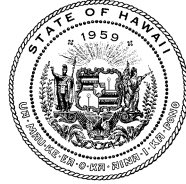


DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR



RONA M. SUZUKI
DIRECTOR OF TAXATION

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION

P.O. BOX 259
HONOLULU, HAWAII 96809
Phone: (808) 587-1540 / Fax: (808) 587-1560
Email: Tax.Directors.Office@hawaii.gov

To: The Honorable Angus L.K. McKelvey, Chair;
The Honorable Lisa Kitagawa, Vice Chair;
and Members of the House Committee on Economic Development & Business

From: Rona M. Suzuki, Director
Department of Taxation

Re: **H.B. 2726, Relating to Intoxicating Liquor**

Date: Friday, January 31, 2020

Time: 9:30 A.M.

Place: Conference Room 309, State Capitol

The Department of Taxation (Department) has concerns regarding the amendments proposed in H.B. 2726. H.B. 2726 makes various amendments to Hawaii Revised Statutes Chapter 244D, which governs Hawaii's liquor tax law:

- Expands the definition of "cooler beverage" to include beverages with less than ten percent of alcohol by volume that contain distilled spirits and added blending materials; and
- Adds a definition of "qualified small brewer" and creates a lower beer tax rate for qualified small brewers; and
- The measure has an effective date of July 1, 2020

Establishing a lower rate for "qualified small brewers" adds administrative complexity for taxpayers and the Department. Particularly with respect to the requirement that a qualified small brewer produce 70,000 barrels of beer or less annually:

- If a brewer produces its 70,001st barrel of beer during a year, does it begin paying the liquor tax at the higher rate on the 70,001st and thereafter barrels, or do the previous 70,000 produced barrels become retroactively subject to tax at the higher rate?
- Additionally, if a brewer produces more than 70,000 barrels in a year, but intends to produce fewer barrels the next year, may it pay at the lower rate based on an estimate of its own production? Or, must it instead pay at the higher rate for an entire year until it establishes that it has produced fewer than 70,000 barrels that year, then amend its returns to reflect the lower rate, and claim a refund?

It is unclear how the amendments on line 7 of page 4 and line 1 of page 5 that state, "and at a proportionate rate for any other quantity sold or used," are intended to be used. Tax forms do not allow taxpayers to determine their own rate or formula to calculate the tax due.

The effective date of July 1, 2020 is problematic as the Department would need to change its computer system, forms, and instructions. The Department respectfully requests that the measure be made effective no earlier than January 1, 2021.

The Department would be able to work with interested parties to clarify language to address these issues. Thank you for the opportunity to provide comments.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: LIQUOR, Broaden Cooler Beverage Definition, Add Rate for Small Beer Producer

BILL NUMBER: HB 2726

INTRODUCED BY: YAMASHITA, CULLEN, LUKE

EXECUTIVE SUMMARY: Includes certain spirits-based beverages in the definition of cooler beverage. Establishes a separate tax rate for qualified small brewers.

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 ten per cent of alcohol by volume.

Amends section 244D-4, HRS, to establish a lower tax rate for qualified small brewers:

Product	Normal Rate	Qualified Small Brewers
Beer other than draft beer	\$0.93 per wine gallon	\$0.35
Draft beer	\$0.54	\$0.35

Defines “qualified small brewer” as a brewer who (1) produces seventy thousand barrels of beer or less annually; (2) holds an approved brewer's notice from the Alcohol and Tobacco Tax and Trade Bureau; and (3) produces beer within the United States.

Makes stylistic and conforming amendments.

EFFECTIVE DATE: This Act shall take effect upon its approval; provided that the new tax rates established apply on July 1, 2020.

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 small brewers is punitive and burdensome because small brewers operate on a different economic scale. Thus, a lower tax rate is justified.

