

DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LIEUTENANT GOVERNOR



LINDA CHU TAKAYAMA
DIRECTOR

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

**STATE OF HAWAII
DEPARTMENT OF TAXATION**

830 PUNCHBOWL STREET, ROOM 221

HONOLULU, HAWAII 96813

<http://tax.hawaii.gov/>

Phone: (808) 587-1540 / Fax: (808) 587-1560

Email: Tax.Directors.Office@hawaii.gov

To: The Honorable Roy M. Takumi, Chair
and Members of the House Committee on Consumer Protection & Commerce

Date: Tuesday, February 12, 2019
Time: 2:00 P.M.
Place: Conference Room 329, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: H.B. 887, H.D. 1, Relating to Intoxicating Liquor

The Department of Taxation (Department) offers the following comments on H.B. 887, H.D. 1 for the Committee's consideration.

H.B. 887, H.D. 1, makes amendments to Hawaii Revised Statutes Chapter 244D, which governs Hawaii's liquor tax law. Specifically, this measure:

- 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, 2019;
- 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 a defective effective date of July 1, 2112.

The Department notes that is able to administer the changes proposed by this measure, but respectfully requests that the effective date of the measure be changed to January 1, 2020, to allow the Department time to make the necessary changes to forms and instructions, and to the Department's computer system.

Thank you for the opportunity to provide comments on this measure.

Kauai Beer Company

James Guerber

4265 Rice Street

Lihue, HI 96766

98080 639 7821

jim@kauaibeer.com



HB887 H.D. 1 Relating to Intoxicating Liquor: Tax Rate on Beer , Cooler Beverage Tax
House Committee on Consumer Protection and Commerce
Tuesday, February 12, 2019 at 2:00 p.m. Conference Room 329

Position: **Support**

Chair Representative Roy Takumi, Vice Chair Representative Linda Ichiyama, and members of the Committee on Consumer Protection and Commerce,

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.

Consolidate beer tax to one rate

HB887 H.D. 1 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. Instead Hawaii Revised Statutes Section 244D-4 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.

We strongly support the repeal of the term “draft beer” to have one category, beer. This bill encourages compliance with laws by simplifying the definition of beer and making tax terminology less confusing.

Hawaii has a high beer tax compared to other states and is ranked the 5th highest in the United States for 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.

Smaller craft breweries and those just starting out will often serve beer on draft, with their beer from 5 gallon or 2 gallon kegs. Under the draft beer definition, the beer served on tap from these smaller kegs is not in the draft category and taxed at a higher rate. HB887 H.D. 1 helps support new startup brewery businesses

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

Many Hawaii breweries are now canning their beer or considering canning. Uniformity in the tax rate will make the economics of canning more feasible. As more breweries can and bottle their beer, this increased production generates more tax revenue back to the State of Hawaii.

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, 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 HB546. H.D 1

Sincerely,

Jim Guerber
President
Kauai Beer Company



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

HB887 H.D.1 Relating to Intoxicating Liquor
Tax Rate on Beer and Cooler Beverage Tax
House Committee on Consumer Protection and Commerce
Tuesday, February 12, 2019 at 2:00 p.m. Conference Room 329

Position: **Support**

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

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 and represent the majority of craft beer producers in Hawaii. Our members 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 and our member breweries embrace the responsible consumption of alcohol.

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. More individuals are showing an interest in developing distillery businesses if the economics are favorable. The production of distilled spirit "cooler beverages" using alcohol produced in Hawaii 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 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.

Tax Rate on Beer

HB887 H.D.1 standardizes and simplifies the tax rate on beer, minimizing confusion about definitions. The definition of draft refers to the size of the container that beer is dispensed from. This is confusing since draft typically means beer that is poured from a tap.

HRS Section 244D-4 defines the term draft as a container of 7 gallons or more, which creates confusion in terminology for tax rates on draft beer. HB887 H.D.1 seeks to simplify terminology and eliminate the vague definition "draft beer" by using the word beer and having only one tax rate, on 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 is taxed at a higher rate. This 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 HB887 H.D.1 beer would conform more closely with other alcoholic beverages, defined by a single and uniform term for tax rates based on gallonage.

HB887 H.D.1 supports Hawaii's craft beer producers. According to recent figures from the Brewers Association, Hawaii had eight breweries in 2013 and we now have 20 that are in production or about to open in 2019. This increase in number of breweries provides new and increased tax revenue for the state. This economic sector continues to grow, with at least 3 new breweries or brewpubs opening in 2019. 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.

