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STATE OF HAWAII
DEPARTMENT OF TAXATION

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TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION

TESTIMONY ON THE FOLLOWING MEASURE:

H.B. No. 1370, H.D.1, S.D. 1, Relating to Taxation.

BEFORE THE:

Senate Committee on Ways and Means

DATE: Wednesday, April 2, 2025

TIME: 10:01 a.m.

LOCATION: State Capitol, Room 211

Chair Dela Cruz, Vice-Chair Moriwaki, and Members of the Committee:

The Department of Taxation ("Department") offers the following comments regarding H.B. 1370, H.D. 1, S.D. 1, for your consideration.

H.B. 1370, H.D. 1, S.D. 1, amends section 244D-1, Hawaii Revised Statutes (HRS), by amending the definition of "draft beer" to mean "beer in an individual container of five gallons or more." The bill has a defective effective date of July 1, 2050.

DOTAX notes that under current law, draft beer, defined as beer in an individual container of seven gallons or more, is taxed at \$0.54 per wine gallon and "beer other than draft beer" is taxed at \$0.93 per wine gallon. Accordingly, this bill will result in a reduced tax rate for beer in an individual container of five gallons or more but less than seven gallons.

DOTAX recommends that if this bill is advanced, the effective date of the bill be amended to January 1, 2026, to provide sufficient time for form instruction changes and notice to taxpayers.

DOTAX estimates the following revenue impact from this measure:

General Fund Impact (\$ millions)

FY 2026	FY 2027	FY2028	FY2029	FY2030	FY2031
-0.9	-0.9	-0.9	-0.9	-0.9	-0.9

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

TAX FOUNDATION OF HAWAII

735 Bishop Street, Suite 417

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: LIQUOR; Harmonize Tax Rate on Beer

BILL NUMBER: HB 1370 HD 1 SD 1

INTRODUCED BY: Senate Committee on Commerce and Consumer Protection

EXECUTIVE SUMMARY: Amends the definition of draft beer to mean beer in an individual container of five gallons or more.

SYNOPSIS: Amends section 244D-1, HRS, to change the definition of “draft beer” to beer in an individual container of five gallons or more. (The threshold under existing law is seven gallons.)

EFFECTIVE DATE: July 1, 2050.

STAFF COMMENTS: Presently, the Liquor Tax Law, section 244D-4, HRS, imposes tax of 54 cents per wine gallon on draft beer and 93 cents per wine gallon on beer other than draft beer.

The disparity in rate between the two classes of beer can be traced back to Act 344, SLH 1986, when the liquor tax based on the wholesale price was changed to a gallonage tax to avoid possible constitutional problems. At that time, the Conference Committee report stated: “The taxation of wine gallons has been amended by adding one new category – draft beer, taxed at a rate of 50 cents per wine gallon. ... The lower tax rate for draft beer reflects the lower price at which beer sells in kegs.” Conf. Comm. Rep. No 70 (1986).

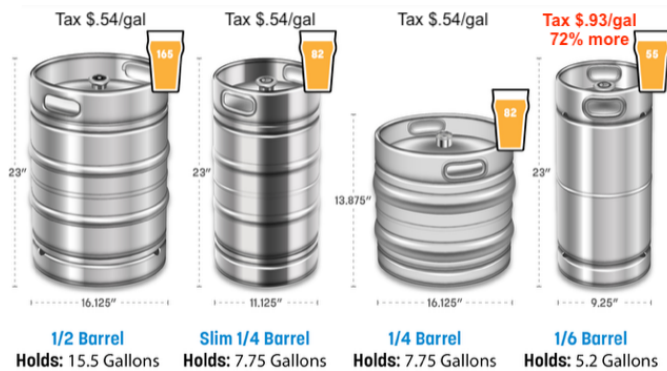
Testimony from the industry indicates that it is common to dispense draft beer from 5-gallon kegs. To align with the rationale expressed in 1986, that the lower tax rate should apply to draft beer dispensed from kegs, the amendment proposed by this bill appears reasonable.

