

NEIL ABERCROMBIE
GOVERNOR

BRIAN SCHATZ
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1530
FAX NO: (808) 587-1584

FREDERICK D. PABLO
INTERIM DIRECTOR OF TAXATION

RANDOLF L. M. BALDEMOR
DEPUTY DIRECTOR

LATE TESTIMONY

HOUSE COMMITTEE ON ECONOMIC REVITALIZATION & BUSINESS

TESTIMONY OF THE DEPARTMENT OF TAXATION REGARDING HB 1187 RELATING TO THE LIQUOR TAX

*****WRITTEN TESTIMONY ONLY*****

TESTIFIER: FREDERICK D. PABLO, INTERIM DIRECTOR OF
TAXATION (OR DESIGNEE)
COMMITTEE: ERB
DATE: FEBRUARY 15, 2011
TIME: 8:00AM
POSITION: SUPPORT

This measure increases liquor tax rates. This measure is similar to a provision in the Administration bill, HB 1062.

The Administration supports increasing these types of taxes in these times of financial distress.

In its current form, this measure is anticipated to increase general fund revenues by \$23.4 million per year beginning FY 2012.

From: Tina Desuacido [tina500@juno.com]
Sent: Monday, February 14, 2011 2:56 PM
To: ERBtestimony
Subject: LATE TESTIMONY - Tax Foundation Testimony
Attachments: h1183-11.pdf; h1187-11.pdf

TRANSMISSION OF TESTIMONY

DATE: Monday, February 14, 2011

TO: House Committee on Economic Revitalization & Business

FROM: Tax Foundation of Hawaii

Total Pages 4

FOR: Rep. Angus McKelvey, Chair

Testifier: Lowell L. Kalapa, President - Tax Foundation of Hawaii

(Mr. Kalapa will not appear in person at the hearing.)

Date of Hearing - Tuesday, February 15, 2011

Position: Comments

Time of Hearing - 8:00 am

HB 1183 - Relating to the General Excise Tax (2 pages)

✓ **HB 1187 - Relating to the Liquor Tax (2 pages)**

Number of copies - 4

Thank you.

TAXBILLSERVICE LATE TESTIMONY

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: LIQUOR, Increase tax**BILL NUMBER:** HB 1187**INTRODUCED BY:** Say by request**BRIEF SUMMARY:** Amends HRS section 244D-4 to increase the liquor tax rates effective July 1, 2011 to: \$8.97 per wine gallon on distilled spirits; \$3.18 per wine gallon on sparkling wine; \$2.07 per wine gallon on still wine; \$1.28 per wine gallon on cooler beverages; \$1.40 per wine gallon on beer other than draft; and \$0.81 per wine gallon on draft beer.**EFFECTIVE DATE:** July 1, 2011**STAFF COMMENTS:** The proposed measure increases the liquor tax by 50% to encourage lower demand for the product. It should be noted that the use of the tax system as a social tool in its attempt to deter the sale of alcoholic products is an inefficient use of the tax system. It should be noted that Hawaii's tax rates on alcoholic beverages are among the highest, if not the highest, in the nation. This increase in liquor tax rates would reaffirm the perception that Hawaii is a tax hell.

The fortunes of the tax on alcoholic beverages are directly tied to the fortunes of the visitor industry as evidenced by dividing the resident population into the volume of alcoholic beverages consumed. Thus, any substantial increase in the tax on alcoholic beverages will affect the cost of such beverages to the visitor. A 50% increase in the tax rate on alcoholic beverages will have a trickle down effect in the bars from Waikiki to Ka'anapali. Since most leisure visitors are on a budget, that tax increase will also have an impact on the cost of the mixed drink or glass of wine to the point that it will, no doubt, reduce consumption and, therefore, the amount spent by the visitor for alcoholic beverages. Should that be the case and the volume is reduced, so will the amount of taxes collected. Given that Hawaii's tax rates on these beverages are amongst the highest in the nation, there is probably little tolerance for yet another increases in price of these beverages. Should consumption fall, not only will tax revenues decrease, but jobs and payroll will be affected in those establishments serving primarily tourists.

As lawmakers scratch their heads on how to deal with the unemployment problem and the lack of activity in the economy, they have only to look at the uncertainty a measure like this creates. With the uncertainty of tax increases and the relative impact they will have on business activity, business owners and investors will be reluctant to go out on a limb and invest, not knowing if they are going to get hit up again.