As a growing business sector Hawaii's craft breweries contribute an increasingly greater amount of revenue to the state from liquor taxes, business income tax, GET and employees paying income tax. The amount of tax revenue increases with the expansion in both number of breweries and amount of production by each brewery.

Data compiled by the Alcohol and Tobacco Tax Trade Bureau shows a significant increase in beer production and taxable volume between 2007 and 2017 in Hawaii. The taxable volume for bottles and cans more than doubled from 2014 to 2016. The taxable volume of barrels and kegs nearly doubled as well. 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 comparison of tax rates on beer across the United States shows Hawaii is ranked 5th highest for beer tax rates in the nation. HB887 H.D.1 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, falling in the top 10% of beer tax rates in the country.

We urge the House Committee on Consumer Protection and Commerce to pass this bill. Mahalo for considering our Hawaiian Craft Brewers Guild testimony in support of HB887 H.D.1.



February 10, 2019

HB887 H.D. 1 Relating to Intoxicating Liquor: Tax Rate on Beer, Cooler Beverage Tax
House Committee on Consumer Protection and Commerce
Tuesday, February 12, 2019 at 2:00 p.m. Conference Room 329

Position: **Support**

Chair Representative Roy Takumi, Vice Chair Representative Linda Ichiyama, and members of the Committee on Consumer Protection and Commerce,

We are members of the Hawaiian Craft Brewers Guild that seeks to promote 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 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.

Kauai Island Brewing Company supports HB887 HD1 because HB887 HD1 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. Instead Hawaii Revised Statutes Section 244D-4 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.

We strongly support the repeal of the term "draft beer" to have one category, beer. This bill encourages compliance with laws by simplifying the definition of beer and making tax terminology less confusing.

Hawaii has a high beer tax compared to other states and is ranked the 5th highest in the United States for 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.

Smaller craft breweries and those just starting out will often serve beer on draft, with their beer from 5 gallon or 2 gallon kegs. Under the draft beer definition, the beer served on tap from

these smaller kegs is not in the draft category and taxed at a higher rate. HB887 HD1 helps support new startup brewery businesses.

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

Many Hawaii breweries are now canning their beer or considering canning. Uniformity in the tax rate will make the economics of canning more feasible. As more breweries can and bottle their beer, this increased production generates more tax revenue back to the State of Hawaii.

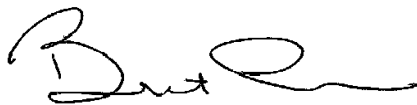
The higher tax rate of 93 cents is considered a package tax. Many local breweries are going to canning which supports another local Oahu business. By having a lower tax rate, this encourages breweries to increase production and manufacturing using cans, which supports the local Ball plant in Kapolei,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

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 the opportunity to provide testimony in support of HB887 HD1.

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 underline.

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



February 11, 2019

HB887 H.D. 1 Relating to Intoxicating Liquor: Tax Rate on Beer , Cooler Beverage Tax
House Committee on Consumer Protection and Commerce
Tuesday, February 12, 2019 at 2:00 p.m. Conference Room 329

Position: **Support**

Chair Representative Roy Takumi, Vice Chair Representative Linda Ichiyama, and members of the Committee on Consumer Protection and Commerce,

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 **HB887 H.D. 1**. 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.

Consolidate beer tax to one rate

HB887 H.D. 1 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 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 HB887 H.D. 1

Sincerely,

Geoffrey Seideman
Owner/Brewer

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

REAL a gastropub

506 Keawe Street
Honolulu, Hawaii, 96813

T 808-200-2739
troy@realgastropub.com

realgastropub.com

February 11, 2019

HB887 H.D. 1 Relating to Intoxicating Liquor: Tax Rate on Beer , Cooler Beverage Tax

House Committee on Consumer Protection and Commerce
Tuesday, February 12, 2019 at 2:00 p.m. Conference Room 329

Position: **Support**

Chair Representative Roy Takumi, Vice Chair Representative Linda Ichiyama, and members of the Committee on Consumer Protection and Commerce,

I'm writing on behalf of our small, local family-operated business, REAL a gastropub / Bent Tail Brewing Company in Kakaako on Oahu. We support **HB887 H.D.1** 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; this bill helps us to continue on our path of recent growth and success.

REAL a 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 urge you pass this bill. Thank-you for the opportunity to provide testimony in support of HB887 H.D.1.

