

DAVID Y. IGE  
GOVERNOR

DOUGLAS S. CHIN  
LIEUTENANT GOVERNOR



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DEPUTY DIRECTOR

**STATE OF HAWAII**  
**DEPARTMENT OF TAXATION**  
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To: The Honorable Donovan Dela Cruz, Chair  
and Members of the Senate Committee on Ways & Means

Date: Tuesday, February 6, 2018  
Time: 10:00 A.M.  
Place: Conference Room 211, State Capitol

From: Linda Chu Takayama, Director  
Department of Taxation

Re: S.B. 2712, Relating to Intoxicating Liquor

The Department of Taxation (Department) appreciates the intent of S.B. 2712 and offers the following comments for your consideration.

S.B. 2712 makes amendments to Hawaii Revised Statutes (HRS) chapter 244D, which governs Hawaii's liquor tax law. A summary of the measure's key provisions are as follows:

- Eliminates the 93 cents per wine gallon rate for non-draft beer;
- Taxes all beer at a rate of 54 cents per wine gallon beginning on July 1, 2018;
- Deletes the definition of draft beer;
- Expands the definition of "cooler beverage" to include beverages with less than twelve percent of alcohol by volume that contain distilled spirits and added blending materials; and
- Has an effective date of July 1, 2018.

The Department respectfully requests that the effective date of the measure be changed to January 1, 2019, to allow the Department time to make the necessary changes to forms and instructions and the Department's computer system.

Thank you for the opportunity to provide comments.



February 2, 2018

SB 2712

Relating to Intoxicating Liquor, Tax Rates on Beer and Distilled Beverages with Spirits

Senate Committee on Ways and Means  
Tuesday, Feb 6, 2018 at 10am. Conference Room 211

Chair Roy Takumi, Vice Chair Linda Ichiyama, and House Members of the Committee on Consumer Protection and Commerce,

Position: **Support**

My name is Russell Adkins, I live in Pukalani, Maui and I am the CFO at Maui Brewing Company doing business in Kihei, Kahana, Waikiki, and soon Kailua, HI. Our brewery began in 2005 with 23 employees. We now provide several hundred jobs in Hawaii.

**Consolidate beer tax to one rate**

SB2712 standardizes and simplifies the tax rate on beer. This bill minimizes confusing definitions. The definition of draft is not what we usually think of as draft beer from a tap, it refers to a size of container that the beer is dispensed from. Draft related to tax rates refers to a container of 7 gallons or more, which creates confusion in terminology. This bill encourages compliance with laws by simplifying and making tax terminology less confusing.

Smaller craft breweries and those just starting out will often serve beer on draft from taps from 5 gallon or 2 gallon kegs. Under the draft beer definition the beer served on tap is not in the draft category and taxed at a higher rate. The bill helps support new startup brewery businesses. Hawaii has a high beer tax compared to other states and is in the top 10% for highest beer tax rates. This bill helps even out the economics of production for Hawaii's breweries where cost of ingredients and production are high compared to other states. Higher tax rates present an additional economic challenge for Hawaii's craft beer producers.

Many of Hawaii's small craft breweries self-distribute which increases their work load and cost of operation. This bill helps to reduce the tax burden on smaller breweries.

The higher tax rate of 93 cents is considered a package tax. Many local breweries are going to canning which supports another local Oahu business. By having a lower tax rate, this encourages breweries to increase production and manufacturing using cans, which supports the local Ball plant in Kapolei, currently not running at full production.

**Handcrafted Ales & Lagers Brewed with Aloha**

605 Lipoa Parkway, Kihei, HI 96753

808.213.3002

**Tax rate for distilled beverages containing spirits**

We are experiencing an increase in the number of businesses producing locally distilled beverages. Companies on the mainland are already exporting small volumes of cocktails in cans or bottles to Hawaii. The current tax for a distilled spirit cooler beverage is based on total volume of the beverage rather than just the amount of distilled spirit in the beverage, creating a high tax rate and disadvantage for Hawaii's producers. Beer is the only beverage with this disparity in tax rates. Wine and spirits both have a uniform tax rate based on gallonage.

Mahalo for your consideration. We urge you to pass this bill.  
Thank you for the opportunity to provide testimony in support of SB2712.

Sincerely,



Russell Adkins, CFO

**Handcrafted Ales & Lagers Brewed with Aloha**

605 Lipoa Parkway, Kihei, HI 96753

808.213.3002

## Homebrew in Paradise

Bill Sumrow

740A Moowaa Street

808-834-2739

bill@homebrewinparadise.com



### SB 2712

Relating to Intoxicating Liquor, Tax Rates on Beer and Distilled Beverages with Spirits

Position: **Support**

My name is Bill Sumrow, I live in Honolulu, HI and I am the owner of Homebrew in Paradise, Oahu's only Homebrewing Supply Store, and a Founding Partner in Broken Boundary Brewery, LLC., a brewery in planning in the Kalihi Neighborhood of Honolulu, HI. Our brewery is planned to open in Q3/Q4 of 2018 with 6 employees.

We here at Homebrew in Paradise and Broken Boundary Brewery, LLC supports SB 2712 because it helps to simplify our planning and financial analysis of the endeavor as well as help us innovate in product development. In addition, there are many enterprising entrepreneurs that are hoping to start breweries, wineries, and distilleries of their own and a simplified tax rate would help support their dreams.

### **Consolidate beer tax to one rate**

SB 2712 standardizes and simplifies the tax rate on beer. This bill minimizes confusing definitions. The definition of draft is not what we usually think of as draft beer from a tap, it refers to a size of container that the beer is dispensed from. Draft related to tax rates refers to a container of 7 gallons or more, which creates confusion in terminology. This bill encourages compliance with laws by simplifying and making tax terminology less confusing.