Digested: 3/29/2025



March 27, 2025

COMMITTEE ON WAYS AND MEANS
Senator Donovan M. Dela Cruz, Chair
Senator Sharon Y. Moriwaki, Vice Chair



Re: Testimony in Strong Support of HB1370 HD1 SD1: Definition correction of “draft” beer

Aloha Chair, Vice Chair, and Members of the Committee,

My name is Garrett W. Marrero, and I live in Kihei, Hawai‘i. I am the CEO and Founder of Maui Brewing Co., operating locations in Lahaina, Kā‘anapali, and Kihei on Maui, as well as Waikīkī and Kailua on O‘ahu. We distribute our beverages across Hawai‘i, 26 States, and two countries. Since our founding in 2005, we have grown from a small team of 26 to over 500 team members statewide.

I submit this testimony in strong support of HB1370 HD1, a common-sense bill that corrects an inconsistency in Hawai‘i’s tax code that unfairly impacts small producers.

Hawai‘i’s alcohol tax law (HRS 244D) imposes two different tax rates on beer, a disparity that does not exist for wine or spirits, both of which are taxed at a uniform rate based on gallonage. However, beer is classified into two separate categories—“draft beer” and “other than draft beer”—which creates unnecessary confusion and an undue financial burden on small producers.

The picture above shows various beer keg sizes, these may contain the same beer, from the same brewery and may even be served at the same establishment. They are served the same way; through a faucet on tap at a restaurant. 7.75 gallon kegs are rarely if ever used and historically only by big producers. Large kegs take up a lot of space and are used for high volume, the 5 gallon keg is the champion of small producers.

Why does the common 5 gallon keg served identically to the large kegs pay 72% more tax? This is due to the tax code not keeping up with history. There were less than 50 brewers in the country in 1986, there are now over 10,000. Nowadays choice matters and the selection benefits the customer. With more selection more space was needed to store kegs, the 5 gallon keg best serves consumer choice and the needs of establishments wanting to serve a high variety of beverages with a small amount of space that most of not all have here in Hawaii.

The impact of this tax disparity is clear: 86% of draft beer sold in Hawai‘i is in kegs over seven gallons, while less than 14% is sold in five-gallon kegs. This means large producers benefit disproportionately, while small producers—who often rely on smaller kegs—are unfairly penalized with higher taxes.

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

While one might assume “draft beer” applies to all beer served on draft (i.e., from a keg), the law defines “draft beer” as beer contained in individual containers of seven gallons or more, taxed at \$0.54 per gallon. Meanwhile, “other than draft beer” (often referred to as “package beer”) is taxed at \$0.93 per gallon. This definition of “draft beer” is unique to Hawai‘i and out of step with industry standards. Many small brewers, including Maui Brewing Co., use five-gallon or even one-gallon kegs, which do not qualify for the lower “draft beer” tax rate.

HB1370 HD1 SD1 corrects this inconsistency by simplifying tax classifications, ensuring fairness across the industry, and supporting Hawai‘i’s local brewers, distillers, and small producers. By streamlining the tax code, this bill will promote compliance, reduce administrative burdens, and foster industry growth.

For these reasons, I strongly urge you to support HB1370 HD1 SD1.

Mahalo for your time and consideration!

Sincerely,

A handwritten signature in black ink, appearing to read 'Garrett W. Marrero', with a long horizontal flourish extending to the right.

Garrett W. Marrero
CEO/Founder



April 2, 2025

To: Chair Donovan Dela Cruz
Members of the Senate Committee on Ways and Means

From: Kona Brewing Hawaii
Nathalie Carisey; President

RE: HB1370 HD1 SD1; Relating to Taxation; **In Support**
April 2, 2025; Conference Room 211

Kona Brewing Hawaii **supports** HB1370 HD1 SD1, which amends the definition of draft beer used in liquor tax laws to mean beer in an individual container of five gallons or more.

This bill is an important measure that would tax smaller kegs of beer at their appropriate rate. Businesses should not be financially penalized for selling smaller beer kegs, especially when space demands often dictate their necessity. With an already high cost of doing business, the current tax rate is an unnecessary burden that arbitrarily taxes smaller kegs at a higher rate than larger kegs. To fix this tax disparity would be supporting the local beer producers who rely on these small kegs to serve our customers.

Kona Brewing Hawaii continues to run our flagship brewery in a state-of-the-art, 30,000 square-foot facility. We produce 65,000 barrels of malt beverages annually, all of which are sold in Hawaii. For over 30 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 in support of HB1370 HD1 SD1.