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 1/28/2020



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

HB2726 Relating to Intoxicating Liquor: Small Brewer Tax, Cooler Beverage Tax
House Committee on Economic Development and Business
Friday Jan 31, 2020 at 9:30 a.m. Conference Room 309

Position: SUPPORT

Aloha Chair, Vice Chair and Committee members,

Lanikai Brewing Company is a locally owned and operated Craft Brewery here in Kailua, Oahu. We service our community and hire locally. We are members of the Hawaiian Craft Brewers Guild, a non-profit organization that promotes production of craft beer in Hawaii. We produce 100% of our beer in Hawaii and are distributed to Australia as well as some of the lower 48 states. We are united with breweries across the islands in our pursuit to promote successful economic activity and growth for Hawaii's beer manufacturers. The Hawaiian Craft Brewers Guild represents almost all craft beer producers in Hawaii.

This bill 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 modern. The current tax rate on beer is inhibiting growth of any brewer or the brewing industry in Hawaii and that is why only 5% of the beer consumed in the state is made locally compared to a national average of nearly 3x that. Small brewers under 70,000 bbl are at a massive disadvantage over larger brewers over 70,000. By encouraging small brewers, we are encouraging manufacturing locally.

The number of craft breweries continues to increase and we continue to sell more products, 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.

ʻŌkole Maluna,

Steven R Haumschild

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

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

Kauai Beer Company

James Guerber
4265 Rice Street
Lihue, HI 96766
98080 639 7821
jim@kauaibeer.com



HB2726 Relating to Intoxicating Liquor: Small Brewer Tax, Cooler Beverage Tax
House Committee on Economic Development and Business
Friday Jan 31, 2020 at 9:30 a.m. Conference Room 309

Position: **Support**

Chair Representative Angus McKelvey, Vice Chair Representative Lisa Kitagawa, and members of the Committee on Economic Development and Business,

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 since 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 ~60 full and part-time personnel.

We are members of the Hawaiian Craft Brewers Guild, a nonprofit organization that promotes production of craft beer in Hawaii. The Kauai Beer Company is an independent craft brewery producing 100% of our beer in Hawaii. We are united with breweries across the islands in our pursuit to promote successful economic activity and growth for Hawaii's beer manufacturers. The Hawaiian Craft Brewers Guild represents almost all craft beer producers in Hawaii. We are part of our local community and involved to provide support for the community.

1. Current tax rates on beer discourage the business of small craft breweries. Small brewers find it difficult to compete as they are operating on a much different economic scale than larger breweries.
2. We are a small craft brewery producing far less than the 70,000 barrels of beer annually. The small brewer tax rate will benefit our brewery business directly.
3. HB2726 recognizes the different and more difficult position of small breweries, with the creation of a tax structure well suited for smaller brewery businesses.
4. HB2726 creates a more equitable tax scheme for qualified brewers. Most beer shipped to Hawaii is made by large breweries that produce much more than 70,000 barrels annually.
5. As a growing business sector Hawaii's craft breweries contribute an increasingly greater amount of revenue to the state. This includes a number of taxes The amount of tax revenue for the State of Hawaii increases with the expansion in both number of breweries and amount of production by each brewery.

We request the House Committee on Economic Development and Business pass this bill.
Mahalo for considering our testimony in support of HB2726.

Sincerely,

Jim Guerber



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

HB2726 Relating to Intoxicating Liquor: Small Brewer Tax, Cooler Beverage Tax
House Committee on Economic Development and Business
Friday Jan 31, 2020 at 9:30 a.m. Conference Room 309

Position: **Support**

Chair Representative Angus McKelvey, Vice Chair Representative Lisa Kitagawa, and members of the Committee on Economic Development and Business,

The Hawaiian Craft Brewers Guild is a nonprofit trade organization representing the interests of small craft breweries across the State of Hawaii. Our members are independent craft breweries producing 100% of their beer in Hawaii. The Hawaiian Craft Brewers Guild represents 18 small craft brewery businesses from across the state, almost all craft beer producers in Hawaii. Our members are united in our pursuit to promote economic activity and growth for Hawaii's beer manufacturers and enhance opportunities in our communities.

