



STATE OF HAWAII
DEPARTMENT OF TAXATION
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HONOLULU, HAWAII 96813
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To: The Honorable Angus L.K. McKelvey, Chair
and Members of the House Committee on Economic Development & Business

Date: Wednesday, February 6, 2019
Time: 11:00 A.M.
Place: Conference Room 309, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: H.B. 343, Relating to Taxation of a Small Craft Beer Producer Tax Credit

The Department of Taxation (Department) provides the following comments regarding H.B. 343 for your consideration.

H.B. 343 amends Hawaii Revised Statutes (HRS) chapter 235 by creating a new, nonrefundable income tax credit for qualified taxpayers who are small craft beer producers. The measure's key provisions:

- Set the amount of the credit at 25% of the qualified expenses incurred by the qualified taxpayer during a taxable year;
- Set an aggregate cap of \$1,000,000 in total tax credits allowed for all qualified taxpayers in any taxable year;
- Set a cap of \$100,000 on the annual tax credit allowed to any individual qualified taxpayer;
- Define "qualified expenses" as expenses incurred by a qualified taxpayer to manufacture beer;
- Require qualified expenses to be calculated in accordance with the uniform capitalization rules of section 263A of the Internal Revenue Code;
- Define "qualified taxpayer" as a person who:
 - Has a valid class 1, class 14 or class 18 license as described in section 281-31, HRS;
 - Complies with any manufacturing limitations established in section 281-31(r)(1); and
- Produces 100% of its beer products in the State;

- Direct the Department of Business, Economic Development, and Tourism (DBEDT) to:
 - Maintain records of the names and addresses of qualified taxpayers claiming the credit and the total amount of their qualified expenses;
 - Verify the nature and amount of qualified expenses
 - Calculate the total amount of all qualified and cumulative expenses that DBEDT certifies;
 - Certify the amount of the tax credit for each taxpayer for each taxable year and the cumulative amount of the tax credit for all years claimed; and
 - Issue a certificate to the taxpayer verifying the above information that the taxpayer will file along with the taxpayer's return;
- Allows DBEDT to assess and collect a fee to offset certification costs;
- Appropriates \$1,000,000 to DBEDT out of the general fund for monitoring, verification, and certification of the tax credit claims; and
- Has an effective date of July 1, 2019 and applies to taxable years beginning after December 31, 2019.

First, the Department notes that the measure's definition of "qualified expenses" for the credit is quite broad and ambiguous. As currently written, the credit amount may be based on expenses incurred at every step of the beer-making process, with no distinction between equipment, capital, and labor, as long as those expenses were incurred within the State. The Department suggests being more specific as to the expenses that qualify for the credit.

Second, the Department notes that the third prong in the definition of "qualified taxpayer" which requires a 100% of the taxpayers beer to be produced in Hawaii may violated the Commerce Clause. The Department ultimately defers to the Department of the Attorney General on this issue.

Thank you for the opportunity to provide comments.



DAVID Y. IGE
GOVERNOR

MIKE MCCARTNEY
DIRECTOR

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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Statement of
MIKE MCCARTNEY
Director

Department of Business, Economic Development, and Tourism
before the

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS

Wednesday, February 6, 2019
11:00am
State Capitol, Conference Room 309

In consideration of
HB 343
RELATING TO SMALL CRAFT BEER PRODUCER TAX CREDIT.

Chair McKelvey, Vice Chair Kitagawa, and Members of the Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) **offers comments** on HB 343 which establishes a tax credit for small craft beer producers:

- The cost to implement the process to monitor and certify the tax credit, at a minimum, would cost \$50,000 on a recurring basis; and
- The impact to state tax revenues is unknown.

Thank you for the opportunity to provide these comments.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Establish Small Craft Beer Producer Credit

BILL NUMBER: HB 343

INTRODUCED BY: MCKELVEY, BROWER, CACHOLA, ELI, HOLT, ICHIYAMA, KITAGAWA, MATSUMOTO, MIZUNO, WILDBERGER

EXECUTIVE SUMMARY: Establishes a tax credit for 25% of qualified expenses by a small craft beer producer, up to \$100,000. The adoption of this credit would provide tax relief to taxpayers regardless of their need for tax relief. It also would shift the burden of paying for government to the rest of us.