This proposal to jack up the liquor tax rates by 50% will really hurt the folks who are the on-premise consumption business that must build the tax increase into the cost of their served drinks and then mark it up because of the heavy liability insurance they must carry should one of their patrons drive drunk and the establishment is sued. So what is now a \$7 martini in Waikiki will go to \$10 and the \$10 glass of wine may have to go to \$14. What an "ouch" that will be for the patron who will retaliate by buying one

HB 1187 - Continued

or two less drinks. Multiply that by 100 patrons a night and you are talking a business owner who is going to reduce his workforce because he cannot turn enough of a margin to cover the cost of one extra waitress or bartender.

If the bar owner cannot get the volume up enough with what slim profit margin he can charge, then he will not hire another person. Indeed it is the uncertainty of what the legislature is doing right now that will affect whether or the unemployment rate can be addressed, let alone the revenue picture, to pull us out of this deficit.

Digested 2/14/11

LATE TESTIMONY



February 14, 2011

Via Email ERBtestimony@Capitol.hawaii.gov

Rep. Angus L.K. McKelvey, Chair
Rep. Isaac W. Choy, Vice Chair
COMMITTEE ON ECONOMIC REVITALIZATION & BUSINESS
House of Representatives
State Capitol
415 South King Street
Honolulu, HI 96813

RE: H.B. No. 1187 Relating to the liquor tax

Dear Chair McKelvey, Vice Chair Choy, and Committee Members:

On behalf of Southern Wine & Spirits of Hawaii ("Southern"), we respectfully submit the following written testimony in opposition to H.B. No. 1187, relating to the liquor tax, which is to be heard by your Committee on Economic Revitalization and Business on February 15, 2011. H.B. No. 1187 would increase the taxes payable on distilled spirits, sparkling wine, still wine, cooler beverages and beer by 50%. While we understand that the State government faces substantial fiscal issues, Southern believes that H.B. No. 1187 is inappropriate and unworkable.

The tourist industry is a very large part of Hawaii's total economy. Many tourists while visiting will consume alcoholic beverages. Raising the liquor tax by 50% would only make the cost of a vacation even more expensive, and would be counter-productive to stimulate the State's number one economic driver. Hawaii's tax rate on liquor is already one of the highest in the country. Hawaii's residents and visitors already are burdened by high taxes on liquor.

Consumption of alcoholic beverages are very elastic and price sensitive, especially in a recessionary economy. Raising the taxes on liquor may result in lower consumption which will lower the amount of taxes paid. Also, consumers may trade down to a lower quality, more affordable product which will generate less dollar volume for wholesalers, retailers, restaurants, hotels and bars which will have an impact on the bottom line and may put jobs at risk.

The State's fiscal issues are shared by all. This bill is targeting a single industry to try to solve the problems by raising taxes that will not do much to ultimately stimulate the economy. It could only hurt the recovery process by putting more strain on business that already are paying a high cost to do business in Hawaii. We respectfully oppose H.B. No. 1187. Thank you for your time.

Sincerely,

A handwritten signature in black ink, appearing to read "Steve Perry".

Steve Perry
Vice President Operations

From: mailinglist@capitol.hawaii.gov
Sent: Monday, February 14, 2011 5:09 PM
To: ERBtestimony
Cc: mz9995@hotmail.com
Subject: LATE TESTIMONY - Testimony for HB1187 on 2/15/2011 8:00:00 AM

Testimony for ERB 2/15/2011 8:00:00 AM HB1187

Conference room: 312
Testifier position: oppose
Testifier will be present: No
Submitted by: Michael Zehner
Organization: Individual
Address:
Phone:
E-mail: mz9995@hotmail.com
Submitted on: 2/14/2011

Comments:
The last thing people need right now is more regressive taxes.

LATE TESTIMONY

February 14, 2011

State of Hawaii
415 S. Beretania Street
Honolulu, HI 96813

Re: Strong opposition to HB1187

Aloha Committee Members:

I am writing today to urge you to vote against the passage of the HB1187, Relating to the Liquor Tax Increase. This bill will have an extremely negative impact on Hawaii's brewing business, wine, spirits and other local manufacturers as well as distributors and consumers.