Sincerely,

Troy Terorotua

Troy Terorotua

Founder & Owner

REAL a gastropub / Bent Tail Brewing Co

605 Keawe Street

Honolulu, HI, 96813

troy@realgastropub.com

Cell# 808-741-7373



February 11, 2019

HB887 H.D. 1 Relating to Intoxicating Liquor: Tax Rate on Beer , Cooler Beverage Tax
House Committee on Consumer Protection and Commerce
Tuesday, February 12, 2019 at 2:00 p.m. Conference Room 329

Re: **IN SUPPORT OF HB887 HD1**

Aloha Chair Representative Roy Takumi, Vice Chair Representative Linda Ichiyama, and members of the Committee on Consumer Protection and Commerce,

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 **HB887** which creates a new category of cooler beverages made from Spirits, as well as consolidates the two different tax rates on beer into one.

Consolidate beer tax to one rate

HB887 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

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

running at full production. Also, many breweries purchase their cardboard from a plant in Kapolei. The higher 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 **HB887**.

Mahalo,



Garrett W. Marrero
CEO/Founder



HB887 H.D. 1 Relating to Intoxicating Liquor: Tax Rate on Beer , Cooler Beverage Tax
House Committee on Consumer Protection and Commerce
Tuesday, February 12, 2019 at 2:00 p.m. Conference Room 329

Position: Support

Chair Representative Roy Takumi, Vice Chair Representative Linda Ichiyama, and members of the Committee on Consumer Protection and Commerce,

My name is Nicolas Wong, I live in Palolo, Oahu and I am the Founder of Beer Lab HI. We have three locations in Moilili, Waipio and Pearlridge center. Our brewery began in 2016 with 3 employees. We now provide 42 jobs in Hawaii.

(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 that seeks to promote production of craft beer in Hawaii. Beer Lab HI 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.

I Nicolas Wong and Beer Lab HI support HB887 because Hawaii is number 5 in the United states for highest tax rates on beer at \$0.97 per gallon the national average being closer to \$0.25. The amount of beer produced in Hawaii is around 5% with 95% being imported. While lowering the tax may reduce taxes collected in the immediate future the benefit will bring more breweries opening and an increase in current production of current breweries in turn increasing the total amount collected in the future.

Consolidate beer tax to one rate

HB887 H.D. 1 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. Instead Hawaii Revised Statutes Section 244D-4 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.

We strongly support the repeal of the term "draft beer" to have one category, beer. This bill encourages compliance with laws by simplifying the definition of beer and making tax terminology less confusing.

Smaller craft breweries and those just starting out will often serve beer on draft, with their beer from 5 gallon or 2 gallon kegs. Under the draft beer definition, the beer served on tap from these smaller kegs is



not in the draft category and taxed at a higher rate. HB887 H.D. 1 helps support new startup brewery businesses.

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

Many Hawaii breweries are now canning their beer or considering canning. Uniformity in the tax rate will make the economics of canning more feasible. As more breweries can and bottle their beer, this increased production generates more tax revenue back to the State of Hawaii.

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, 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.

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

Thank you for the opportunity to provide testimony in support of HB887 H.D. 1.



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

1/31/19

RE: HB887 HD1 Relating to Intoxicating Liquor. Tax Rate on beer and cooler beverage tax.

Aloha Chair, Vice Chair and Committee members,

Lanikai Brewing Company is a locally owned and operated Craft Brewery here in Kailua, Oahu and we are in support of HB887 HD1.

HB887 HD1 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.

‘Ōkole 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



WAIKIKI BREWING COMPANY

Joe P. Lorenzen, Partner/Brewmaster

831 Queen St.

Honolulu, HI 96813

808-591-0387

brewmaster@waikikibrewing.com

HB887 H.D. 1 Relating to Intoxicating Liquor: Tax Rate on Beer , Cooler Beverage Tax
House Committee on Consumer Protection and Commerce
Tuesday, February 12, 2019 at 2:00 p.m. Conference Room 329

Position: Support

Chair Representative Roy Takumi, Vice Chair Representative Linda Ichiyama, and members of the Committee on Consumer Protection and Commerce,

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 will be opening a third location on Maui in the coming months.

Waikiki Brewing Company supports HB 887. As brewers in Hawaii, we pay the 5th highest beer production tax in the nation. When you add to this the fact that we pay higher costs in shipping, raw materials and equipment acquisition, and other expenses related to the cost of manufacturing on a remote pacific island, we face a lot of adversity trying to bring local products to market. This bill would be of great assistance in helping us to reduce our costs and make us more competitive with mainland manufacturers.

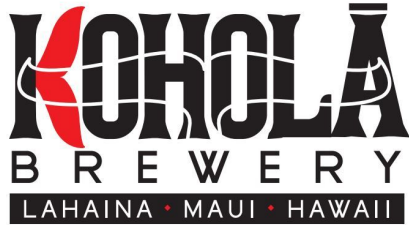
Mahalo for your consideration. We urge you to pass this bill.