SYNOPSIS: Adds a new section to HRS chapter 235 to allow a credit of 25% of qualified expenses by a small craft beer producer, with a per-taxpayer limit of \$100,000 per year.

DBEDT is tasked with receiving expense reports of small craft beer producers and certifying the tax credit amount for each taxpayer for each taxable year, like the process now employed for the movie production credit in section 235-17, HRS.

Qualified expenses are defined as expenses incurred by a qualified taxpayer to manufacture beer. Qualified expenses shall be calculated in accordance with the uniform capitalization rules of section 263A of the Internal Revenue Code of 1986, as amended, and the federal rules and regulations adopted pursuant thereto.

A qualified taxpayer is defined as a person that: (1) has a valid class 18 small craft producer pub license as described in section 281-31(r); (2) complies with any manufacturing limitations established in section 281-31(r)(1); and (3) produces 100% of its beer products in Hawaii.

Tax credits that exceed the taxpayer's income tax liability may be used as a credit against the taxpayer's income tax liability in subsequent years until exhausted.

In the case of a partnership, S corporation, estate, or trust, the tax credit allowable is for qualified expenses incurred by the entity for the taxable year. The expenses upon which the tax credit is computed shall be determined at the entity level. Distribution and share of credit shall be determined pursuant to section 704(b) (with respect to partner's distributive share) of the Internal Revenue Code.

Requires the director of taxation to prepare any forms necessary to claim a credit, may require a taxpayer to furnish reasonable information to validate a claim for the credit, and adopt rules pursuant to HRS chapter 91. Requires claims for the credit, including any amended claims, to be filed on or before the end of the twelfth month following the taxable year for which the credit is claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the tax credit.

EFFECTIVE DATE: July 1, 2019, applies to taxable years beginning after December 31, 2019.

STAFF COMMENTS: This measure is proposed as an incentive to a fledgling small craft beer industry in Hawaii.

Utilizing tax credits to drive economic policy in this manner is of a questionable benefit relative to the cost for all taxpayers. A direct appropriation of grant funding to producers would be more accountable and transparent. At least we would know the amount of the appropriation, while the fiscal impact of the credit would be a great big question mark.

Furthermore, the additional credit would require changes to tax forms and instructions, reprogramming, staff training, and other costs that could be massive in amount compared to the benefit expected to accrue because of the creditable activity.

We are concerned that limitation of the credit to those producing 100% of beer products within Hawaii may run afoul of federal Commerce Clause limitations. *Bacchus Imports, Ltd. v. Dias*, 468 U.S. 263 (1984); *In re Hawaiian Flour Mills, Inc.*, 76 Hawai'i 1, 868 P.2d 419 (1994). This issue should be reviewed carefully if this bill is to move forward.

Bacchus Imports, Ltd v. Dias, 468 U.S. 263 (1984), called it a “cardinal rule of Commerce Clause jurisprudence” that “[n]o State, consistent with the Commerce Clause, may ‘impose a tax which discriminates against interstate commerce ... by providing a direct commercial advantage to local business.’” *Id.* at 268 (quoting *Boston Stock Exchange v. State Tax Commission*, 429 U.S. 318, 320 (1977)).

In *Bacchus*, the taxing statute facially discriminated against interstate commerce. Specifically, it was an exemption from Hawaii Liquor Tax on sales of locally produced okolehao and fruit wine. The Court invalidated the exemption. The bill before this Committee awards a credit for locally produced beer but denies it for beer produced anywhere else. That also could be facial discrimination against interstate commerce. For that reason, the bill should be carefully analyzed for compliance with this constitutional provision if it is to move forward.