HB-1370-SD-1

Submitted on: 3/28/2025 7:49:05 AM

Testimony for WAM on 4/2/2025 10:01:00 AM

Submitted By	Organization	Testifier Position	Testify
Theresa Lewis	Individual	Support	Written Testimony Only

Comments:

Aloha,

I am writing in support of HB1370.

Mahalo,

Theresa Lewis

HB-1370-SD-1

Submitted on: 3/28/2025 12:05:22 PM

Testimony for WAM on 4/2/2025 10:01:00 AM

Submitted By	Organization	Testifier Position	Testify
Vindi Wells	Testifying for Hanalei Spirits Distillery	Support	Written Testimony Only

Comments:

We strongly support this bill that amends the definition of draft beer used in liquor tax laws to mean beer in an individual container of five gallons or more. This bill brings taxation into the present national standards. Thank you for your time. Mahalo, Vindi Wells

HB-1370-SD-1

Submitted on: 3/28/2025 2:21:40 PM

Testimony for WAM on 4/2/2025 10:01:00 AM

Submitted By	Organization	Testifier Position	Testify
Kati Conant	Testifying for NAPALI BREWING COMPANY	Support	Written Testimony Only

Comments:

Aloha Chair, Vice Chair, and Committee Members,

I'm Kati Conant, Co-Founder of Napali Brewing Company on Kaua'i. As a small, family-owned brewery, we **support** HB1370 HD1 to fix an unfair tax disparity that penalizes small brewers.

Hawai'i's tax code defines "draft beer" as beer in kegs over seven gallons, taxing it at \$0.54 per gallon, while smaller kegs—commonly used by craft brewers—are taxed nearly double at \$0.93 per gallon. This outdated distinction favors large producers, as 86% of draft beer sold in Hawai'i is in larger kegs.

HB1370 HD1 levels the playing field by applying the same tax rate to all draft beer, regardless of keg size. This simple fix supports local brewers, reduces compliance burdens, and fosters industry growth.

I urge you to pass HB1370 HD1 to strengthen Hawai'i's craft beer industry.

Mahalo for your time.

Kati Conant
Co-Founder, Napali Brewing Company
Kaua'i, Hawai'i

**Testimony in Support of H.B. 1370 H.D. 1 S.D. 1
Relating to Taxation**

Hearing Date: Wednesday, April 2, 2025

Time: 10:01 AM

Place: Conference Room 211, State Capitol, 415 South Beretania Street

Committee On Ways And Means

Chair Dela Cruz, Vice Chair Moriwaki, and Members of the Committee:

I write in **support** of H.B. 1370 H.D. 1 S.D. 1, which seeks to amend the definition of “draft beer” in Hawaii’s tax code. This change is essential to ensuring fair taxation for local breweries, restaurants, and small businesses that serve draft beer from kegs smaller than seven gallons.

Currently, beer served from five-gallon kegs is taxed at the same rate as packaged beer sold in cans and bottles, rather than at the lower draft beer rate. This creates an unfair burden on small breweries and businesses that rely on five-gallon kegs due to space constraints or limited production capacity. The existing law does not reflect industry norms, as all draft beer—regardless of keg size—is dispensed the same way, from keg to tap.

By redefining draft beer to include five-gallon kegs, H.B. 1370 H.D. 1 S.D. 1 ensures tax fairness, aligns with standard industry practices, and supports Hawaii’s local beer industry. This simple but necessary adjustment will provide financial relief to small businesses while maintaining a consistent and equitable tax structure. I urge the legislature to pass this bill.

Mahalo for your time and consideration.

Sincerely,

Justin Guerber

Kauai Beer Company
4265 Rice st
Lihue, HI 96766
justin@kauaibeer.com



info@beerlabhi.com
www.beerlabhi.com

COMMITTEE ON WAYS AND MEANS

Senator Donovan M. Dela Cruz, Chair

Senator Sharon Y. Moriwaki, Vice Chair

DATE: Wednesday, April 2, 2025
TIME: 10:01 AM
PLACE: Conference Room 211 & Videoconference
State Capitol
415 South Beretania Street

Support HB 1370 Definition of draft beer tax

Dear, Dela Cruz and Vice Chair Morwaki,

Why This Change Is Necessary

This bill clarifies language that simplifies taxation on beer in kegs.

Currently we have to keep records of gallons of beer we put in 15g kegs (full size) vs gallonage we put in 5.16g kegs (torpedo/slim kegs) then we have to calculate based on different tax rates per size and gallonage.

This would immensely help to make paying the correct tax so much easier and save us so many hours so trying to figure out how much taxes to pay.

Nicolas Wong
Founder/Owner
Beer Lab HI
nicolas@beerlabhi.com
8085427015

koolaudistillery.com

f @koolaudistillery



info@koolaudistillery.com

tel 808 261 0685 905 Kalaniana'ole Highway,
Unit 5014, Kailua, HI 96734

Attention:

Senator Donovan Dela Cruz, Chair

Email: sendelacruz@capitol.hawaii.gov

Phone: (808) 586-6090

Senator Sharon Moriwaki, Vice Chair

Email: senmoriwaki@capitol.hawaii.gov

Phone: (808) 586-6740

**TESTIMONY IN SUPPORT OF THE FOLLOWING MEASURE:
HB1370 – RELATING TO TAXATION**

March 31, 2025

Aloha Chair Ilagan, Vice Chair Hussey, and Members of the Committee, I am writing on behalf of **Ko'olau Distillery** in strong support of **HB1370**, respectfully request this legislation be passed into law.

Mahalo for the opportunity to submit testimony in strong support of HB1370, which seeks to amend the definition of “draft beer” to include individual containers of five gallons or more.

Although Ko'olau Distillery is a producer of spirits, and thus not directly impacted by this measure, we proudly stand in support of our fellow local alcohol producers who would benefit greatly from this change. As a craft distillery located in Kailua, we are deeply invested in the local food and beverage economy. Our cocktail bar not only features our award-winning spirits, but also serves beer from local Hawai'i breweries, including those who utilize smaller 5.16-gallon kegs due to limited storage space and demand flexibility. Under current tax law, these smaller draft kegs are taxed at the higher rate reserved for packaged beer, despite being served on draft from a tap, just like larger kegs. This outdated definition places an unnecessary burden on many small breweries whose operations depend on smaller keg sizes to accommodate the tight storage spaces of Hawai'i's bars and restaurants—especially in areas like Waikiki or pool bars with minimal back-of-house capacity.

This bill is a simple and sensible fix. It clarifies that all beer served from a keg—regardless of container size—is considered draft, aligning the law with real-world practices and national industry norms. The result would be greater tax fairness, support for small businesses, and an incentive to source and serve more locally made beer.

At Ko'olau Distillery, our ability to feature a rotating selection of local draft beers enhances our customer experience and allows us to collaborate with Hawai'i's vibrant brewing community. Lowering the tax rate for small-keg draft beer helps these brewers thrive and, in turn, benefits our operations and customers alike.

We respectfully urge you to pass HB1370 and help strengthen the entire local alcohol ecosystem. When local supports local, we all rise together.

Mahalo for your time and consideration.

Sincerely,

Justin Rivera

General Manager

Ko'olau Distillery

justin@koolaudistillery.com



64-1066 Mamalahoe Highway
Waimea/Kamuela, Hawaii, 96743

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HB1370 HD1

Aloha members of the Senate Ways & Means Committee,

As a local brewer located in Kamuela Hawaii, I am writing in SUPPORT of HB 1370

The premise of HB1370 is very simple, it clarifies language that is confusing. The current taxation on package verses draft products does not align with industry practices and usage. This makes no sense to us .

1370 simply clears that ambiguity. If something comes out of a keg, it is considered "draft" if it comes out of a can or bottle, it is considered "packaged". There is absolutely no purpose to have some draft considered packaged. Therefore, I propose that if beer is poured from a re-useable container it should be defined as draft, there are some kegs as small as 10 liters. Currently the language on taxation of beer refers to packaged beer and draught beer. Draught beer qualifies as any individual container 7 gallons or greater with a taxation rate of \$0.54 per gallon sold while packaged beer refers to any individual container of 7 gallons or less taxed at a rate of \$0.93 per gallon sold. HB1370 aims to redefine this tax rate to reflect the current purchasing decisions of bars and restaurants in Hawaii by allowing draught beer to pertain to any individual re-useable, refillable container of any volume.

We request the Senate Ways & Means Committee to pass this bill. Mahalo for considering our testimony in support this bill.

Sincerely,

Thomas Kerns
President / Brewmaster
Big Island Brewhaus