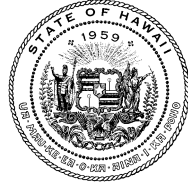


DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR



ISAAC W. CHOY
DIRECTOR OF TAXATION

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

To: The Honorable Sean Quinlan, Chair;
The Honorable Daniel Holt, Vice Chair;
and Members of the House Committee on Economic Development

From: Isaac W. Choy, Director
Department of Taxation

Date: March 12, 2021
Time: 11:00 A.M.
Place: Via Video Conference, State Capitol

Re: S.B. 565, S.D. 1, Relating to Alcohol

The Department of Taxation (Department) offers the following comments regarding S.B. 565, S.D. 1, for your consideration.

S.B. 565, S.D. 1, amends the definition of "beer" in section 244D-1, Hawaii Revised Statutes, by expanding it to include alcoholic seltzer beverages. S.B. 565, S.D. 1 takes effect January 1, 2022.

The Department notes that the Senate Committee on Commerce and Consumer Protection amended this measure's effective date at the Department's request. The Department appreciates the consideration of its testimony and notes it can administer this measure as written.

Finally, the Department notes that the current federal stimulus bill, as passed by the United States Congress on March 10, 2021, contains a provision that requires the repayment of stimulus funds received by the State for any revenue loss measures enacted from March 3, 2021 until the last day of the fiscal year in which the stimulus funds have been completely expended by the State.

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



MAUI BREWING CO

March 10, 2021

House Committee on Economic Development
SB565 SD1 Relating to Alcohol
March 12th, 2021

Re: **IN SUPPORT OF SB565 SD1**

Aloha Chair Representative Quinlan, Vice Chair Representative Holt, and members of the Committee,

My name is Garrett W. Marrero, I live in Kihei, HI. Maui Brewing Co. has 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 700 to our team pre-COVID of course. I was selected as the National Small Business-Person of the year in 2017 for my work at Maui Brewing Co.

I am writing on behalf of myself and our local family-operated business in support of **SB565 SD1** which amends the definition of beer to align with the Federal definitions under Tax & Trade Bureau and the Internal Revenue Code.

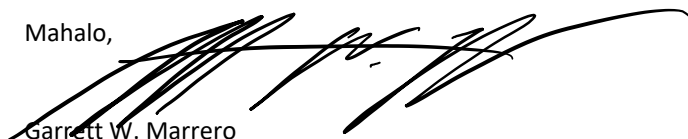
Why is this important? The current Hawai'i definition of beer does not properly fit today's needs as new fermented beverages such as gluten-free beer, non-alcoholic beer, seltzers fermented from malt (FMBs) or sugar (FSBs) and more. These beverages are commonly accepted as beer by both the TTB and IRS under Federal rule as well as 49 other States. We need to bring Hawai'i up to par with the rest of our country in definition of these beverages.

There are significant benefits to Hawaii's local producers:

1. COVID-19 has severely challenged the economic viability of craft beer producers across the State of Hawaii. Passing this bill now is especially crucial as Hawaii craft beer manufacturers find ways to be proactive to stay in business and recover from COVID related revenue losses.
2. The additional flexibility to substitute fermentable sugars and grains can help increase revenue and improve the bottom line for craft breweries at a time when these businesses are struggling to remain open due to the impacts of COVID-19.
3. While liquor sales have shown overall increases during the pandemic, this is not the case for Hawaii's small independent craft breweries. Small brewery businesses typically derive a higher percent of their overall revenue from sales of a range of unique beer styles at their brewpubs and tap rooms compared to other alcohol manufacturers.
4. The bill to update the definition of beer can provide economic relief for Hawaii's craft beer manufacturers as they continue to diversify the brewing ingredients they use and types of beer they produce.

Mahalo for your consideration. We urge you to pass this bill. Thank you for the opportunity to provide testimony in support of **SB565 SD1**.

Mahalo,


Garrett W. Marrero
CEO/Founder

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

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: LIQUOR, Broaden Beer Definition

BILL NUMBER: SB 565, SD1

INTRODUCED BY: Senate Committee on Commerce and Consumer Protection

EXECUTIVE SUMMARY: Expands the definition of "beer" to specify an alcohol by volume of no less than 0.5 percent and to include alcoholic seltzer beverages.

SYNOPSIS: Amends section 244D-1, HRS, to include alcoholic seltzer beverages within the definition of "beer" for liquor tax purposes.

Amends section 281-1, HRS, but does not include alcoholic seltzer beverages within the definition of "beer" for regulatory purposes.

EFFECTIVE DATE: 1/1/2022.

STAFF COMMENTS: The apparent purpose of the bill is to allow seltzer beverages to qualify for the lower tax rate (\$0.85 per wine gallon) for "cooler beverages," which are now applicable to wine- or beer-based beverages, as opposed to the higher tax rate (\$5.98 per wine gallon) on distilled spirits. Assuming that seltzer beverages have a much lower alcoholic content than distilled spirits, a lower tax rate may be appropriate.