We have some technical comments, as follows:

- Reference in the qualified expense definition to the IRC section 263A UNICAP rules is confusing. If the intent is to allow only expenses that are capitalized into cost of sales (as opposed to office equipment and overhead), that needs to be stated.
- If the intent is to award credit for the cost of equipment or other tangible property, the capital goods excise tax credit in section 235-110.7 already provides relief.

Digested 2/1/2019



506 Keawe Street
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troy@realgastropub.com

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February 2, 2019

HB 343 Relating to: A Small Craft Beer Producer Tax Credit
House Committee on Economic Development and Business
Weds February 6, 2019 at 11:00 a.m. Conference Room 309

Position: **Support**

Chair Representative Angus Mc Kelvey, Vice Chair Representative Lisa Kitagawa and members of the Committee,

I'm writing on behalf of our small, local family-operated business, REAL gastropub / Bent Tail Brewing Company in Kakaako on Oahu. We support **HB343** which creates a Small Craft Beer Producer Tax Credit in order to promote the local production of craft beer.

REAL gastropub / Bent Tail Brewing Company supports this legislation with amendments. The amendments we propose are as follows:

Change the title to read "Relating to a Small Craft Producer Credit". This would then allow us to include wine and spirits producers while falling in line with the Class 18 producer license. This also brings parity to the beverage alcohol industry allowing wineries, distilleries and breweries to grow together creating more local options and delivering an authentic Hawaiian experience in our products to visitors and residents alike.

Section 1 regarding Purpose. Suggest changing to "The purpose of this act is to establish a tax credit for small craft producers manufacturing in Hawaii to encourage local production and expand the growth of a local industry"

A passage of this bill will create more jobs, pay more wages, create new products, 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. While we recognize that this credit results in a net loss of revenue to the State at an initial look, there is significant opportunity to have a net gain in revenue due to the growth of the overall industry.

Hawaiian 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 on the international forum for tourism it is important for us to deliver an authentic Hawaiian experience in our products. How can we do that if we instead serve beers,

wine and spirits bearing Hawaiian names but are made across the world and not necessarily made in Hawaii?

REAL gastropub was founded initially in 2012 with 18 original employees as a community gathering place serving local cuisine and hand-crafted beers. We are relocating, rebuilding our flagship and incorporating a 7BBL brewery named Bent Tail Brewing Company into our new location at Keauhou Lane in Kakaako. We will be able to grow into a team of 40 Honolulu residents that sells award winning beers throughout Oahu and with a focus on using local sources for our food as we have since our opening and now add this principal to our 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.

Mahalo for your consideration, We support HB343 with amendments The small craft producer tax credit will result in reinvestment in our economy and communities. Mahalo for your consideration of testimony in support of HB343.

Sincerely,

Troy Terorotua

Troy Terorotua
Founder & Owner
REAL gastropub / Bent Tail Brewing Co
605 Keawe Street
Honolulu, HI, 96813
troy@realgastropub.com
Cell# 808-741-7373

Kauai Beer Company

James Guerber

4265 Rice Street

Lihue, HI 96766

98080 639 7821

jim@kauaibeer.com



HB 343 Relating to: A Small Craft Beer Producer Tax Credit
House Committee on Economic Development and Business
Weds February 6, 2019 at 11:00 a.m. Conference Room 309

Position: **Support**

Chair Representative Angus Mc Kelvey, Vice Chair Representative Lisa Kitagawa and members of the Committee,

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 ~60 full and part-time personnel.

We are members of the Hawaiian Craft Brewers Guild that seeks to promote production of craft beer in Hawaii. Kauai Beer Company is an independent craft brewery producing 100% of our beer in Hawaii. We are united in our pursuit to promote economic activity for Hawaii's beer manufacturers and enhance opportunities in our communities. The Hawaiian Craft Brewers Guild represent the majority of craft beer producers in Hawaii.

We support HB343 because it would stimulate business in the state of Hawaii.

Expanding the production of craft beer and the variety of beer we offer to customers is one of our goals. A small craft producer tax credit will encourage more local production and help us achieve growth in our business here in Hawaii.