The Hawaiian Craft Brewers Guild and our member breweries embrace the responsible consumption of alcohol.

Tax Rate on Beer

Current tax rates on beer discourage the business of small craft breweries. Smaller independent craft beer producers find it challenging to grow and expand. Small brewers find it difficult to compete as they are operating on a much different economic scale than larger breweries. HB2726 recognizes the different and more difficult position of small breweries, with the creation of a differential tax rate structure for smaller breweries.

Tax rates on beer are burdensome for small craft breweries impacting their ability to thrive and grow. This can be especially difficult for small breweries manufacturing their beer 100% in Hawaii. It is estimated that ingredients, equipment, other supplies and cost of operations can be 30 – 40% higher in Hawaii compared to similar small craft breweries on the mainland. Hawaii ranks in the top 10% for highest tax rates on beer in the nation. HB2726 helps even out the economics of production for Hawaii's breweries where cost of ingredients and production are high. Higher tax rates present an additional economic challenge to the success of Hawaii's craft beer producers.

HB2726 proposes a clear structure and definition for a small brewer tax rate. A small brewer produces 70,000 barrels of beer or less annually, with an additional requirement that the small brewer must produce the beer in the United States.

HB2726 creates a more equitable tax scheme for qualified brewers. Most beer shipped to Hawaii is made by breweries that far exceed annual production of 70,000 barrels. The economics of production and shipping make it much more feasible for large scale breweries to have their beer distributed and sold in Hawaii. There are a few breweries from other states that produce less than 70,000 barrels, qualifying as small breweries that have their beer distributed and sold in Hawaii. This makes up a very small part of beer tax revenue for Hawaii with less than 20 brands, and 80% of those breweries produce less than 30,000 barrels annually. While these small breweries are selling beer in Hawaii, the amounts are very small.

Hawaii's independent craft breweries produce less than 70,000 barrels annually. By implementing a small brewer tax rate, HB2726 will boost the ability of independent craft breweries to continue to grow and succeed.

The Small Brewers Tax Rate simplifies tax rates on beer for both draft, and beer other than draft, for small breweries producing less than 70,000 barrels annually in the United States. Beer is the only beverage with this disparity. Hawaii taxation for wine and spirits both have a uniform tax rate based on gallonage. With changes proposed in HB2726, small breweries would have a more uniform Hawaii tax rate for both draft and beer other than draft, aligning more closely with other alcoholic beverage taxes.

According to recent figures from the Brewers Association, Hawaii had eight breweries in 2013 and we now have just over 20 that are in production or about to open in 2020. This increase in number of breweries provides new and increased tax revenue for the state. This economic sector continues to grow, with at least 2 new breweries or brewpubs opening in 2020. 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 owners and employees pay state income tax. As a growing business sector Hawaii's craft breweries contribute an increasingly greater amount of revenue to the state from liquor taxes.

Cooler Beverage Tax

HB2726 amends the definition of cooler beverage to include spirits-based beverages. By expanding the definition of cooler beverage to include spirit beverage coolers containing distilled spirits, locally distilleries would be encouraged to expand the number and types of products they manufacture in Hawaii.

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 supports the use of ingredients sourced from Hawaii farms.

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.

We request the House Committee on Economic Development and Business pass this bill. Mahalo for considering our Hawaiian Craft Brewers Guild testimony in support of HB2726.

HB-2726

Submitted on: 1/29/2020 4:49:53 PM

Testimony for EDB on 1/31/2020 9:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Garrett W. Marrero	Maui Brewing Co.	Support	Yes

Comments:

HB-2726

Submitted on: 1/29/2020 5:19:46 PM

Testimony for EDB on 1/31/2020 9:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Christine Elumba	Lahaina Brewery, DBA Kohola Brewery	Support	No

Comments:

I support HB 2726 because it helps locally owned business like ours survive and grow. We're a small production business located in the heart of Lahaina. Not only do we provide jobs we provide opportunities and growth to our local community. Not only individually but also to small local businesses. Individually we train our employees with specific set skill that they can master on, find their passion, inspire and even take it to the next level .We collaborate with small business, promoting their craft. Basically, we help and support each other to grow and provide opportunities to many others.