Smaller craft breweries and those just starting out will often serve beer on draft from taps from 5 gallon or 2 gallon kegs. Under the draft beer definition the beer served on tap is not in the draft category and taxed at a higher rate. The bill helps support new startup brewery businesses. (If this impacts your brewery, add that in here)

Hawaii has a high beer tax compared to other states and is in the top 10% for highest beer tax rates. This bill helps even out the economics of production for Hawaii's breweries where cost of ingredients and production are high compared to other states. Higher tax rates present an additional economic challenge for Hawaii's craft beer producers.

Many of Hawaii's small craft breweries self-distribute which increases their work load and cost of operation. This bill helps to reduce the tax burden on smaller breweries.

The higher tax rate of 93 cents is considered a package tax. Many local breweries are going to canning which supports another local Oahu business. By having a lower tax rate, this encourages breweries to increase production and manufacturing using cans, which supports the local Ball plant in Kapolei, currently not running at full production.

Mahalo for your consideration. We urge you to pass this bill.

Thank you for the opportunity to provide testimony in support of SB 2712.



Lanikai Brewing Company  
175 Hamakua Drive, Unit C  
Kailua, Hawaii 96734  
www.lanikaibrewing.com

2/3/2018

RE: SB2712 relating to Tax Rate on Beer and Cooler Beverages

Aloha Chair Donovan Dela Cruz, Vice Chair Gilbert Keith-Agaran and members of the WAM committee.

Lanikai Brewing Company is a locally owned and operated Craft Brewery here in Kailua, Oahu and we are in support of SB2712.

SB2712 Standardizes and simplifies the tax rate on beer. This bill reduces confusing definitions of the concept of "Draft". Normally, we consider draft to be whatever flows out of the tap, however as the law stands now, its actually on its container size where draft is 7 gallons or more per container. Modern brewing and kegging has draft sizes down to just a few gallons as vendors lack space in their establishments for larger kegs. Since many brewers do not even know about this disparity, this bill simplifies the code and makes it less confusing and more real-world.

The number of craft breweries continues to increase and we continue to sell more product, pay more taxes, hire more people who in turn pay more taxes also. Hawaii's existing tax on beer is in the top 10% of the nation of the highest, which is prohibitory to the rapid expansion of the industry. Our costs of business being geographically isolated continue to slow the manufacturing sector, so this correction in tax will help build a stronger industry more favorable to new entrants.

As it pertains to distilled beverages containing spirits, right now if my company produces 1 oz of rum with 11 oz of soda, we are taxed as it was 12 oz of rum at almost \$6/gallon. As such, we cannot produce local cooler beverages. By taxing only the distilled spirit in the beverage, it opens up an entirely new category of products for us to manufacture here locally, sell locally as well as pay our local taxes.

Thank you for the opportunity to send testimony. This bill will absolutely create new jobs here in Hawaii, strengthen our Made in Hawaii brand value for locals and visitors, as well as allow the industry to flourish and expand. Further, due to the costs of manufacturing here locally, this would allow us small business owners to be more competitive on the national scale furthering growth of jobs here in Hawaii.

Lanikai Brewing Company is an Island Inspired® authentic Hawaiian craft beer company making 100% of our brews here in Hawaii. We take our cues from premium, local, rare, and exotic ingredients grown by local farmers and foraged across the Pacific to bring you bold and flavorful beers that you will find nowhere else utilizing Hawaiian terroir. \*\*Please note that variances in growing season conditions can impact batch-to-batch flavor and aroma profiles.

ʻŌkole Maluna,

*Steven R Haumschild*

Steve Haumschild, MBA  
CEO & Brewmaster  
Certified Cicerone®  
Lanikai Brewing Company, Island Inspired™ Craft Beer

Lanikai Brewing Company, Island Inspired™ Craft Beer  
Brewery @ 175-C Hamakua Dr, Kailua, HI 96734  
Tap & Barrel @ 167 Hamakua Dr, Kailua, HI 96734 M-F 4p-10p, S-S 11a-10p  
FB: Lanikai Brewing Company, Instagram: @lanikaibrewing



February 1, 2018

**Senate Committee on Ways and Means  
Tuesday, Feb 6, 2018 at 10am, Conference Room 211**

Re: In **SUPPORT, SB2712**, Relating to Intoxicating Liquor, Tax Rates on Beer and Distilled Beverages with Spirits

Aloha Chair Donovan M. Dela Cruz, Vice Chair Gilbert S.C. Keith-Agaran, and Senate Members of the Committee on Ways and Means,

My name is Garrett W. Marrero, I live in Kula, HI. We have locations on Maui in Lahaina and Kihei, and on Oahu in Waikiki and Kailua. We distribute across the Hawaii, 23 other States, and 13 countries. We began in 2005 with 26 team members and have added more than 500 to our team. My wife and I were selected as the National Small Business Persons of the year in 2017 for our work at Maui Brewing Co. I'm writing on behalf of myself and our local family-operated business in support of **SB2712** which creates a uniform application of State Law allowing Minors to be present in a tasting room with a parent/guardian.

#### **Consolidate beer tax to one rate**

HB2412 standardizes and simplifies the tax rate on beer. HRS 244D dealing with Liquor Tax has two separate rates for beer. This is the only beverage that has a disparity in tax rates. Wine and spirits both enjoy a uniform tax rate based on gallonage. Beer however is subject to a confusing burdensome set of accounting for tax. There is "Draft Beer" and "Beer", you would think that draft means anything served on draft as in from a keg and everything else (i.e. cans, bottles etc.) would be "beer". This is not the case. "Draft beer" is defined as an "individual container of 7 gallons or more"; many of us serve "Draft" from 5 gallon or even 2 gallon kegs in some instances. The draft beer rate is currently \$0.54/gallon. We refer to the "beer" definition as the "package tax" as it at least should relate to individual packages. The "package" rate is \$0.93/gallon. I would argue that most breweries both Hawaii based and importers do not know that there is such an odd definition to draft. This bill encourages compliance with laws by simplifying and making tax terminology less confusing and results in a significant boost to the industry growth.