Thank you for the opportunity to provide testimony in support of HB 546.

Sincerely,

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

Joe P. Lorenzen



Kohola Brewery

Ian Elumba

910 Honoapiilani Highway #55

808-868-3198

ielumba@koholabrewery.com

HB887 H.D. 1 Relating to Intoxicating Liquor: Tax Rate on Beer , Cooler Beverage Tax
House Committee on Consumer Protection and Commerce
Tuesday, February 12, 2019 at 2:00 p.m. Conference Room 329

Position: Support

Chair Representative Roy Takumi, Vice Chair Representative Linda Ichiyama, and members of the Committee on Consumer Protection and Commerce,

My name is Ian Elumba, I live in Kihei, Maui and I am the Co-Founder/Owner at Kohola Brewery. We are located in Lahaina, Maui. Our brewery began in 2015 with One employee. We now provide 8 jobs in Hawaii.

Kohola Brewery Plans to open a second location on Maui next year and possible a 3rd location in Oahu, in 3 years.

Kohola Brewery is a member of the Hawaiian Craft Brewers Guild that seeks to promote production of craft beer in Hawaii. Kohola 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.

On Behalf of Kohola Brewery, I support HB887 H.D. 1 because it allows locally owned, small breweries like ours to grow and provide more jobs in the state.

We believe HB887 H.D. 1 will help our brewery business grow because it provides clarity on taxing beer.

Consolidate beer tax to one rate

HB887 H.D. 1 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. Instead Hawaii Revised Statutes Section 244D-4 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.

I strongly support the repeal of the term “draft beer” to have one category, beer. This bill encourages compliance with laws by simplifying the definition of beer and making tax terminology less confusing.

Smaller craft breweries and those just starting out will often serve beer on draft, with their beer from 5 gallon or 2 gallon kegs. Under the draft beer definition, the beer served on tap from these smaller kegs is not in the draft category and taxed at a higher rate. HB887 H.D. 1 helps support new startup brewery businesses

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 increasingly more state business taxes and as more employees pay income tax.

Hawaii has a high beer tax compared to other states and is ranked the 5th highest in the United States for 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. It’s already tough to compete with large, corporate breweries on price wars, breweries who don’t even brew their beers local, a uniform tax rate on beer could help us smaller guys compete with corporate beer.

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

Many Hawaii breweries are now canning their beer or considering canning. Uniformity in the tax rate will make the economics of canning more feasible. As more breweries can and bottle their beer, this increased production generates more tax revenue back to the State of Hawaii.

Kohola Brewery is currently canning and bottling our beers

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.

In the past, we self-distributed our beer and many of Hawaii's small craft breweries self-distribute which increases their workload 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.

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

Thank you for the opportunity to provide testimony in support of HB887 H.D. 1



February 11, 2019

To: The Honorable Chair Takumi, Vice Chair Ichiyama and Members of the House
Committee on Consumer Protection & Commerce

From: Kona Brewing Company
Mary Rait; Director, Regulatory Compliance and Government Relations

RE: HB887 HD1; Relating to Intoxicating Liquor; **In Support**
February 12, 2019; Conference Room 329

Kona Brewing Co. **supports** HB887 HD1, which proposes to standardize the beer excise tax by eliminating the separate tax on draught beer and consolidating into one rate. Hawaii currently has one of the highest excise tax rates on packaged beer in the United States. This tax, in conjunction with the higher costs associated with beer production in Hawaii as compared to other states, creates economic challenges for craft beer producers. Standardizing the tax into one rate would promote increased growth of the craft brewing industry, maintain and create jobs, and support Hawaii's economy.

Kona Brewing Co. runs our flagship brewery out of Kailua-Kona, Hawaii and currently produces more than 12,000 barrels of beer per year on island. The company was started by a father and son team in 1994 who had a dream to create fresh, local island brews made with spirit, passion, and quality. Kona Brewing Co. is currently in the process of expanding our pub and brewery operations in Hawaii to include a new state-of-the-art, 30,000 square-foot facility to support the anticipated demand for Kona Brewing beer sold in Hawaii. In addition to creating more local jobs, over time this expansion will increase our annual local production capacity from 12,000 to 100,000+ barrels of malt beverages, all of which will be sold in Hawaii.

For 25 years Kona Brewing Co. has proudly invested in the future of Hawaii, and therefore feels passionate about promoting the growth of the craft beer industry, advocating for environmental responsibility, community wellness, and sustainability. Mahalo for the opportunity to provide testimony on HB887 HD1.

Sincerely,

A handwritten signature in cursive script that reads "Mary Rait".

Mary Rait
Kona Brewing Company