Mahalo Brewing Co LLC DBA Mahalo Aleworks

Benjamin Kopf

30 Kupaoa St, Unit A-101, Makawao HI 96768

HB2726 Relating to Intoxicating Liquor: Small Brewer Tax, Cooler Beverage Tax
House Committee on Economic Development and Business
Friday Jan 31, 2020 at 9:30 a.m. Conference Room 309

Position: **Support**

Chair Representative Angus McKelvey, Vice Chair Representative Lisa Kitagawa, and members of the Committee on Economic Development and Business,

My name is Benjamin Kopf, I live in Paia, Maui and I am the Founder and Owner of Mahalo Aleworks. We are a brewery in planning with a building currently under construction located in Makawao, upcountry Maui. Our brewery is schedule to open later this year, and we expect to have about half a dozen employees to start which we anticipate will grow quickly and steadily thereafter.

Mahalo Aleworks and the Hawaiian Craft Brewers Guild embrace the responsible consumption of alcohol.

We are currently under construction of a brand new building to house our new taproom and craft brewery. Our facility is two stories tall and is about 3,300sq ft. which includes a bar and taproom, lounge area, meeting space and beer production area.

Upon receipt of our TTB Brewers Notice, we will soon be members of the Hawaiian Craft Brewers Guild, a nonprofit organization that promotes production of craft beer in Hawaii. Mahalo Aleworks is an independent craft brewery and will be producing 100% of our beer in Hawaii, in addition to using lots of locally grown fruit in our beers. We are united with breweries across the islands in our pursuit to promote successful economic activity and growth for Hawaii's beer manufacturers. The Hawaiian Craft Brewers Guild represents almost all craft beer producers in Hawaii. We are part of our local community and involved to provide support for the community.

Small Brewer Tax Rate

Mahalo Aleworks supports HB 2726 because there is a need to provide stimulation for both small businesses in Hawaii, but also those that specifically manufacture Hawaiian made products and create local jobs. We are also located in an Enterprise zone, and are bringing manufacturing and jobs to a much needed area.

We believe HB2726 will help our brewery business on the island of Maui grow because reduced tax rates will help us retain much needed money to continually re-invest in the growth of our business and aid in additional job creation at the local level

We are a small craft brewery that will produce far less than the 70,000 barrels of beer annually. The small brewer tax rate will benefit our brewery business directly by allowing us to compete with the much larger corporate breweries that operate at much higher efficiencies of scale. Unfortunately, these corporate breweries are not owned by Hawaiian companies and thus, their profits do not stay in Hawaii to be used for development and local job creation.

As a growing business sector, Hawaii's craft breweries contribute an increasingly greater amount of revenue to the state. The amount of tax revenue for the State of Hawaii increases with the expansion in both number of breweries and amount of production by each brewery.

Cooler Beverage Tax

By amending and expanding the definition of cooler beverage to include spirit beverage coolers containing distilled spirits, HB2726 would encourage local Hawaii distilleries to expand the number and types of products they manufacture.

The Hawaiian Craft Brewers Guild supports the use of ingredients sourced from Hawaii farms. 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.

Cooler beverages with distilled spirits produced in Hawaii are a new potential product line that would bring a new stream of tax revenue.

We request the House Committee on Economic Development and Business pass this bill. Mahalo for considering our testimony in support of HB2726.



January 30, 2020

B2726 Relating to Intoxicating Liquor: Small Brewer Tax, Cooler Beverage Tax
House Committee on Economic Development and Business
Friday Jan 31, 2020 at 9:30 a.m. Conference Room 309

Position: Support

Chair Representative Angus McKelvey, Vice Chair Representative Lisa Kitagawa, and members of the Committee on Economic Development and Business,

My name is Bret Larson, I am the owner, Kauai Island Brewing Company. We are located on the west side of Kauai in Eleele/Port Allen. We currently provide 35 full and part time jobs in Hawaii. Kauai Island Brewing Company and the Hawaiian Craft Brewers Guild embrace the responsible consumption of alcohol.

We are members of the Hawaiian Craft Brewers Guild, a nonprofit organization that promotes production of craft beer in Hawaii. Kauai Island Brewing Company is an independent craft brewery producing 100% of our beer in Hawaii. We are united with breweries across the islands in our pursuit to promote successful economic activity and growth for Hawaii's beer manufacturers. The Hawaiian Craft Brewers Guild represents almost all craft beer producers in Hawaii. We are part of our local community and involved to provide support for the community.

Small Brewer Tax Rate

Kauai Island Brewing Company support HB 2726 because we believe HB2726 will help our brewery business on the island of Kauai grow because current tax rates on beer discourage the business of small craft breweries. Small brewers find it difficult to compete as they are operating on a much different economic scale than larger breweries. We are a small craft brewery producing far less than the 70,000 barrels of beer annually. The small brewer tax rate will benefit our brewery business directly. HB2726 creates a more equitable tax structure for qualified brewers. Most beer shipped to Hawaii is made by large breweries that produce much more than 70,000 barrels annually.

As a growing business sector, Hawaii's craft breweries contribute an increasingly greater amount of revenue to the state. This includes a number of taxes. The amount of tax revenue for the State of Hawaii increases with the expansion in both number of breweries and amount of production by each brewery.

Examples include: liquor taxes, business income tax, GET, personal and employee state income tax

Cooler Beverage Tax

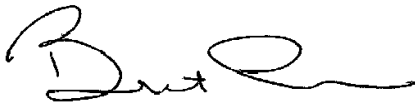
By amending and expanding the definition of cooler beverage to include spirit beverage coolers containing distilled spirits, HB2726 would encourage local Hawaii distilleries to expand the number and types of products they manufacture.

The Hawaiian Craft Brewers Guild supports the use of ingredients sourced from Hawaii farms. 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.

Cooler beverages with distilled spirits produced in Hawaii are a new potential product line that would bring a new stream of tax revenue.

We request the House Committee on Economic Development and Business pass this bill.

Mahalo for considering our testimony in support of HB2726.

A handwritten signature in black ink, appearing to read "Bret Larson". The signature is fluid and cursive, with a large initial "B" and a long, sweeping tail.

Bret Larson
Kauai Island Brewing Company, LLC.
808-755-5926
bret@kauaiislandbrewing.com



Beer Lab HI
Nicolas Wong
1010 University Ave
Honolulu HI 96826

HB2726 Relating to Intoxicating Liquor: Small Brewer Tax, Cooler Beverage Tax
House Committee on Economic Development and Business
Friday Jan 31, 2020 at 9:30 a.m. Conference Room 309

Position: **Support**

Chair Representative Angus McKelvey, Vice Chair Representative Lisa Kitagawa, and members of the Committee on Economic Development and Business,

My name is Nicolas Wong, I live in Honolulu and I am the Founder of Beer Lab HI. We are located in Honolulu, Pearl City and Waipio. Our brewery began in 2016 with 1 employee. We now provide 44 jobs in Hawaii.

Beer Lab HI and the Hawaiian Craft Brewers Guild embrace the responsible consumption of alcohol.

We are members of the Hawaiian Craft Brewers Guild, a nonprofit organization that promotes production of craft beer in Hawaii. Beer Lab HI is an independent craft brewery producing 100% of our beer in Hawaii. We are united with breweries across the islands in our pursuit to promote successful economic activity and growth for Hawaii's beer manufacturers. The Hawaiian Craft Brewers Guild represents almost all craft beer producers in Hawaii. We are part of our local community and involved to provide support for the community.