Hawaii's craft breweries are growing and incentives such as the small craft producers income tax credit help spur that growth. Only 5% of the beer sold in Hawaii is actually produced in Hawaii, leaving a great deal of room for growth of our craft beer sector. Our costs of production are high, approximately 40 to 50% higher than similar production costs on the mainland, with ingredients, equipment, and brewery modernization all contributing to this disparity.

A craft producer tax credit helps Hawaii's breweries stay competitive with mainland manufacturers that are able to produce with lower costs and ship their craft beer to Hawaii.

Hawaii's craft beer producers support the local economy with jobs that offer careers and living wages for employees and their families. Passage of HB343 will stimulate the craft brewing sector, and in turn reinvestment in both our brewery business and our communities.

We use locally grown ingredients in some of our beer such as tropical fruits, herbs and spices, and coffee which supports our local Hawaii farmers. We have used Kauai grown Guava and citrus so far and plan to try more varieties in the future. Craft beer producers making 100% of their beer in Hawaii are contributing to the economic growth of other local manufacturers and suppliers with the purchase of cans and packaging. Small craft beer tourism would have greater opportunities to grow as breweries expand their operations.

Mahalo for your consideration. We urge you to pass this bill.
Thank you for the opportunity to provide testimony in support of HB343.

Sincerely,

Jim Guerber
President
Kauai Beer Company



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

HB 343 Relating to: A Small Craft Beer Producer Tax Credit
House Committee on Economic Development and Business
Weds February 6, 2019 at 11:00 a.m. Conference Room 309

Position: **Support**

Chair Representative Angus Mc Kelvey, Vice Chair Representative Lisa Kitagawa and members of the Committee,

The Hawaiian Craft Brewers Guild is a non-profit Hawaii trade organization that promotes and encourages production of independent craft beer in Hawaii. The number of independent craft breweries in Hawaii continues to grow, with construction of new breweries and recent expansion by several breweries. 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 craft beer producers in Hawaii, with members producing 100% of their beer in the State of Hawaii.

Hawaii's craft breweries are growing and incentives such as a small craft producer tax credit can help continue to spur that growth. The number of breweries in Hawaii has increased from eight in 2013 to 15 at the end of 2018, with 3 new craft breweries on track to begin production in 2019. Even given that rate of growth, only 5% of the beer sold in Hawaii is currently produced in Hawaii, providing opportunities to reach additional customers and increase the volume of local craft production.

Legislation that provides tax credits will stimulate the growth of Hawaii's small craft producers that have built their businesses across the state. The small producer credit would be used to invest in new equipment and increased opportunity for employees, to continue growing our companies locally.

Manufacturing businesses face challenges as they begin and then expand production in Hawaii. As a State, we must invest in local manufacturing. These are jobs with good wages and benefits that can provide careers for our residents.

The language in HB343 specifies that the small craft beer producer credit is only for beer made 100% in Hawaii. "Qualified producers" must manufacture craft beer in

Hawaii, fostering expansion and growth within the State and keeping the economic benefits in Hawaii. Including this provision will allow for job creation and reinvestment here in Hawaii, contributing to the economy and our local communities. Additional wages and taxes will be paid as craft producers experience increased success.

Cost of production is high in Hawaii, with an estimated 40% or higher cost of production compared to the continental United States. Basic cost of goods for ingredients, equipment, and brewery modernization all contribute. The proposed bill helps our local breweries remain successful and competitive with mainland manufacturers.

Hawaii's craft beer producers provide good jobs that boost the local economy and support the growth of other businesses. Stimulating the craft producer sector multiplies economic growth across their local communities. Purchasing cans, packaging and other supplies made in state supports the growth of other local businesses. Craft producers use locally grown ingredients such as tropical fruits, herbs and spices, and coffee which supports our local Hawaii farmers. A small number of tour operators offer experiences to visit Hawaii's craft breweries, with their expansion of tours tied to the growth of our Hawaii craft beer producers.

