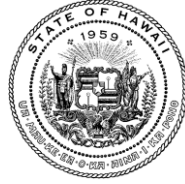


NEIL ABERCROMBIE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



FREDERICK D. PABLO
DIRECTOR OF TAXATION

JOSHUA WISCH
DEPUTY DIRECTOR

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

To: The Honorable David Y. Ige, Chair
and Members of the Senate Committee on Ways and Means

Date: Wednesday, February 26, 2014
Time: 10:30 a.m.
Place: Conference Room 211, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: S.B. No. 3041, S.D.1, Relating to Liquor Tax Law

The Department of Taxation (Department) provides the following comments regarding S.B. 3041, S.D.1, for your consideration.

S.B. 3041, S.D.1, applies a reduced liquor tax rate upon all beer brewed by small breweries, and defines "small breweries." The bill has a defective effective date of July 1, 2050 and would apply to taxable periods beginning after December 31, 2014.

The Department notes that, while there is nothing on the face of the proposed amendments to the liquor tax law that reflects interference with interstate commerce, the purpose clause of the bill states intent to help the local craft beverage industry. The Department defers to the Department of the Attorney General for a determination of any potential constitutional problems with S.B. 3041, S.D.1, but notes that some of Hawaii's prior attempts to assist its liquor industry with tax incentives have failed due to *de facto* discrimination against interstate commerce, even when the statute was facially neutral. See Bacchus Imports Ltd. v. Dias, 468 U.S. 263 (1984).

Thank you for the opportunity to provide comments.

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: LIQUOR, Small breweries and brewpubs

BILL NUMBER: SB 3041, SD-1

INTRODUCED BY: Senate Committee on Commerce and Consumer Protection

BRIEF SUMMARY: Amends HRS section 244D-4 to provide that effective January 1, 2015 draft beer and beer produced by a small brewery or brewpub shall be taxed at 47 cents per wine gallon.

Amends HRS section 244D-1 to define “barrel” as a barrel containing not more than thirty-one gallons or wine gallons of liquor. Defines “small brewery or brewpub” as a brewery or brewpub that brews or produces not more than sixty thousand barrels of beer per taxable year.

EFFECTIVE DATE: July 1, 2050; applicable to tax years beginning after December 31, 2014

STAFF COMMENTS: Currently, beer is subject to a state tax of \$0.93 cents per wine gallon while draft beer is subject to a tax of \$0.54, still wine is taxed at \$1.38 per wine gallon; sparkling wine is taxed at \$2.12 per wine gallon and distilled spirits are taxed at \$5.98 per wine gallon.

The proposed measure would merely establish a reduced liquor tax rate for draft beer and beer produced by a small brewery or brewpub.

Digested 2/25/14

From: mailinglist@capitol.hawaii.gov
To: [WAM Testimony](#)
Cc: daveflintstone@gmail.com
Subject: Submitted testimony for SB3041 on Feb 26, 2014 10:30AM
Date: Monday, February 24, 2014 3:46:35 PM

SB3041

Submitted on: 2/24/2014

Testimony for WAM on Feb 26, 2014 10:30AM in Conference Room 211

Submitted By	Organization	Testifier Position	Present at Hearing
Dave Flintstone	Island Distillers Inc.	Support	No

Comments: As president of Island Distillers, a licensed craft distillery in Honolulu, I support any effort to reduce the tax burden and increase the viability of small manufacturers in Hawaii, in this case small craft producers of alcohol beverages. The benefit to local employment, tourism, and local agriculture would be immediate and without doubt, resulting in a net increase in state tax revenue. What I do not understand is the narrow scope of this bill as amended, which eliminated distilled spirits from consideration. Are the Senate members all dedicated beer drinkers who forsake distilled spirits? Local distilled spirits manufacturers utilize locally produced agricultural products to make their beverages. We employ local staffs in our manufacturing, sales, and distribution. We are a growing focal point of the visitor industry, providing unique and desirable experiences that enhance Hawaii's reputation as a world leading destination. I encourage the committee to amend this bill, in effect to reinstate small distilled spirits producers. The growing industry of small spirits makers in Hawaii, now numbering 8 licensed producers on 3 islands, deserves the same consideration as Hawaii's small craft beer makers. Fair and equitable treatment under the law is not only a good idea, it should be expected.

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

Do not reply to this email. This inbox is not monitored. For assistance please email webmaster@capitol.hawaii.gov

Manulele Distillers, LLC

92-1770 Kunia Road
Kunia, Hawaii 96759
808-224-7505
rdawson@kohanarum.com

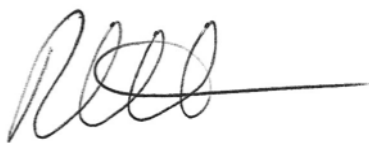
February 24, 2014

Distinguished Senators,

I offer my strong support for SB3041 regarding the lowering of taxes for the manufacturing of alcoholic beverages in Hawaii. I am, however, quite disheartened to see that distilled spirits have been removed from this legislation. As a farmer and distiller, I utilize only 100% Hawaiian ingredients in all of my products. I have spent nearly 5 years painstakingly building a farm of ancient, heirloom sugar canes that are the cornerstone of my products. I only use ingredients that can be sourced within our Islands. This cannot be said of beer manufacturers which are included in SB3041, as the staple ingredients in beer do not grow in Hawaii. Instead, they are imported and processed here only.

Supporting local businesses should always have an emphasis on supporting those that are vertically integrated locally. Please amend the bill to support local farmers trying to create high value products grown in Hawaii. Ignoring our needs in this legislation is not only unfair to us, but impractical as we are the stewards of the land trying to benefit the local economy in a truly meaningful way. Support agriculture by including distilleries in SB3041.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'RDawson', with a long horizontal line extending to the right.

Robert Dawson

Founder/Distiller

Manulele Distillers, LLC