Small Brewer Tax Rate

Beer Lab HI support HB 2726 because running a small business in Hawaii is extremely difficult and it is even more difficult to compete with mainland breweries who are able to produce over 50 times the amount we are and produce it at a cheaper rate and flood out shelves with these products.

We believe HB2726 will help our brewery business on the island of Oahu grow because it will tax larger breweries (the vast majority from the mainland) a different rate from smaller locally grown craft breweries. This small tax change will help create more income for local breweries and spur growth.

Cooler Beverage Tax



By amending and expanding the definition of cooler beverage to include spirit beverage coolers containing distilled spirits, HB2726 would encourage local Hawaii distilleries to expand the number and types of products they manufacture.

The Hawaiian Craft Brewers Guild supports the use of ingredients sourced from Hawaii farms. 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.

Cooler beverages with distilled spirits produced in Hawaii are a new potential product line that would bring a new stream of tax revenue.

We request the House Committee on Economic Development and Business pass this bill. Mahalo for considering our testimony in support of HB2726.



WAIKIKI BREWING COMPANY

Joe P. Lorenzen, Partner/Brewmaster

831 Queen St.

Honolulu, HI 96813

808-591-0387

brewmaster@waikikibrewing.com

**HB2726 Relating to Intoxicating Liquor: Small Brewer Tax, Cooler Beverage Tax
House Committee on Economic Development and Business
Friday Jan 31, 2020 at 9:30 a.m. Conference Room 309**

Position: Support

Chair Representative Angus McKelvey, Vice Chair Representative Lisa Kitagawa, and members of the Committee on Economic Development and Business,

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.

Waikiki Brewing Company supports HB 2726. This bill would go a long way to helping support small independent breweries in Hawaii by reducing our tax burden. As a small independent brewery producing less than 70,000 barrels annually, we have a hard time competing with large breweries that are able to leverage economies of scale and other cost advantages.

Waikiki Brewing Company is proud to have created many jobs in our community, both in service and manufacturing, and in supporting other Hawaii based industry, such as agriculture and farming, can and packaging production and distribution. Supporting this bill helps support small and independent breweries and in doing so, supports job creation and manufacturing as well

Thank you for the opportunity to testify in support of HB2726.

Sincerely,

A handwritten signature in black ink, appearing to read "Joe P. Lorenzen".

Joe P. Lorenzen



Katie Jacoy
Western Counsel
31 West Road
Tacoma, WA 98406
www.wineinstitute.org
kjacoy@wineinstitute.org
360-790-5729

THE HOUSE OF REPRESENTATIVES
THE THIRTIETH LEGISLATURE
REGULAR SESSION OF 2020

COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS

Testimony with Comments about HB 2726

Chair McKelvey, Vice-Chair Kitagawa and Members of the Committee:

Thank you for the opportunity to provide testimony on HB 2726 RELATING TO INTOXICATING LIQUOR. Wine Institute, a public policy association representing 1,000 California wineries and associate members, is opposed to HB 2726 as currently drafted and offers the following comments/amendments.

HB 2726 modifies the definition of “cooler beverage” for excise tax purposes by adding:

“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 **ten percent of alcohol by volume.**” (emphasis added)

The addition of “spirit beverage cooler” to the cooler tax category would move a significant number of spirits-based products, currently taxed at the distilled spirits rate of \$5.98 per wine gallon down to the cooler beverages rate of \$0.85 per wine gallon, a tax reduction of \$5.13 per wine gallon. This is a fast-growing category of products, with Neilson estimating the sector to have grown by more than 102% in 2019. This large tax rate reduction for a growing product line will negatively impact the revenue raised from alcohol excise taxes. Wine Institute is concerned that policymakers may look to fill this revenue loss by increasing the taxes on other alcohol products.

The definition of “spirit beverage cooler” in the bill deviates from the current definition of wine cooler and malt beverage cooler, which are both required to contain less than “**seven per cent of alcohol by volume.**” The cooler beverage category with only wine-based and malt-based coolers with ABVs below 7% do not compete directly in the alcohol marketplace with table wine (which by definition has an ABV of between 7% and 14% in Hawaii), so Wine Institute’s members understand and accept the tax advantage given these products in Hawaii. (The table wine tax rate is \$1.38 compared to the cooler beverage tax \$0.85.)