The bill helps support new startup brewery businesses. Hawaii has a high beer tax compared to other states and is in the top 10% for highest beer tax rates. This bill helps even out the economics of production for Hawaii's breweries where cost of ingredients and production are among the highest compared to other States. Higher tax rates present an additional economic disincentive for Hawaii's craft beer producers to manufacture and grow locally.

The higher tax rate of 93 cents is considered a package tax. Many local breweries are going to canning which supports another local Oahu business. By having a lower tax rate, this encourages breweries to increase production and manufacturing using cans, which supports the local Ball plant in Kapolei, currently not running at full production. Also, many breweries purchase their cardboard from a plant in Kapolei. The higher

**Handcrafted Ales & Lagers Brewed with Aloha**  
605 Lipoa Parkway, Kihei, HI 96753  
808.213.3002

tax rate on package is a disincentive to local packaging which decreases the purchases from other local manufacturers (cans, cardboard, etc)

It is important to note that this change does not directly impact Maui Brewing Co. and supports the smaller breweries the most. We believe it is the right move for the industry.

**Tax rate for distilled beverages containing spirits**

HRS 244D has a “cooler beverage” tax rate for beverages that are either wine or beer based. This makes sense as the coolers are a mixed beverage with only a portion being liquor while the rest is juice, water, soda etc (a mixer). Currently the rules do not allow for a spirits-based beverage. This means that a local distiller that wishes to make a ready to drink “cooler beverage” is taxed as if the entire contents are alcohol. As a result a 12oz can with 1oz of spirit and 11oz of ginger beer is taxed as if it is 12oz of spirits. This makes no sense. We believe that this is the primary reason there are zero locally produced ready to drink spirits based beverages despite the growing number of local distilleries. There are several companies on the mainland exporting small volumes of cocktails in cans or bottles but no local option.

Simply put, by creating a spirits cooler beverage category the State will give birth to an entire industry primed for growth in Hawaii. A locally produced alternative for ready to drink cocktails makes sense versus imported beverages when we aim to deliver an authentic Hawaiian experience to our visitor industry.

This year Maui Brewing Co. will begin adding natural craft sodas, distilled spirits, cider and canned cocktails to our distributed lineup. These additional local beverage lines will add to not only our employment base but that of our wholesaler partners. Additional wages and taxes will be paid based on growth. It is imperative to have the support of the State when working to increase manufacturing within the State. Mahalo for your consideration. We urge you to pass this bill.

Thank you for the opportunity to provide testimony in support of **SB2712**.

Mahalo,



Garrett W. Marrero  
CEO/Founder



**WAIKIKI BREWING COMPANY**

Joe P. Lorenzen, Partner/Brewmaster

831 Queen St.

Honolulu, HI 96813

808-591-0387

[brewmaster@waikikibrewing.com](mailto:brewmaster@waikikibrewing.com)

SB 2712 Relating to Tax Rate on Beer and Cooler Beverages

Senate Committee on Ways and Means

Tuesday, Feb 6, 2018 at 10 a.m. Room 211

Position: **Support**

Chair Senator Donovan Dela Cruz, Vice Chair Senator Gilbert Keith-Agaran, and members of the Senate Ways and Means Committee,

My name is Joe Lorenzen. I live in Honolulu, on the island of Oahu, and I am a partner in and Brewmaster of Waikiki Brewing Company with business locations in Waikiki and in Kaka'ako. Our brewery began with 15 employees in 2015, and now employs a staff of 45.

We support SB 2712 because of the following:

For the majority of the world, the term "draft beer" refers to beer poured from tap. SB 2712 minimizes confusion by embracing this standard definition instead of the confusing one currently used in Hawaii which refers to a container of 7 gallons or more. Smaller craft breweries and those just starting out will often serve beer on draft from taps using 5.2 gallon or 2 gallon kegs. This bill encourages compliance with laws by simplifying and making tax terminology less confusing. Under the current draft beer definition the beer served on tap is not in the draft category and taxed at a higher rate.

Hawaii is in the top 10% of all US states in terms of tax rates applied to beer producers. Given that the cost of doing business in the state of Hawaii already presents a great challenge when it comes to ingredient cost, shipping cost, and other economic hurdles, having among the highest tax rates on beer production makes growing a manufacturing business in the craft beer industry very challenging. This bill will help to even the playing field and promote revenue and job creation in Hawaii.

We are a small brewer that continues to self-distribute our product in many circumstances which increases our cost of doing business and as such, a bill such as this which helps to reduce the tax burden on smaller breweries will help us to bring our product to market.

The higher tax rate of 93 cents is considered a package tax. Waikiki Brewing Company cans 100% of our beer here on Oahu and purchases 100% of our cans from Ball Corp which manufactures here in Kapolei. Having a lower tax rate on packaged beer encourages breweries to increase production which in turn supports yet another manufacturing firm on Oahu, adding additional revenue and jobs to the local economy. Beer is the only beverage with this disparity in tax rates. Wine and spirits both have a uniform tax rate based on gallonage.

Mahalo for your consideration. We urge you to pass this bill.

Thank you for the opportunity to provide testimony in support of SB 2712.



