made at that location.

The CS also provides that common carriers or any licensee, or their employees or agents, are not prohibited from delivering alcoholic beverages within this state. It also exempts these persons from the reporting requirements in s. 562.20, F.S.

The CS requires that each common carrier acting as the designated agent for delivery must verify that the person receiving the alcoholic beverage is at least 21 years of age. The CS further provides that the prescribed age verification gives the common carrier, licensee, or their agents or employees, a complete defense to selling, giving, or serving alcoholic beverages to any person younger than 21 years of age.

**Effective Date**

The CS provides that this act shall take effect upon becoming law.

**IV. Constitutional Issues:****A. Municipality/County Mandates Restrictions:**

None.

**B. Public Records/Open Meetings Issues:**

None.

**C. Trust Funds Restrictions:**

None.

**V. Economic Impact and Fiscal Note:****A. Tax/Fee Issues:**

None.

**B. Private Sector Impact:**

Direct shipper licensees would have to pay a \$100 license and a renewal fee of \$100. Direct shipper licenses would have to pay excise taxes to the state.

**C. Government Sector Impact:**

The Revenue Estimating Conference concluded that license fees and tax revenues for this bill were indeterminate.

The department anticipates administration costs of \$2,829,420, plus additional costs to implement and maintain the licensing and registration process, the monthly tax reporting process, and audit process. The department maintains that there will be additional costs to implement and maintain the licensing and registration process, the monthly tax reporting and audit process, and to investigate and prosecute violations, including the hiring of additional personnel to perform these functions. The department advises that anticipated license fees and tax revenues will be insufficient to cover the anticipated administrative costs.

The department's cost estimate is based on the assumption that all of the current 4,017 federally licensed manufacturers will become licensed during the first year. The department's analysis sets forth the outer range of potential direct shipper licensees and tax revenue and does not reflect the department's actual expected number of direct shipper licensees, which the department is unable to estimate. According to the Wine Institute, a national association representing wine manufacturers, it anticipates that approximately three-fourths of its membership, or 600 wineries, would seek licensure in Florida as a direct shipper. This estimate is based on its experience in other states.

**VI. Technical Deficiencies:**

None.

**VII. Related Issues:**

None.



## **VIII. Summary of Amendments:**

None.

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This Senate staff analysis does not reflect the intent or official position of the bill's sponsor or the Florida Senate.

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