Digested 2/22/2021



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Kamuela, Hawaii, 96743

T 808-887-1717
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BigIslandBrewHaus@Yahoo.Com

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Thomas Kerns
President / Brewmaster
Big Island Brewhaus

SB 565 SD1 Relating to Intoxicating Liquor: Definition of Beer
House Committee on Economic Development
ECD on Friday, 03-12-21 11:00AM

Position: **Support**

Chair Representative Sean Quinlan, Vice Chair Representative Daniel Holt and members of the Committee on Economic Development.

My name is Thomas Kerns and I am the owner and brewmaster of Big Island Brewhaus. We are an independent craft brewery producing 100% of our beer in Hawaii. We are united with other members of the Hawaiian Craft Brewers Guild in our pursuit to promote economic activity and growth for Hawaii's beer manufacturers and enhance opportunities in our communities.

Our brewery along with the other member breweries of the Hawaiian Craft Brewers Guild embrace the responsible consumption of alcohol.

Definition of Beer:

The current definition of beer is archaic and does not represent the nature of what beer is in the current marketplace.

I stand in support of the proposed amendments with one suggested alteration: On "Line #10", I suggest adding the word "fermented" to the proposed edit "alcoholic seltzer beverages". This would clarify the difference of a natural fermented beverage made with an infusion of sugars derived from the allowed substances, rather than allowing alcoholic seltzer beverages that are made by blending in distilled spirits with no fermentation – which is essentially more like a mixed carbonated cocktail.

Enacting this legislation would have significant beneficial impact for our brewery and other small independent craft breweries across Hawaii in modernizing the definition of beer and including "fermented alcoholic seltzer beverages".

We request the Senate Committee on Judiciary pass this bill. Mahalo for considering our testimony in support of SB565_SD1.

Sincerely,

Thomas Kerns
President / Brewmaster
Big Island Brewhaus



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

SB565_SD1 Relating to Intoxicating Liquor : Definition of Beer
House Committee on Economic Development
Friday, March 12, 2021 at 11:00 a.m. Conference Rm 312

Position: **Support**

Chair Representative Sean Quinlan, Vice Chair Representative Daniel Holt, and members of the House committee on Economic Development,

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 and our member breweries embrace the responsible consumption of alcohol.

Updating Definition of Beer

SB565_SD1 calls for an update of the definition of beer that more closely reflects the expansion of the craft beer manufacturing sector. The definition proposed in this legislation is more closely aligned with the terminology used in federal TTB regulations and the Internal Revenue Code of 1986.

Hawaii's definition is not the same as the federal definition which also includes a broader range of substitutes or additions to malted barley and fermentable sugars. The majority of hard seltzer is produced from either a brewed malt base or a brewed sugar base, which is then fermented. Under federal Alcohol and Tobacco Tax and Trade Bureau (TTB) regulations, both malt-based and sugar-based hard seltzers are considered "beer". The malt based hard seltzers are also categorized as "malt beverages".

While liquor sales have shown overall increases during the pandemic, this is not the case for Hawaii's small independent craft breweries. Small brewery businesses typically derive a higher percent of their overall revenue from sales of a range of unique beer styles at their brewpubs and tap rooms compared to other alcohol manufacturers. This bill to update the definition of beer can provide economic relief for Hawaii's craft beer manufacturers as they continue to diversify the brewing ingredients they use and types of beer they produce.

Additional beer excise tax revenue and gallonage taxes may result over time for the State of Hawaii from increased craft beer and hard seltzer production and sales by Hawaii's manufacturers.

A broader definition of beer will foster the creation of new and unique styles that are well suited for the inclusion of agricultural products grown in Hawaii. A modified definition of beer inspires producers to incorporate additional Hawaii grown fruits, herbs, coffee, cacao, and other locally sourced agricultural ingredients. Hawaiian Craft Brewers Guild members seek out local agricultural ingredients to create value added products that support Hawaii's farmers and statewide agriculture.

We request the House Committee on Economic Development pass this bill. Mahalo for considering our Hawaiian Craft Brewers Guild testimony in support of SB565_HD1.



Geoffrey Seideman
Honolulu Beerworks
328 Cooke St. Honolulu

SB565_SD1 Relating to Intoxicating Liquor : Definition of Beer
House Committee on Economic Development
Friday, March 12, 2021 at 11:00 a.m. Conference Rm 312

Position: **Support**

Chair Representative Sean Quinlan, Vice Chair Representative Daniel Holt, and members of the House committee on Economic Development,

My name is Geoffrey Seideman and I am the Owner and Brewer of Honolulu Beerworks in Kakaako. We are an independent craft brewery producing 100% of our beer in Hawaii. We are united with other members of the Hawaiian Craft Brewers Guild in our pursuit to promote economic activity and growth for Hawaii's beer manufacturers and enhance opportunities in our communities.

I am a board member of the HCBG. Our brewery along with the other member breweries of the Hawaiian Craft Brewers Guild embrace the responsible consumption of alcohol.