This is not the case, however, if spirits beverage coolers up to 10% ABV are added to the category. As noted above, research from 2019 shows that the spirits-based ready-to-drink category has grown significantly and is impacting the market share for wine. Providing these products with a tax advantage over wine will negatively impact consumers and artificially create marketplace distortion. Wine Institute opposes giving spirits beverage coolers, products that directly compete with wine and containing ABVs that are higher than other cooler beverages, this significant tax advantage.

We respectfully request that the definition of “spirit beverage cooler” is amended to mirror the ABV of the wine-based and malt-based coolers – “less than seven per cent of alcohol by volume.” If this amendment is adopted, Wine Institute will remove its opposition to the bill.

Thank you for the opportunity to testify.

LOGO /LETTER HEAD

Brewery/Business Name

Your Name

Address

HB2726 Relating to Intoxicating Liquor: Small Brewer Tax, Cooler Beverage Tax
House Committee on Economic Development and Business
Friday Jan 31, 2020 at 9:30 a.m. Conference Room 309

Position: **Support**

Chair Representative Angus McKelvey, Vice Chair Representative Lisa Kitagawa, and members of the Committee on Economic Development and Business,

My name is _____, I live in (town, island) and I am the (CEO, founder, owner, work at) the _____ (brewery/business). We are located in _____ (town or towns, island or islands). Our brewery began in _____ with _____ employees. We now provide _____ jobs in Hawaii.

Name of brewery _____ and the Hawaiian Craft Brewers Guild embrace the responsible consumption of alcohol.

(If you plan to open or expand a brewery or distillery in the next year or two, state that here)

We are members of the Hawaiian Craft Brewers Guild, a nonprofit organization that promotes production of craft beer in Hawaii. Name of brewery _____ is an independent craft brewery producing 100% of our beer in Hawaii. We are united with breweries across the islands in our pursuit to promote successful economic activity and growth for Hawaii's beer manufacturers. The Hawaiian Craft Brewers Guild represents almost all craft beer producers in Hawaii. We are part of our local community and involved to provide support for the community.

Small Brewer Tax Rate

I (or the name of your business/brewery) support HB 2726 because _____

We believe HB2726 will help our brewery business on the island of _____ grow because _____

This change will allow _____.

Our experience has been _____ .

Points You Can Include

1. Current tax rates on beer discourage the business of small craft breweries. Small brewers find it difficult to compete as they are operating on a much different economic scale than larger breweries.
2. We are a small craft brewery producing far less than the 70,000 barrels of beer annually. The small brewer tax rate will benefit our brewery business directly.
3. HB2726 recognizes the different and more difficult position of small breweries, with the creation of a tax structure well suited for smaller brewery businesses.

4. HB2726 creates a more equitable tax scheme for qualified brewers. Most beer shipped to Hawaii is made by large breweries that produce much more than 70,000 barrels annually.
5. As a growing business sector Hawaii's craft breweries contribute an increasingly greater amount of revenue to the state. This includes a number of taxes The amount of tax revenue for the State of Hawaii increases with the expansion in both number of breweries and amount of production by each brewery.

LIST STATE TAXES YOU PAY

Examples: liquor taxes, business income tax, GET, personal and employee state income tax

Cooler Beverage Tax

By amending and expanding the definition of cooler beverage to include spirit beverage coolers containing distilled spirits, HB2726 would encourage local Hawaii distilleries to expand the number and types of products they manufacture.

The Hawaiian Craft Brewers Guild supports the use of ingredients sourced from Hawaii farms. 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.

Cooler beverages with distilled spirits produced in Hawaii are a new potential product line that would bring a new stream of tax revenue.

We request the House Committee on Economic Development and Business pass this bill. Mahalo for considering our testimony in support of HB2726.