Mahalo for considering our Hawaiian Craft Brewers Guild testimony in support of HB343.



February 3, 2019

HB 343 Relating to: A Small Craft Beer Producer Tax Credit
House Committee on Economic Development and Business
Weds February 6, 2019 at 11:00 a.m. Conference Room 309

Position: **Support**

Chair Representative Angus Mc Kelvey, Vice Chair Representative Lisa Kitagawa and members of the Committee,

_____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 **HB343** 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.

Honolulu Beerworks is in support **HB343** because Hawaii’s craft breweries are growing and incentives such as the small craft beer producers income tax credit help spur that growth. Our costs of production are high, with ingredients, equipment, and brewery modernization all contributing to higher production costs. For example each bag of grain that we bring in to the state costs an extra \$10 a bag. Although a small amount by itself, with the amount of grain we use during brewing this becomes significant amount. With this increase and the high cost of utilities, etc.. it is very hard to keep our price to consumer at a reasonable level that they will support their local brewery. Also with each expansion that we do, shipping in equipment sometimes costs as much or even more than the equipment itself.

Hawaii’s craft breweries are growing and incentives such as the small craft producers income tax credit help spur that growth. Only 5% of the beer sold in Hawaii is actually produced in Hawaii, leaving a great deal of room for growth of our craft beer sector.

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

Legislation that provides tax credits help Hawaii's breweries stay competitive with mainland manufacturers that ship their craft beer to Hawaii at price points that are often lower than our craft beer produced in Hawaii. Most of these mainland breweries do not pay inflated amounts for the ingredients or the shipping. Also the physical locations that the breweries occupy, and operating utilities, are often a lot cheaper for rent and lease. This enables them to produce more beer for cheaper.

Hawaii's craft beer producers support the local economy with jobs that offer careers that allow our employees to live and raise families in Hawaii. We use locally grown ingredients in our beer such as tropical fruits, herbs and spices, and coffee which supports our local Hawaii farmers. We use local oranges , lemons, limes, tangerines, lemongrass, honey, coconut, guava, pineapple, coffee and more in a lot of our beers. In most of the new beers that we look to do one of the first questions is are we able to incorporate local products somehow. We also use local companies for our cans, and our case trays for all of our packaged products that we offer in stores.

Expanding the craft beer we offer to customers is one of our goals. We have just recently completed our third brewery expansion which will allow us to go from 1800 barrels a year to 5400. With the expansion we have installed a canning line, which enables to to offer four of our core styles to the retail market. Although a big jump in production, we will be at capacity shortly. This will require us to look for another space for a production brewery, so we can keep up with demand. The small craft beer producers income tax credit will help us achieve that growth and allow us to grow locally and continue to brew on Oahu.

We produce beer that is kegged as well as canned. Sourcing cans from the Ball Corporation in Kapolei has boosted production of their manufacturing as we scale up the number of cans we use for packaging. HB343 helps stimulate the state's economy beyond our own brewery business.

Honolulu Beerworks supports **HB343** .Mahalo for your consideration. We urge you to pass this bill.

Thank you for the opportunity to provide testimony in support of **HB343**.

Sincerely,

Geoffrey Seideman
Owner/Brewer

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



February 3, 2019

House Committee on Economic Development and Business
HB343: Small Craft Beer Producer Tax Credit
Weds February 6, 2019 at 11:00 a.m. Conference Room 309

Re: IN SUPPORT HB343

Aloha Chair Representative Angus McKelvey, Vice Chair Representative Lisa Kitagawa and members of the Committee,

My name is Garrett W. Marrero, I live in Kula, HI. 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 **HB343** which creates a Small Craft Beer Producer Tax Credit to promote the local production of craft beer.

The purpose of this act is to establish a tax credit for small craft producers manufacturing in Hawaii to encourage local production and expand the growth of a local industry. The language in the bill should ensure that it requires beverages be made in Hawaii in order to qualify for the credit and that a "qualified producer" produce 100% of their beverage in Hawaii and that any production outside the State disqualifies the producer.