As with all things we need to adapt and adjust with the times. The current definition of beer in Hawaii does not reflect the federal definition, and the adjustment that has been made federally due to new styles, products, techniques, ingredients etc.. By modifying the definition of beer will allow our brewery to increase the styles and products that we are able to produce here in Hawaii. This will create more opportunities for our brewery and to increase sales.

The additional flexibility to add and substitute grains and fermentable sugars can help increase revenue and improve the bottom line for our craft brewery at a time when we struggle to remain open due to the impacts of COVID-19.

We request the House Committee on Economic Development pass this bill. Mahalo for considering this testimony in support of SB565_SD1.



March 12, 2021

To: The Honorable Chair Sean Quinlan and Vice Chair Daniel Holt
House Committee on Economic Development

From: Kona Brewing Hawaii
Billy Smith; President

RE: SB565 SD1; Relating to Alcohol; **In Support**
March 12, 2021; Conference Room 312

Kona Brewing Hawaii **supports** SB565 SD1, which expands the definition of “beer” to specify an alcohol by volume of no less than 0.5 per cent and to include alcoholic seltzer beverages. As the definition of beer has morphed in recent years, this bill would align Hawaii with most of the country by including alcoholic seltzers. Hard seltzers have grown in popularity and local producers look forward to meeting that demand. This bill would help to enable local craft beer manufacturers to increase production and grow their businesses, which ultimately is a benefit to Hawaii’s economy.

Kona Brewing Hawaii runs our flagship brewery out of Kailua-Kona and currently produces more than 12,000 barrels of beer annually. Kona Brewing Hawaii is close to completing the expansion of our brewery operations to include a new state-of-the-art, 30,000 square-foot facility. 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 over 25 years, Kona Brewing has proudly invested in the future of Hawaii, and therefore feels passionate about promoting the growth of the craft beer industry while advocating for environmental responsibility, community wellness, and sustainability.

Mahalo for the opportunity to provide testimony on SB565 SD1.

Sincerely,

William F Smith

Billy Smith
President

Kauai Beer Company
Justin Guerber
Head Brewer
4265 Rice St
Lihue, HI 96766
justin@kauaibeer.com



SB565_SD1 Relating to Intoxicating Liquor : Definition of Beer
House Committee on Economic Development
Friday, March 12, 2021 at 11:00 a.m. Conference Rm 312

Position: **Support**

Chair Representative Sean Quinlan, Vice Chair Representative Daniel Holt, and members of the House committee on Economic Development,

My name is Justin Guerber and I am the Head Brewer of Kauai Beer Company. We are an independent craft brewery producing 100% of our beer in Hawaii. We are united with other members of the Hawaiian Craft Brewers Guild in our pursuit to promote economic activity and growth for Hawaii's beer manufacturers and enhance opportunities in our communities. Our brewery along with the other member breweries of the Hawaiian Craft Brewers Guild embrace the responsible consumption of alcohol.

Updating Definition of Beer

We believe that the public's perception of "beer" has changed and should be reflected in the definition in the law. Throughout the country, and around the world, craft breweries have begun to brew hard seltzers and other products that use new and innovative techniques and ingredients. We find that customers that might avoid traditional beer due to dietary restrictions, or personal preferences, tend to consume seltzers instead as it is the closest replacement for beer. For all intents and purposes, it serves as a direct replacement for beer in most instances.

We also believe that due to the unique agricultural nature of Hawaii, and the availability of locally grown Hawaii-specific products, there is a great opportunity to produce some of the best quality seltzers. Hawaii is in a great position to meet the increased demand for these products, removing the need for imported beverages. By producing more locally, we will be able to employ more people, and provide more outlets for our local agricultural products as well.

Mahalo for considering our testimony in support of SB565_SD1.

SB-565-SD-1

Submitted on: 3/11/2021 11:02:02 AM

Testimony for ECD on 3/12/2021 11:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Steve Haumschild	Lanikai brewing Company	Support	No

Comments:

HRS 281-1 Currently defines beer in a more historical way and does not include with the Federal Alcohol Tobacco and Trade Bureau (TTB) regulations which allow for both malt and sugar based hard seltzers federally taxed as beer. HRS 281-1 currently defines beer as grain, malt and hops. The addition of sugar based hard seltzers consistent with federal regulations, allows our local manufacturers to meet current demands of the market with lower calorie and gluten free products. This also allows local manufactures to grow their product line, further creating more revenue and therefore tax revenue for the State of Hawaii. HRS 281-1 Currently defines beer in a more historical way and does not include with the Federal Alcohol Tobacco and Trade Bureau (TTB) regulations which allow for both malt and sugar based hard seltzers federally taxed as beer. HRS 281-1 currently defines beer as grain, malt and hops. The addition of sugar based hard seltzers consistent with federal regulations, allows our local manufacturers to meet current demands of the market with lower calorie and gluten free products. This also allows local manufactures to grow their product line, further creating more revenue and therefore tax revenue for the State of Hawaii.