Sincerely,

Joe P. Lorenzen



February 4, 2018

SB 2712 Relating to Tax Rate on Beer and Cooler Beverages  
Senate Committee on Ways and Means  
Tuesday, Feb 6, 2018 at 10 a.m. Room 211

Chair Senator Donovan Dela Cruz, Vice Chair Senator Gilbert Keith-Agaran, and members of the Senate Ways and Means Committee,

Position: **Support**

My name is Geoffrey Seideman, I live in Hawaii Kai, Oahu, and I am the Owner and Brewer of **Honolulu BeerWorks** brewery in Kaka'ako. Mahalo for the opportunity to submit testimony, I apologize that I could not be there in person as my growing business needs me present. I am writing on behalf of our local family-operated business, Honolulu Beerworks, in support of **SB 2712**. Our Brewery began business in 2014 with 18 initial employees. We now provide 36 jobs in Hawaii with plans for more job opportunities in the near future.

The Hawaiian Craft Brewers Guild is a craft brewing trade organization that seeks to promote production of independent craft beer in Hawaii. We are united in our pursuit to promote economic activity for Hawaii's beer manufacturers and enhance opportunities in our communities.

### **Consolidate beer tax to one rate**

SB2712 standardizes and simplifies the tax rate on beer. This bill minimizes confusing definitions. The definition of draft is not what we usually think of as draft beer from a tap, it refers to a size of container that the beer is dispensed from. Draft related to tax rates refers to a container of 7 gallons or more, which creates confusion in terminology. This bill encourages compliance with laws by simplifying and making tax terminology less confusing.

Smaller craft breweries and those just starting out will often serve beer on draft from taps from 5 gallon or 2 gallon kegs. Under the draft beer definition the beer served on tap is not in the draft category and taxed at a higher rate. The bill helps support new startup brewery businesses.

**Honolulu Beerworks**  
**328 Cooke St, Honolulu HI. 93813**  
**808-589-2337**

Hawaii has a high beer tax compared to other states and is in the top 10% for highest beer tax rates. This bill helps even out the economics of production for Hawaii's breweries where cost of ingredients and production are high compared to other states. Higher tax rates present an additional economic challenge for Hawaii's craft beer producers.

Many of Hawaii's small craft breweries self-distribute which increases their work load and cost of operation. This bill helps to reduce the tax burden on smaller breweries. We have and are currently self-distributing on Oahu. This in itself is a hard and expensive, any kind of relief would allow us to hire more drivers and sales to help get our product to more consumers.

The number of craft breweries across Hawaii continues to increase and existing breweries continue to expand, creating jobs. The State of Hawaii receives increased tax revenue as our local breweries pay state business taxes and employees pay income tax.

The higher tax rate of 93 cents is considered a package tax. Many local breweries are going to canning which supports another local Oahu business. By having a lower tax rate, this encourages breweries to increase production and manufacturing using cans, which supports the local Ball plant in Kapolei, currently not running at full production. As part of our expansion we have already added a canning line to our production facility, and are currently distributing our cans on Oahu.

### **Tax rate for distilled beverages containing spirits**

We are experiencing an increase in the number of businesses producing locally distilled beverages. Companies on the mainland are already exporting small volumes of cocktails in cans or bottles to Hawaii. The current tax for a distilled spirit cooler beverage is based on total volume of the beverage rather than just the amount of distilled spirit in the beverage, creating a high tax rate and disadvantage for Hawaii's producers. Beer is the only beverage with this disparity in tax rates. Wine and spirits both have a uniform tax rate based on gallonage.

We are looking at distilling as part of our future plans for expansion, and this bill will make it easier for us to invest back into the company with machinery and employees to make this a reality.

Mahalo for your consideration. We urge you to pass this bill.  
Thank you for the opportunity to provide testimony in support of SB2712

Sincerely,  
Geoffrey Seideman  
Owner/Brewer

**Honolulu Beerworks**  
**328 Cooke St, Honolulu HI. 93813**  
**808-589-2337**



64-1066 Mamalahoa Highway  
Kamuela, Hawaii, 96743

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February 5, 2018

Senate Committee on Ways & Means

Hearing:

Friday, February 6th, 2018, 10:00 AM  
State Capitol, Conference Room 211

SB 2712 Relating to Tax Rate on Beer and Cooler Beverages  
Senate Committee on Ways and Means  
Tuesday, Feb 6, 2018 at 10 a.m. Room 211

Re: B 2712, Includes distilled beverages containing spirits and added blending materials that contain less than twelve per cent of alcohol by volume in the cooler beverage definition. Deletes definition of draft beer. Applies the tax rate on draft beer to all beer.

Aloha Chair Senator Donovan M. Dela Cruz, Vice Chair and House Senator Gilbert S.C. Keith-Agaran and members of the Senate Committee on Ways & Means.

I'm writing on behalf of our small, local, family-operated business, Big Island Brewhaus, in Waimea/Kamuela on the Big Island. We strongly support **SB 2712** which includes re-defining distilled beverages containing spirits and added blending materials that contain less than twelve per cent of alcohol by volume in the cooler beverage definition. Deletes definition of draft beer and applies the tax rate on draft beer to all beer.

These measures can help authentic Hawaiian Craft Breweries continue to grow local manufacturing creating an incentive to grow and reinvest in equipment and employees.

A passage of this bill will help create more jobs, help pay more wages, to create new products, and allow breweries to grow not only in numbers but in volume, and ultimately reinvest in our communities growing the overall industry of locally made beverages.

Hawaiian manufacturing and producers operate under the highest cost conditions of any State. This has served to limit the availability of true, locally produced selections and give rise to a host of "faux-Hawaiian" products. As an isolated State we must invest in local manufacturing, these are jobs with good wages and benefits that can provide careers for our residents. Further if Hawaii is to continue to compete in the world of tourism it is important for us to deliver an authentic Hawaiian experience in our products; this bill helps us to continue on our path of recent growth and success.

Big Island Brewhaus was founded initially in 2008 with 9 original employees as a community gathering place serving local cuisine and hand-crafted beers. We have grown into a team of 40 Big Island residents that sells award winning beers throughout Hawaii and is focused on using local sources for our food and beer. We have done this in the face of significant challenges to growth at all levels; financial, shipping, taxation, legislative and more. Changes like this bill can help us continue our success and help others to do the same. We appreciate the on-going support of all individuals and legislators who support issues which enable local manufacturers and businesses to thrive in Hawaii.

I am also the President of the Hawaiian Craft Brewers Guild and I submit this testimony also on behalf of the Guild's members which includes a total of 9 small breweries which manufacture 100% of their product in Hawaii with breweries on Hawaii Island, Oahu, Maui, & Kauai.

I regret that I am unable to travel to Oahu for this hearing. Thank-you for your consideration, I urge you pass this bill.

Thank-you for the opportunity to provide testimony in support of SB 2712.

Sincerely,

**Thomas D. Kerns**

Thomas Kerns

Founder & Brewer

Big Island Brewhaus

64-1066 Mamalahoa Highway

Kamuela, HI, 96743

[BigIslandBrewhaus@yahoo.com](mailto:BigIslandBrewhaus@yahoo.com)

Cell# 808-276-3301



# KAUAI ISLAND BREWING CO.

PORT ALLEN, HAWAII

February 5, 2018

SB 2712 Relating to Tax Rate on Beer and Cooler Beverages  
Senate Committee on Ways and Means  
Tuesday, 2/6/18 10:00 am in Conference Room 211

Chair Senator Dela Cruz, Vice Chair Senator Keith-Agaran, and members of the Committee,

Position: **Support**

My name is Bret Larson and I am the owner of Kauai Island Brewing Company doing business in Eleele, Kauai. Our brewery began in 2012 with 25 employees. We now provide 35 jobs in Hawaii. I support SB 2712.

We are experiencing an increase in the number of businesses producing locally distilled beverages. Companies on the mainland are already exporting small volumes of cocktails in cans or bottles to Hawaii. The current tax for a distilled spirit cooler beverage is based on total volume of the beverage rather than just the amount of distilled spirit in the beverage, creating a disadvantage for Hawaii's producers.

Development and production of spirit beverages encourages additional use of Hawaii grown agricultural products used as ingredients, for example tropical fruits, ginger, lemon grass, coconut.

Further it standardizes and simplifies tax rate. Minimizes confusion about definitions. Definition of draft is not what we usually think of as draft beer from a tap, it refers to a size of container that the beer is dispensed from. Draft related to tax rates refers to a container of 7 gallons or more, which creates confusion in terminology. Bill encourages compliance with laws by simplifying and making tax terminology less confusing.

Some breweries, especially smaller craft breweries and those just starting out will serve beer on draft from taps from 5 gallon or 2 gallon kegs. Under the draft beer definition the beer they serve on tap is not in the draft category and taxed at a higher rate. The bill helps support new startup brewery businesses.

Beer is the only beverage with this disparity in tax rates. Wine and spirits both have a uniform tax rate based on gallonage.

SB 2712 was created to support Hawaii's craft beer producers. Our economic sector continues to grow, with at least 5 new breweries or brewpubs opening in 2017/2018. Increase in number

Brewery Location: 4350 Waialo Rd, Port Allen, HI 96705

Mailing Address: PO Box 215, Eleele, HI 96705

[www.kauaiislandbrewing.com](http://www.kauaiislandbrewing.com)

of craft breweries is a national trend. As more breweries open in Hawaii and existing breweries increase production, more jobs are created and the state derives increased revenue from income and business taxes.

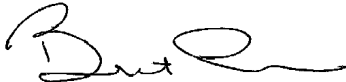
Hawaii has a high beer tax compared to other states and is in the top 10% for highest beer tax rates. This bill helps even out the economics of production for Hawaii's breweries where cost of ingredients and production are high compared to other states. Higher tax rates present an additional economic challenge for Hawaii's craft beer producers.

The higher tax rate of 93 cents is considered a package tax. Many local breweries are going to canning which supports another local Oahu business. By having a lower tax rate, this encourages breweries to increase production and manufacturing using cans, which supports the local Ball plant in Kapolei, currently not running at full production.

Most Hawaii's small craft breweries self-distribute which increases their work load and cost of operation. This bill reduces the tax burden on smaller breweries, many them self-distributing.

Mahalo for your consideration. We urge you to pass this bill.  
Thank you for the opportunity to provide testimony in support of SB 2712.

Sincerely,

A handwritten signature in black ink, appearing to read "Bret Larson". The signature is fluid and cursive, with the first name "Bret" being more prominent than the last name "Larson".

Bret Larson  
Owner, President, Kauai Island Brewing Company, LLC.  
808-755-5926  
[bret@kauaiislandbrewing.com](mailto:bret@kauaiislandbrewing.com)



Cindy Goldstein  
Executive Director  
Hawaiian Craft Brewers Guild  
98-814 C Kaonohi Street  
Aiea, HI 96701

SB 2712 Relating to Tax Rate on Beer and Cooler Beverages  
Senate Committee on Ways and Means  
Tuesday, Feb 6, 2018 at 10 a.m. Room 211

Position: **Support**

Chair Senator Donovan Dela Cruz, Vice Chair Senator Gilbert Keith-Agaran, and members of the Senate Ways and Means Committee,

The Hawaiian Craft Brewers Guild is a non-profit Hawaii trade organization that seeks to promote production of independent craft beer in Hawaii. The number of independent craft breweries in Hawaii continues to grow, and several breweries have recently, or are in the process of expanding. The Hawaiian Craft Brewers Guild is united in our pursuit to promote economic activity for Hawaii's beer manufacturers and enhance opportunities in our communities. Our members represent the majority of the craft beer producers in Hawaii, with members producing 100% of their beer in Hawaii.

#### Tax on Spirit Beverage Cooler

The Hawaiian Craft Brewers Guild is seeing an increase in the number of businesses that are making locally distilled spirits. Production of distilled spirit "cooler beverages" is a potential new source of tax revenue for the State of Hawaii. Companies on the mainland are already exporting small volumes of spirit cooler beverages in cans, bottles and jugs to Hawaii. Local spirit distillers wanting to manufacture a spirit beverage are required to pay tax on the total volume of the beverage, rather than on just the amount of distilled spirit contained in the beverage. Currently Hawaii law does have a "cooler beverage" category for Malt or Wine based versions, yet Spirits do not. This creates a significant disadvantage for a Hawaii producer and has discouraged local distilled spirit producers from developing these beverages.

Development and production of spirit cooler beverages encourages additional use of Hawaii grown agricultural products used as ingredients, for example tropical fruits, coffee, ginger, lemon grass and other locally grown farm products. The Hawaiian Craft Brewers Guild embraces support of Hawaii farmers and their locally grown crops.

Cooler beverages made in Hawaii with distilled spirits produced in Hawaii are a new potential product line. This would bring a stream of tax revenue that does not currently exist, as a newly created and defined category of product is created and offered to consumers. The passage of this bill will also create parity between malt and wine based coolers and spirits based versions.



## Tax Rate on Beer

SB2712 standardizes and simplifies the tax rate on beer, minimizing confusion about definitions. The definition of draft is not what we usually think of as draft beer from a tap. Current statute defines the term draft according to a size of container that the beer is dispensed from. Draft related to tax rates refers to a container of 7 gallons or more, which creates confusion in terminology. SB2712 seeks to simplify terminology and eliminate the vague definition “draft beer” by using the word beer.

Some breweries, especially smaller craft breweries and those just starting out will serve beer on draft from taps from 5 gallon or 2 gallon kegs. Under the draft beer definition the beer they serve on tap is not in the draft category, and taxed at a higher rate. The bill helps support new Hawaii startup brewery businesses.

Beer is the only beverage with this disparity in tax rates. Wine and spirits both have a uniform tax rate based on gallonage. With changes proposed in SB2712, beer would now conform more closely with other alcoholic beverages, defined by a single or uniform term for tax rates based on gallonage.

SB 2712 was created to support Hawaii’s craft beer producers. This economic sector continues to grow, with at least 5 new breweries or brewpubs opening in 2017/2018. As more breweries open in Hawaii and existing breweries expand and increase production, more jobs are created. The State of Hawaii receives increased tax revenue as our local breweries pay state business taxes and employees pay income tax. According to recent figures from the Brewers Association, Hawaii had eight breweries in 2013 and we now have about 15 at the end of 2017. This increase in number of breweries provides new and increased tax revenue for the state.

A chart is submitted with this testimony showing data compiled by state by the Alcohol and Tobacco Tax Trade Bureau. The table clearly shows a significant increase in beer production and taxable volume between 2007 and 2016. While there is a 400% increase in taxable volume in total barrels from 2014 to 2016, the taxable volume for bottles and cans doubled from 2014 to 2016. Making tax rates more uniform, with a single definition for beer, could stimulate increased production of cans and bottles. In some years we have seen a shift away from cans and bottles when the economics become more difficult.

A number of breweries are going to canning which supports another local Oahu business, the Ball Metal Packaging plant in Kapolei. The higher tax rate of 93 cents is considered a package tax for canning and bottling. The uniform tax rate proposed in SB2712 improves the economics of production for craft breweries, encouraging increased production and manufacturing using cans. The Ball plant in Kapolei produces cans for local craft breweries and currently they are not running their can manufacturing at full production

Hawaii has a high beer tax rate compared to other states, in the top 10% for highest beer tax. A map submitted with our testimony shows Hawaii is ranked in the top 5 for highest beer tax rates in the United States. This bill helps even out the economics of production for Hawaii’s breweries where cost of ingredients and production are high compared to other states. Higher tax rates present an additional economic challenge to the success of Hawaii’s craft beer producers.

Mahalo for your consideration. We urge you to pass this bill.  
Thank you for the opportunity to provide testimony in support of SB2712.

## **Kauai Beer Company**

James Guerber

4265 Rice Street

Lihue, HI 96766

808 639 7821

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SB 2712 Relating to Tax Rate on Beer and Cooler Beverages  
Senate Committee on Ways and Means  
Tuesday, Feb 6, 2018 at 10 a.m. Room 211

Chair Senator Donovan Dela Cruz, Vice Chair Senator Gilbert Keith-Agaran, and members of the Senate Ways and Means Committee,

Position: **Support**

My name is Jim Guerber and I am the President of the Kauai Beer Company, located in downtown Lihue, Kauai on Rice Street. We have been in business here since 2006 and began formally serving beer in September 2013. We have been instrumental in the effort to revitalize our downtown and are widely recognized for our contribution in that regard. We are in the process of renovating an adjacent space, which will dramatically enhance our ability to serve a larger customer base, increase production and increase our personnel, which is presently 34 full and part-time personnel.

The Kauai Beer Company supports support SB 2712 for the following reasons:

### **Consolidate beer tax to one rate**

SB 2712 standardizes and simplifies the tax rate on beer. This bill minimizes confusing definitions. The definition of draft is not what we usually think of as draft beer from a tap, it refers to a size of container that the beer is dispensed from. Draft related to tax rates refers to a container of 7 gallons or more, which creates confusion in terminology. This bill encourages compliance with laws by simplifying and making tax terminology less confusing.

Smaller craft breweries and those just starting out will often serve beer on draft from taps from 5 gallon or 2 gallon kegs. Under the draft beer definition the beer served on tap is not in the draft category and taxed at a higher rate.

Hawaii has a high beer tax compared to other states and is in the top 10% for highest beer tax rates. This bill helps even out the economics of production for Hawaii's breweries where cost of ingredients and production are high compared to other states. Higher tax rates present an additional economic challenge for Hawaii's craft beer producers.

Many of Hawaii's small craft breweries self-distribute which increases their work load and cost of operation. This bill helps to reduce the tax burden on smaller breweries and would cause us to seriously examine our position vis a vis distribution.

The higher tax rate of 93 cents is considered a package tax. By having a lower tax rate, this would encourage us to increase production and entertain manufacturing using cans, which supports the local Ball plant in Kapolei, currently not running at full production.

### **Tax rate for distilled beverages containing spirits**

We are experiencing an increase in the number of businesses producing locally distilled beverages. Companies on the mainland are already exporting small volumes of cocktails in cans or bottles to Hawaii. The current tax for a distilled spirit cooler beverage is based on total volume of the beverage rather than just the amount of distilled spirit in the beverage, creating a high tax rate and disadvantage for Hawaii's producers. Beer is the only beverage with this disparity in tax rates. Wine and spirits both have a uniform tax rate based on gallonage.

Thank you for the opportunity to provide testimony in support of SB 2712

Jim Guerber  
President



## **Home of the Brave Brewing Company**

Glen Tomlinson

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SB 2712 Relating to Tax Rate on Beer and Cooler Beverages  
Senate Committee on Ways and Means  
Tuesday, Feb 6, 2018 at 10 a.m. Room 211

Position: **Support**

Chair Senator Donovan Dela Cruz, Vice Chair Senator Gilbert Keith-Agaran, and members of the Senate Ways and Means Committee,

My name is Glen Tomlinson and I am the owner and President of Home of the Brave Brewing Company in Kakaako. We started our brewery in 2009 and have 5 employees.

Home of the Brave Brewing Company supports SB2712

### **Consolidate beer tax to one rate**

SB2712 standardizes and simplifies the tax rate on beer. This bill minimizes confusing definitions. The definition of draft is not what we usually think of as draft beer from a tap, it refers to a size of container that the beer is dispensed from. Draft related to tax rates refers to a container of 7 gallons or more, which creates confusion in terminology. This bill encourages compliance with laws by simplifying and making tax terminology less confusing.

Smaller craft breweries and those just starting out will often serve beer on draft from taps from 5 gallon or 2 gallon kegs. Under the draft beer definition the beer served on tap is not in the draft category and taxed at a higher rate.

The number of craft breweries across Hawaii continues to increase and existing breweries continue to expand, creating jobs. The State of Hawaii receives increased tax revenue as our local breweries pay state business taxes and employees pay income tax.

Hawaii has a high beer tax compared to other states and is in the top 10% for highest beer tax rates. This bill helps even out the economics of production for Hawaii's breweries where cost of ingredients and production are high compared to other states. Higher tax rates present an additional economic challenge for Hawaii's craft beer producers.

Many Hawaii breweries are now canning their beer, or considering canning. Uniformity in the tax rate will make the economics of canning more feasible. We hope to expand production volume and possibly package our beer in cans in the future.

The higher tax rate of 93 cents is considered a package tax. Many local breweries are going to canning which supports another local Oahu business. By having a lower tax rate, this encourages breweries to increase production and manufacturing using cans, which supports the local Ball plant in Kapolei, currently not running at full production.

Many of Hawaii's small craft breweries self-distribute which increases their work load and cost of operation. This bill helps to reduce the tax burden on smaller breweries.

### **Tax rate for distilled beverages containing spirits**

We are experiencing an increase in the number of businesses producing locally distilled beverages. Production of distilled spirit beverages is a potential new source of tax revenue for the State of Hawaii. Companies on the mainland are already exporting small volumes of cocktails in cans or bottles to Hawaii.

The current tax for a distilled spirit cooler beverage is based on total volume of the beverage rather than just the amount of distilled spirit in the beverage, creating a high tax rate and disadvantage for Hawaii's producers. Beer is the only beverage with this disparity in tax rates. Wine and spirits both have a uniform tax rate based on gallonage.

Mahalo for your consideration. We urge you to pass this bill.  
Thank you for the opportunity to provide testimony in support of SB2712.

Aloha & Mahalo,

Glen Tomlinson  
President  
Home of the Brave Brewing Company

REAL a gastropub

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SB 2712 Relating to Tax Rate on Beer and Cooler Beverages  
Senate Committee on Ways and Means  
Tuesday, Feb 6, 2018 at 10 a.m. Room 211

Position: **Support**

Chair Senator Donovan Dela Cruz, Vice Chair Senator Gilbert Keith-Agaran, and members of the Senate Ways and Means Committee,

I'm writing on behalf of our small, local family-operated business, REAL a gastropub / Bent Tail Brewing Company in Kaka'ako on Oahu. We support **SB 2712** which includes redefining distilled beverages containing spirits and added blending materials that contain less than twelve per cent of alcohol by volume in the cooler beverage definition. Deletes definition of draft beer. Applies the tax rate on draft beer to all beer.

These measures can help authentic Hawaiian Craft Breweries continue to grow local manufacturing creating an incentive to grow and reinvest in equipment and employees.

A passage of this bill will help create more jobs, help pay more wages, to create new products, and allow breweries to grow not only in numbers but in volume, and ultimately reinvest in our communities growing the overall industry of locally made beverages.

Hawaiian manufacturing and producers operate under the highest cost conditions of any State. This has served to limit the availability of true, locally produced selections and give rise to a host of "faux-Hawaiian" products. As an isolated State we must invest in local manufacturing, these are jobs with good wages and benefits that can provide careers for our residents. Further if Hawaii is to continue to compete in the world of tourism it is important for us to deliver an authentic Hawaiian experience in our products

The Hawaiian Craft Brewers Guild is a craft brewing trade organization that seeks to promote production of independent craft beer in Hawaii. We are united in our pursuit to promote economic activity for Hawaii's beer manufacturers and enhance opportunities in our communities.

### **Consolidate beer tax to one rate**

SB2712 standardizes and simplifies the tax rate on beer. This bill minimizes confusing definitions. The definition of draft is not what we usually think of as draft beer from a tap, it refers to a size of container that the beer is dispensed from. Draft related to tax rates refers to a container of 7 gallons or more, which creates confusion in terminology. This bill encourages compliance with laws by simplifying and making tax terminology less confusing.

Smaller craft breweries and those just starting out will often serve beer on draft from taps from 5 gallon or 2 gallon kegs. Under the draft beer definition the beer served on tap is not in the draft

category and taxed at a higher rate. The bill helps support new startup brewery businesses such as ours

The number of craft breweries across Hawaii continues to increase and existing breweries continue to expand, creating jobs. The State of Hawaii receives increased tax revenue as our local breweries pay state business taxes and employees pay income tax.

Hawaii has a high beer tax compared to other states and is in the top 10% for highest beer tax rates. This bill helps even out the economics of production for Hawaii's breweries where cost of ingredients and production are high compared to other states. Higher tax rates present an additional economic challenge for Hawaii's craft beer producers.

Many Hawaii breweries are now canning their beer, or considering canning. Uniformity in the tax rate will make the economics of canning more feasible

The higher tax rate of 93 cents is considered a package tax. Many local breweries are going to canning which supports another local Oahu business. By having a lower tax rate, this encourages breweries to increase production and manufacturing using cans, which supports the local Ball plant in Kapolei, currently not running at full production.

Many of Hawaii's small craft breweries self-distribute which increases their work load and cost of operation. This bill helps to reduce the tax burden on smaller breweries.

#### **Tax rate for distilled beverages containing spirits**

We are experiencing an increase in the number of businesses producing locally distilled beverages. Production of distilled spirit beverages is a potential new source of tax revenue for the State of Hawaii. Companies on the mainland are already exporting small volumes of cocktails in cans or bottles to Hawaii.

The current tax for a distilled spirit cooler beverage is based on total volume of the beverage rather than just the amount of distilled spirit in the beverage, creating a high tax rate and disadvantage for Hawaii's producers. Beer is the only beverage with this disparity in tax rates. Wine and spirits both have a uniform tax rate based on gallonage.

Mahalo for your consideration. We urge you to pass this bill.  
Thank you for the opportunity to provide testimony in support of SB2712.

Sincerely,

*Troy Terorotua*

Troy Terorotua, Founder & Owner

REAL a gastropub / Bent Tail Brewing Co

# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: LIQUOR, Broaden Cooler Beverage Definition, Harmonize Tax Rate on Beer

BILL NUMBER: HB 2412; SB 2712 (Identical)

INTRODUCED BY: HB by YAMASHITA, CULLEN, FUKUMOTO, HASHEM, ICHIYAMA, JOHANSON, KONG, C. LEE, LUKE, MCKELVEY, MIZUNO, MORIKAWA, NISHIMOTO, SAIKI, SAY, TAKAYAMA, TAKUMI, TOKIOKA, YAMANE, Ito, San Buenaventura; SB by WAKAI, Baker, Dela Cruz, K. Kahele, Nishihara, Riviere

EXECUTIVE SUMMARY: Includes distilled beverages containing spirits and added blending materials that contain less than twelve per cent of alcohol by volume in the cooler beverage definition. Deletes definition of draft beer. Applies the tax rate on draft beer to all beer. The bill appears reasonable to align the tax system to current industry practices.

SYNOPSIS: Amends the definition of “cooler beverage” in section 244D-1, HRS, to include a spirit beverage cooler containing distilled spirits and added natural or artificial blending material, such as fruit juices, flavors, flavorings, colorings, or preservatives, and that contains less than twelve per cent of alcohol by volume.

Amends section 244D-4, HRS, to apply the tax rate on beer to draft beer as well, at the rate previously applied to draft beer, and deletes the separate tax rate for draft beer.

Makes conforming amendments to remove references to “draft beer.”

EFFECTIVE DATE: July 1, 2018.

STAFF COMMENTS: The bill recites that under the current definition of "cooler beverage" the tax rate applied is only applicable to wine or beer based beverages. Thus, if a local distiller wants to make a ready to drink "cooler beverage" that contains one ounce of a distilled spirit and eleven ounces of another consumable liquid, then it is taxed as if the entire contents are distilled spirits. The bill recites that there is a growing number of local distilleries, but there are no locally produced ready to drink spirits-based beverages, whereas there are several companies on the mainland exporting small volumes of cocktails in cans or bottles but there is no local option.

The bill also recites that the current taxation scheme on beer is confusing because lower tax rate is imposed on draft beer, statutorily defined as beer in an individual container of seven gallons or larger. However, many beer sellers, including many local small brewers, dispense what is commonly referred to as draft beer from containers smaller than seven gallons.

The bill is designed to simplify the law and align it to current industry practices, and appears to be a reasonable attempt to accomplish these goals.

Digested 1/31/2018