Maui Brewing Co. is a small, independent craft brewery that began with just 26 on our team in 2005. We are now over 500 strong and Hawaii's largest craft brewery. These employees live in Hawaii, raise their children here, pay taxes, and contribute to the community. We offer jobs with family-level wages, insurance benefits including health (medical, drug, dental, vision and preventative care), life insurance, and 401(k). We currently match contributions to 401(k). We simply would not be where we are without our staff and they deserve the best we can offer.

Maui Brewing Co. supports this legislation with amendments as suggested by the Hawaiian Craft Brewers Guild. The passage of this provision will allow for job creation, reinvestment in our communities, and allow us to be competitive with large breweries from the mainland where costs of production can be almost half as much. In speaking with others in our local beverage alcohol industry we agree that the small producers tax credit would be utilized to invest in new equipment and our people in order to continue growing our companies locally.

Hawaii's local brewers account for less than 5% of beer sold in Hawaii, approximately 60,000 barrels versus the 1,200,000 barrels imported into the State. The establishment of a tax credit for Small Producers is a direct incentive to produce locally, this may also serve to encourage those who have stopped or decreased producing in Hawaii to come back. It rewards the small business in every community in Hawaii for committing to authentic local brewing, winemaking and distilling at very little cost. We view this as an investment in job creation and encouraging Hawaii manufacturing. At the same time, the resulting increases in production volume and removing burden from unemployment will result in a net gain to the State.

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

In 2005 when we started Maui Brewing Co. we did so with the vision of producing the highest quality ales and lagers available in the State, and doing so with a strong commitment to always brewing in Hawaii. We have stayed true to our vision and have brought attention to craft beer in Hawaii for the first time in history. We are proud that in the craft brewing community around the world the name "Maui Brewing Co." is synonymous with world-class beer of a truly local Hawaiian origin. It has become increasingly difficult to grow and remain competitive with the extremely high cost of production in Hawaii, with costs more than doubling in less than 10 years, relative to our mainland counterparts. This paired with the highest liquor taxes in the Nation result in a disincentive to manufacturing in the State and not just a lack of competitive capability but with odds stacked against. The disincentive of local production has encouraged an outward migration of jobs, taxes, and manufacturing. We should encourage brewing and selling our products in Hawaii, and the support of our government officials with a tax credit rewarding local operations. We believe in a strong Hawaii, this starts with small businesses which are the backbone of any strong community.

Hawaiian producers operate under the highest cost conditions of any State. One look at the store shelves will show you that true Hawaiian beers are the most expensive beers on the shelf, this leads to lower volume and velocity of sales. This in itself has served to limit the availability of true, locally produced selections and give rise to a host of "faux-hawaiian" products. As a 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 on the international forum for tourism it is incumbent upon us to deliver an authentic Hawaiian experience in our products. How can we do that if we instead serve beers, wine and spirits bearing Hawaiian names but made across the world except in Hawaii?

We are the #5 purchaser of cans from a local Ball Corporation plant in Kapolei further supporting local labor. Many breweries here buy cardboard trays and boxes from Rengo, a local manufacturer in Kapolei. This is directly related to the growth of industry in Hawaii, more beer brewed here means more jobs for the economy. The Craft Brewing industry has proven a direct correlation of lower taxation and an increase in jobs and economic activity. States such as CA, CO, WA, OR, and NY have a thriving craft beverage industry due to the supportive nature of the tax structures established whether that be lower rates for small producers or tax credits to produce in the State. This bill provides a way to immediately support the growing industry.

Hawaii's breweries are also large supporters of agriculture brewing with many different agricultural products. Most breweries in the State have strong ties to farmers on their island as the brewers give farmers spent grain for feed and compost, and the brewers buy fruits, spices and etc to brew unique styles. Supporting brewers means supporting farmers.

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.

Thank you for the opportunity to offer these comments. We urge you to support the passage of HB343.

