

STAND. COM. REP. NO.

1307

Honolulu, Hawaii

MAR 21 2019

RE: H.B. No. 887
H.D. 1
S.D. 1

Honorable Ronald D. Kouchi
President of the Senate
Thirtieth State Legislature
Regular Session of 2019
State of Hawaii

Sir:

Your Committee on Commerce, Consumer Protection, and Health,
to which was referred H.B. No. 887, H.D. 1, entitled:

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

begs leave to report as follows:

The purpose and intent of this measure is to:

- (1) Include certain spirits-based beverages in the definition of "cooler beverage"; and
- (2) Repeal the definition of "draft beer" to apply the same tax rate to all beer.

Your Committee received testimony in support of this measure from the Hawaiian Craft Brewers Guild, REAL a gastropub/Bent Tail Brewing Company, Beer Lab Hawaii, Honolulu BeerWorks, Maui Brewing Co., Kona Brewing Co., Waikiki Brewing Company, and Lanikai Brewing Company. Your Committee received testimony in opposition to this measure from the Hawai'i Alcohol Policy Alliance and five individuals. Your Committee received comments on this measure from the Department of Taxation and Tax Foundation of Hawaii.

Your Committee finds that a cooler beverage is a mixed beverage containing primarily juice, water, or soda, with only a portion of liquor. There are several companies from the mainland



exporting small volumes of cocktails and cooler beverages in cans or bottles to Hawaii. More individuals are showing an interest in developing distillery businesses if the economics are favorable, but Hawaii's existing tax laws create a significant disadvantage. This measure creates the category of "cooler beverage" for spirits, resulting in a tax on only the amount of the distilled spirit in the beverage. This measure also encourages local production and manufacturing and creates a new category of products for consumers, resulting in increased tax revenue.

Your Committee further finds that Hawaii's existing liquor tax law has two separate rates for beer, which is the only beverage with this disparity. The current definition of "draft beer" means beer in an individual container of seven gallons or more, referring to the size of the container from which the beer is dispensed. Draft beer is currently taxed at fifty-four cents per gallon, while beer other than draft beer is taxed at ninety-three cents per gallon. Some breweries, especially smaller craft breweries and those just starting their businesses, typically serve draft beer from two- to five-gallon kegs, meaning they are taxed at the higher rate. Hawaii is ranked in the top five in the United States for beer tax rates. Because of Hawaii's higher costs for shipping, raw materials, and equipment acquisition, local businesses are disadvantaged and struggle to compete with mainland companies. This measure repeals the definition of "draft beer" and creates a uniform tax rate for all beer at fifty-four cents per gallon.

Your Committee has amended this measure by:

- (1) Inserting an effective date of January 1, 2020; and
- (2) 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, Consumer Protection, and Health that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 887, H.D. 1, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 887, H.D. 1, S.D. 1, and be referred to your Committee on Ways and Means.



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



ROSALYN H. BAKER, Chair



