

Honolulu, Hawaii

FEB 07 , 2020

RE: H.B. No. 2726
H.D. 1

Honorable Scott K. Saiki
Speaker, House of Representatives
Thirtieth State Legislature
Regular Session of 2020
State of Hawaii

Sir:

Your Committee on Economic Development & Business, to which was referred H.B. No. 2726 entitled:

"A BILL FOR AN ACT RELATING TO INTOXICATING LIQUOR,"

begs leave to report as follows:

The purpose of this measure is to:

- (1) Amend the definition of "cooler beverage" to include spirits-based beverages; and
- (2) Establish a separate tax rate for beer for qualified small brewers.

Your Committee received testimony in support of this measure from the Lanikai Brewing Company; Kauai Beer Company; Hawaiian Craft Brewers Guild; Maui Brewing Co.; Lahaina Brewery, dba Kohola Brewery; Mahalo Aleworks; Kauai Island Brewing Company; Beer LAB HI; Waikiki Brewing Company; and one individual. Your Committee received comments on this measure from the Department of Taxation, Tax Foundation of Hawaii, and Wine Institute.

Your Committee finds that under the existing definition of "cooler beverage", the relevant tax rate is only applicable to wine-based or beer-based beverages, while beverages that are spirits-based are taxed as distilled spirits. Your Committee



further finds that if a local distiller wants to make a "cooler beverage" that contains one ounce of distilled spirits and eleven ounces of another liquid, the beverage is taxed as if it consists entirely of alcohol. This measure addresses the disparate tax treatment and will encourage local distilleries to produce ready-to-drink cocktails.

Your Committee also finds that small craft producer pubs are an existing class of licensees under Hawaii's intoxicating liquor laws. For the purposes of conformity, your Committee believes that the new tax rates on beer should apply to licensed small craft producer pubs instead of qualified small brewers.

Additionally, your Committee finds that the current taxation scheme on beer is punitive and burdensome for small brewers and hinders their sustainability and growth. Small brewers operate on a much different economic scale than larger brewing companies, and tax rates should take these differences into account. This measure will create a more equitable taxation scheme for qualified small brewers.

Your Committee has amended this measure by:

- (1) Decreasing the maximum amount of alcohol by volume to seven percent that a spirit beverage cooler may contain to fall under the definition of "cooler beverage";
- (2) Removing the definition of "qualified small brewer", and instead applying the new tax rates on beer to licensed small craft producer pubs;
- (3) Changing its effective date to July 1, 2112, to encourage further discussion; and
- (4) Making technical, nonsubstantive amendments for the purposes of clarity, consistency, and style.

As affirmed by the record of votes of the members of your Committee on Economic Development & Business that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 2726, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 2726, H.D. 1, and be referred to your Committee on Consumer Protection & Commerce.



Respectfully submitted on
behalf of the members of the
Committee on Economic
Development & Business,



ANGUS L.K. MCKELVEY, Chair



