

STAND. COM. REP. NO. 2356

Honolulu, Hawaii

FEB 14 2014

RE: S.B. No. 3041
S.D. 1

Honorable Donna Mercado Kim
President of the Senate
Twenty-Seventh State Legislature
Regular Session of 2014
State of Hawaii

Madam:

Your Committee on Commerce and Consumer Protection, to which was referred S.B. No. 3041 entitled:

"A BILL FOR AN ACT RELATING TO LIQUOR TAX LAW,"

begs leave to report as follows:

The purpose and intent of this measure is to apply a reduced gallonage tax on draft beer and beer other than draft beer brewed or produced by a small brewery or brewpub, still wine and sparkling wine produced by a small winery, and distilled spirits produced by a small manufacturer.

Your Committee received testimony in support of this measure from Manulele Distillers, LLC; Island Distillers; Haleakala Distillers; Maui Brewing Co.; and two individuals. Your Committee received testimony in opposition to this measure from the Wine Institute and Anheuser Busch Companies, LLC. Your Committee received comments on this measure from the Department of Taxation and Tax Foundation of Hawaii.

Your Committee finds that Hawaii has extremely high costs of production and some of the highest liquor taxes in the nation, which act as a disincentive to manufacturing in the State and hinder competitive capability. Your Committee further finds that this measure is intended to support the growing craft beverage industry in Hawaii, promote manufacturing jobs, and encourage the growth of small businesses.



Your Committee has heard the concerns that, depending on the gallonage limit defining a small winery, the tax reductions in this measure could have a significant negative impact on state revenue, as over ninety percent of wineries in the country produce less than fifty thousand cases of wine a year. Your Committee understands these concerns and notes that amending the application of the small winery and small manufacturer tax rates proposed by this measure to apply to state-based small wineries and small manufacturers may raise constitutional concerns. In light of these concerns, your Committee finds that this measure should be narrowed to apply only to small breweries or brewpubs.

Your Committee has also heard the concerns that the proposed new tax rate for small breweries and brewpubs gives an unfair advantage over larger brewers that are taxed at a current rate of 93 cents per wine gallon on beer other than draft beer. It is your Committee's understanding that the federal government provides a lower tax rate for small breweries and brewpubs, although the federal rate is not as low as the rate proposed by this measure. Your Committee finds that a tax rate for small breweries or brewpubs that is approximately fifty percent less than the existing rate for beer other than draft beer is more appropriate than the 23 cents per wine gallon tax proposed by this measure.

Accordingly, your Committee has amended this measure by:

- (1) Deleting definitions for "small manufacturer" and "small winery";
- (2) Establishing a tax rate of 47 cents, rather than 23 cents, per wine gallon on draft beer and beer other than draft beer that are brewed or produced by a small brewery or brewpub;
- (3) Deleting language that would have established a tax rate of 59 cents per wine gallon on still wine and sparkling wine produced by a small winery and a tax rate of \$2.57 per wine gallon on distilled spirits produced by a small manufacturer;
- (4) Inserting an effective date of July 1, 2050, to encourage further discussion; and



- (5) Making technical, nonsubstantive amendments for the purposes of clarity and consistency.

As affirmed by the record of votes of the members of your Committee on Commerce and Consumer Protection that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 3041, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 3041, S.D. 1, and be referred to the Committee on Ways and Means.

Respectfully submitted on
behalf of the members of the
Committee on Commerce and
Consumer Protection,




ROSALYN H. BAKER, Chair



The Senate
 Twenty-Seventh Legislature
 State of Hawai'i

Record of Votes
Committee on Commerce and Consumer Protection
CPN

Bill / Resolution No.:*	Committee Referral:	Date:		
SB3041	CPN, WAM	2/12/14		
<input type="checkbox"/> The committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is: <input type="checkbox"/> Pass, unamended 2312 <input checked="" type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313				
Members	Aye	Aye (WR)	Nay	Excused
BAKER, Rosalyn H. (C)	✓			
TANIGUCHI, Brian T. (VC)	✓			
NISHIHARA, Clarence K.				✓
WAKAI, Glenn				✓
SLOM, Sam			✓	
TOTAL	2	0	1	2
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature: 				
Distribution: Original Yellow Pink Goldenrod File with Committee Report Clerk's Office Drafting Agency Committee File Copy				

*Only one measure per Record of Votes