Sincerely,



Garrett W. Marrero
CEO/Founder

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



WAIKIKI BREWING COMPANY

Joe P. Lorenzen, Partner/Brewmaster
831 Queen St.
Honolulu, HI 96813
808-591-0387
brewmaster@waikikibrewing.com

HB 343 Relating to: A Small Craft Beer Producer Tax Credit
House Committee on Economic Development and Business
Weds February 6, 2019 at 11:00 a.m. Conference Room 309

Position: Support

Chair Representative Angus Mc Kelvey, Vice Chair Representative Lisa Kitagawa and members of the 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.

Waikiki Brewing Company supports HB 343 because as a local manufacturer of craft beer, we face much higher costs of production than brewers who import their products to the state of Hawaii. This bill will serve to help even the playing field with the mainland companies while supporting local job creation and manufacturing.

Not only does our business directly create local jobs, but as a local manufacturer, we purchase ingredients and materials from other local producers, further having a positive impact on the local economy and job market.

Only 5% of the beer sold in Hawaii is actually produced in Hawaii, leaving a great deal of room for growth of our craft beer sector. Our costs of production are high, with ingredients, equipment, and brewery modernization all contributing.

A craft producer tax credit helps Hawaii's breweries stay competitive with mainland manufacturers able to produce with lower costs and ship their craft beer to Hawaii.

Hawaii's craft beer producers support the local economy with jobs that offer careers and living wages for employees and their families. Passage of HB 343 will stimulate the craft brewing sector, and in turn reinvestment in our communities.

Thank you for the opportunity to provide testimony in support of HB 343.

Sincerely,

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

Joe P. Lorenzen



February 5, 2019

HB 343 Relating to: A Small Craft Beer Producer Tax Credit
House Committee on Economic Development and Business
Weds February 6, 2019 at 11:00 a.m. Conference Room 309

Position: **Support**

Chair Representative Angus Mc Kelvey, Vice Chair Representative Lisa Kitagawa and members of the Committee,

My name is Bret Larson and I am the owner of Kauai Island Brewing Company with a Class 14 brewpub license doing business in Eleele, Kauai. Our business began in 2012 with and started with 12 employees. We now provide 35 jobs in Hawaii. I'm writing on behalf of myself and our local family-operated business **in support of HB 343** which creates a Small Craft Beer Producer Tax Credit to promote the local production of craft beer.

We are in the process of expanding our existing brewery and adding additional cold storage space. By way of example, we recently purchased a large walk-in cooler for \$11,200, it cost over \$9,000 to have it shipped out to our location on Kauai; this same walk-in cooler would have cost us less the \$1000 to have it shipped to almost anywhere on the Mainland.. Further, we recently installed a new 10 barrel brewing system and the shipping cost was over \$21,000 to have it shipped from Portland! On the mainland, we would have paid less than \$5,000 for the same equipment to have it shipped almost anywhere in the US. These are real costs associated with all aspects of our cost of goods - from grain, to hops. Our costs of doing business in Hawaii are almost double that of most business on the mainland.

The passage of this provision will allow for job creation, reinvestment in our communities, and allow us to be competitive with large breweries from the mainland where costs of production can be almost half as much. In speaking with others in our local beverage alcohol industry we agree that the small producer's tax credit would be utilized to invest in new equipment and our people in order to continue growing our companies locally.

Hawaii's craft breweries are growing and incentives such as the small craft producers tax credit help spur that growth. Only 5% of the beer sold in Hawaii is produced in Hawaii, leaving room for increased local production and growth of our craft beer sector. Our costs of production are high, approximately 40 to 50% higher than similar production costs on the mainland, with ingredients, equipment, and brewery modernization all contributing Small craft producers are making high quality craft beer brewed in the

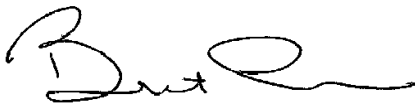
State of Hawaii, providing opportunities to reach additional customers and expand the volume of local production.