Currently Hawaii excise tax rate on beer is the second highest in the country. The third highest is more than 25% less than Hawaii. In fact, at \$.93 per gallon, Hawaii's packaged beer excise tax rate is 260% higher than the national average of \$.26 per gallon. Any increase in liquor tax rates will have an extremely negative effect on Hawaii's craft beer industry, beverage distributors AND consumers. We are just starting to see tourism return, an increase in the liquor tax will need to be passed along to the consumer in the form of higher prices and I guarantee this will lead to Hawaii being thought of as "too expensive to visit". You will kill tourism and further eradicate local manufacturing with an increase as high as this bill is seeking.

Brewing in Hawaii is not easy. With skyrocketing fuel costs leading to highly priced shipping of necessary inputs and utility costs it is more than 50% higher to brew than our mainland counterparts. Brewers in Hawaii are not large multi-national corporations; we are family-owned small businesses, we are residents, we are supporters of local economy, we are constituents. Any additional burdens placed upon our businesses will have a likely effect of causing increases in export out of Hawaii, which could in very short time mean relocating the business outside of the State. It would be a shame to see further artisanal local brewers (or business of any kind in Hawaii) forced to close and leave the State they love due to the increase being sought.

To any of us the increase in tax is severe; however the proposed increase, the seven remaining brewers will add less than \$50,000 additional income to the State. This is a miniscule amount to the State budget. The proposed tax increase will effectively stop our growth, and has the potential to keep new business from starting and could even cause some to close the doors.

I realize the severe shortfalls the budget is facing. The proposed legislation is not the answer. It has the potential to contribute a very small amount in the near term and will no doubt result in reducing the tax collected in the coming years as sales decline due to high relative pricing. The answer is to stimulate growth in our economy by supporting local small businesses. I would like to recommend that you follow the lead of the Federal Trade and Tax Bureau (TTB) along with 15 other states (Alaska, Iowa, Kentucky, Michigan, Minnesota, Montana, New Mexico, New York, Ohio, Pennsylvania, Rhode Island, Texas, Washington, Wisconsin and Wyoming) and create a Hawaii small brewer tax provision that would lower the current beer tax for beer produced in Hawaii, ensuring that our industry can survive. If Hawaii were to follow the same model as the TTB, the total impact would be approximately \$198,000 to the Hawaii tax collected -- insignificant to Hawaii but crucial to the survival of the Hawaii craft beer industry. We are currently proposing this type of arrangement under 2 bills currently in process during this session. In this circumstance, you would see that we local brewers stand united in pursuit of the small brewer tax provision that will increase jobs, and we believe tax revenues based on us being capable of selling more. At that point, we would have no objections to a modest, less than currently being sought, increase in the taxes on imported beverages. Hawaii needs to be strong again we have the beginnings and need to follow through.

Maui Brewing Co. currently employs 45 residents and continues to be recognized as one of the country's leading breweries in terms of quality and innovation winning more than 60 medals in just the past 3 years. We provide family level wages, stable employment, a safe and positive work environment, benefits including full medical, drug, dental, vision, life insurance and 401k. Where would our employees turn if we were not here? When prices increase to cover the rising taxes and the consumers choose cheap, low- quality products over 'buying local first' what do we tell the employee that is downsized into unemployment? We are fortunate to be growing in today's

economy; this bill could change that. Again I urge you to not pass HB1187 and instead please support the passage of HB365 for a strong Hawaii.

I will look forward to discussing this matter further with you including our thoughts on impact and alternative solutions. Please be sure to contact me on your next visit to Maui; it would be wonderful to give you a tour of our brewery and brewpub.

Mahalo for your support,

A handwritten signature in black ink, appearing to read "Garrett W. Marrero". The signature is stylized with several overlapping, sweeping strokes.

Garrett W. Marrero
Founder
808.280.4687 cell
G@MauiBrewingCo.com

Carole Hagihara

From: mailinglist@capitol.hawaii.gov
Sent: Monday, February 14, 2011 7:18 PM
To: ERBtestimony
Cc: mrs.deanniman@yahoo.com
Subject: Testimony for HB1187 on 2/15/2011 8:00:00 AM

Testimony for ERB 2/15/2011 8:00:00 AM HB1187

Conference room: 312
Testifier position: support
Testifier will be present: No
Submitted by: DeAnn Iman
Organization: Individual
Address:
Phone:
E-mail: mrs.deanniman@yahoo.com
Submitted on: 2/14/2011

Comments:

I am a wife, a mother of 4, a student, and a hard working citizen of Hawaii. In times such as these, my family like many struggles from time to time with finances. My husband and i drink socially. we share a bottle of wine from time to time. We have friends over for a the game and a few beers. We share a drink or two when we finally get a night out.

Alcohol is a luxury, an expense that can and is avoided by many households if money is too tight. Money is tight right now in Hawaii. Taxes should be applied more heavily to discretionary items that can be avoided when necessary. This would allow for an increase in income for our state to apply as needed- and there are MANY areas where the additional funding could be used. unlike many taxes (sales tax, property tax etc....) this allows people to opt out of the increased expense if it is an undue burden.

I am in favor of the increase and as a consumer in Hawaii, i feel that alcohol is one of the few largely enjoyed luxuries that can absorb the added expense. It will not stop a consumer from buying a glass of wine with dinner when going out or a beer at the game. Realistically, the minimal amount would not change much with most consumers, So it will not likely decrease spending at bars, restraunts or liquor stores. The increased alcohol tax will, however, bring much needed income to Hawaii.

Thank You,DeAnn Iman

LATE TESTIMONY

From: mailinglist@capitol.hawaii.gov
Sent: Monday, February 14, 2011 3:09 PM
To: ERBtestimony
Cc: bill@ejlounge.com
Subject: LATE TESTIMONY - Testimony for HB1187 on 2/15/2011 8:00:00 AM
Attachments: Cost of a beer at EJ.doc

Testimony for ERB 2/15/2011 8:00:00 AM HB1187

Conference room: 312
Testifier position: oppose
Testifier will be present: No
Submitted by: Bill Comerford
Organization: Individual
Address:
Phone:
E-mail: bill@ejlounge.com
Submitted on: 2/14/2011

Comments:

Accompanying document shows what percentages of costs fall on us in our industry. When we sell a beer the state makes more 5 times more money than we do. We are a vanishing industry due to over taxation and sth smoking ban.

Bill Comerford

LATE TESTIMONY



This is a representative sale of a beer as a ratio expense of the whole Profit and Loss statement of our companies.

Price of domestic Bottle in our bars	\$4.75
	\$
Cost of goods sold	0.91
	\$
Bottle bill deposits	0.07
	\$
advertising	0.13
	\$
Bank fees	0.05
	\$
Entertainment / Music	0.42
	\$
Insurance	0.20
	\$
Utilities	0.21
	\$
Wages	0.91
	\$
Rent	0.46
	\$
Supplies	0.06
	\$
Equipment/ maint/ Janitorial / furn	0.06
	\$
Combined other expense	0.59
	\$
Government costs *(in store)	0.55
	\$
Profit	0.14
	\$
	4.75

* This does not represent the multitude of taxes on product before it reaches our door. There are City, State and Federal taxes on product, liquor and tobacco.

The glass is not half full it is surprisingly empty!!!!.

Government and Landlords make a better profit off us than we can ever make.

There is very little incentive to stay in this industry in Hawaii. Owners have a 365 day annual work schedule working all hours of the night and days of the week to make less than a 3% profit. While they risk their homes, health and businesses to all imaginable risks the Governments of Hawaii and Honolulu do not play fair and change the rules constantly for those in our industry.

If I could sell my bars I would easily put the money into a CD and get a better yield without any work at all.

Please stop endangering our Hospitality Industry and the hardworking small businessmen and women who create it. We provide entertainment for our visitors and jobs for our residents. We do not work this hard for the Government's benefit, we do it for a profit and if the government threatens that profit there is no incentive to remain in the industry. It would be better to walk away.

Please take the time as a legislator to talk to a neighborhood small businessman in Hawaii. Be candid and ask them if it is worth working in Hawaii. How much must you take from the businesses to provide for an ever growing State and City Government? **WE ARE NOT A BOTTOMLESS WELL OF TAX INCOME FOR UNION EMPLOYEES!!**

Vote with common sense and as a resident of Hawaii, not as an obligated member of the monopoly political party. The burden of doing business in Hawaii is too high for the benefit of those who put forth no risks at all.

WITH NO BUSINESS TO TAX THERE WILL BE NO STATE GOVERNMENT.