Production costs are high for Hawaii's craft brewers. A craft producer tax credit helps Hawaii's breweries stay competitive with mainland manufacturers able to produce at about half the cost of our local operations and ship to Hawaii. This hits home with a visit to the store finding beers manufactured in Hawaii amongst the most expensive on the shelf. The purpose of this bill is to establish a tax credit that supports small craft producers manufacturing in Hawaii, allowing local production to expand and growth of the industry.

Purchasing cans, packaging and other supplies made in state supports the growth of other local businesses. We see Hawaii's breweries supporting local agriculture through their use of locally grown fruits, spices, herbs, coffee and other agricultural products. As more beer is brewed in Hawaii more jobs are created with greater contributions to the local economy.

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

Sincerely,

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
Owner, President, Kauai Island Brewing Company, LLC.
808-755-5926
bret@kauaiislandbrewing.com

INU ISLAND ALES

Keaka Eckart

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HB 343 Relating to: A Small Craft Beer Producer Tax Credit
House Committee on Economic Development and Business
Weds February 6, 2019 at 11:00 a.m. Conference Room 309

Position: Support

Chair Representative Angus Mc Kelvey, Vice Chair Representative Lisa Kitagawa and members of the Committee,

My name is Keaka Eckart, I live in Kailua, Oahu and I am the CEO of INU ISLAND ALES. We are located in Kaneohe on Oahu.

We are members of the Hawaiian Craft Brewers Guild that seeks to promote production of craft beer in Hawaii. INU ISLAND ALES is an independent craft brewery producing 100% of our beer in Hawaii. We are united in our pursuit to promote economic activity for Hawaii's beer manufacturers and enhance opportunities in our communities. The Hawaiian Craft Brewers Guild represents the majority of craft beer producers in Hawaii.

INU ISLAND ALES supports HB343 because expanding the production of craft beer and the variety of beer we offer to customers is one of our goals. A small craft producer tax credit will encourage more local production and help us achieve growth in our business here in Hawaii.

Hawaii's craft breweries are growing and incentives such as the small craft producers income tax credit help spur that growth. Only 5% of the beer sold in Hawaii is actually produced in Hawaii, leaving a great deal of room for growth of our craft beer sector. Our costs of production are high, approximately 40 to 50% higher than similar production costs on the mainland, with ingredients, equipment, and brewery modernization all contributing.

A craft producer tax credit helps Hawaii's breweries stay competitive with mainland manufacturers that are able to produce with lower costs and ship their craft beer to Hawaii.

Hawaii's craft beer producers support the local economy with jobs that offer careers and living wages for employees and their families. Passage of HB343 will stimulate the craft brewing sector, and in turn reinvestment in both our brewery business and our communities.

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

Thank you for the opportunity to provide testimony in support of HB343.

Keaka Eckart

HB-343

Submitted on: 2/4/2019 12:18:59 PM

Testimony for EDB on 2/6/2019 11:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Joshua DeMello	Individual	Support	No

Comments:

Please support easing the burden on small beer producers. The beer industry in Hawaii already needs to import malt and hops at a huge cost, high taxes make it very hard for a Hawaii beer industry to thrive.

What does Hawaii get out of a thriving beer industry? Hawaii's beers are world reknown, winning numerous awards and very sought after in the beer community. It provides a signature drink for Hawaii to welcome visitors with or to share around the world. Beer tourism is on the rise and with every major island in Hawaii providing fresh, local, hand crafted beers for visitors and the community, it doesnt get much better. It does? these small beer producers are a part of the communit, giving back through donations and charities.

This isnt Budweiser or Heineken or any other global conglomerate that this bill os asking to provide some economic relief or stimulus too, these are local companies, owned by local folks, who employ local workers, brewing local beers often times with local ingredients, to serve in their local establishments to local beer.

Please support local

HB-343

Submitted on: 2/5/2019 9:42:29 AM

Testimony for EDB on 2/6/2019 11:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Janice Larson	Individual	Support	No

Comments: