

JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR



GARY S. SUGANUMA
DIRECTOR

KRISTEN M.R. SAKAMOTO
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION

Ka 'Oihana 'Auhau
P.O. BOX 259

HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION

TESTIMONY ON THE FOLLOWING MEASURE:

H.B. No. 1370, Relating to Taxation.

BEFORE THE:

House Committee on Economic Development & Technology

DATE: Friday, February 7, 2025

TIME: 10:15 a.m.

LOCATION: State Capitol, Room 423

Chair Ilagan, Vice-Chair Hussey, and Members of the Committee:

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

H.B. 1370 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 is effective on July 1, 2025.

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 the effective date of the bill be amended to January 1, 2026 to provide sufficient time for form instruction changes and notice to taxpayers.

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



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

HB1370

Aloha members of of the ECD committee,

As a local brewer and distiller located in Kailua 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. Quite frankly, it makes no sense.

1370 simply clears that ambiguity. If something comes out of a keg, it is considered "draft" of it comes out of a can or bottle, it is considered "packaged". There is absolutely no purpose to have some draft considered packaged.

Steve Haumschild, MBA

Steven R Haumschild

CEO & Brewmaster, Certified Cicerone®

Lanikai Brewing Company, Lanikai Spirits both Island Inspired™

Brewery/Distillery @ 175-C Hamakua Dr, Kailua, HI 96734

Tap & Barrel @ 167 Hamakua Dr, Kailua, HI 96734 everyday 12p-10p

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Lanikai Brewing Company, Island Inspired™ Craft Beer
Brewery @ 175-C Hamakua Dr, Kailua, HI 96734
Tap & Barrel @ 167 Hamakua Dr, Kailua, HI 96734
FB: Lanikai Brewing Company, Instagram: @lanikaibrewing

Joshua Kopp
Hana Koa Brewing Co.
962 Kawaiahao Street
Honolulu, HI 96814

HB 1370
Related to Taxation:
Friday February 7th, 2025
Economic Development & Technology

Position: **Support**

I am Joshua Kopp, Head Brewer and Owner of Hana Koa Brewing Co. We are an independent craft brewery producing 100% of our beer in Hawaii. We are united with other members of the Hawaii Brewing Industry to pass HB1370 in favor of economic growth.

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 container 5 gallons or greater.

Industry wide the common container sizes for draught beer are 15.5 gallon kegs, 13.2 gallon kegs, and 5.16 gallon kegs. In the 1990's 7.75 gallon kegs were popular but have since dwindled out of fashion. The middle of the road has gone away and businesses prefer to go big or go small.

Most restaurants and bars in Hawaii have limited space and usually order individual container sizes of 5.16 gallons. Many Waikiki hotel bars can only utilize small draught systems that cannot accommodate large kegs. There are also several "pool bars" that rely on smaller kegs so staff can easily move product from basement storage to such bars. The 5.16 gallon keg is perfect for that type of situation.

Changing the tax rate from \$0.93 to \$0.54 to accommodate purchasing changes would result in an increase in local production. We currently face economic woes on the horizon with the possibility of tariffs. Things like raw materials, natural gas, electricity, and fuel surcharges are going to be greatly affected by these tariffs. Hawaii Natural Gas imports gas from Thailand and Canada. Depending on what happens with Canadian tariffs, Thailand could increase prices based on the demand. Operating a business in Hawaii is already challenging with high operating costs. As these costs go up, it's going to grow barriers of entry for small businesses. As a brewery if we're given the opportunity to have a lower tax rate on a product that we sell, we'll be able to reinvest in expansion. This would also lead to job creation and promote welfare amongst the food and beverage industry.

While the effects of COVID have been detrimental financially, the community of local businesses have come together to support each other as much as financially possible. Our reliance on Mainland food and beverage products has decreased because of our comradery. While we still rely on a large number of imports, we are doing what we can to support local even in these hard economic times. Changing this tax rate would allow us to continue having local supporting local. The bottom line is always on everyone's mind. If locals can afford to purchase local goods, we can continue to grow local business.

Thank you for your consideration on HB 1370. On behalf of Hana Koa Brewing Co, I hope that this rate can be changed to improve economic output amongst the local brewing industry.

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

Hearing Date: Friday, February 7, 2025

Time: 10:15 am

Place: Conference Room 423, State Capitol, 415 South Beretania Street

Committee On Economic Development & Technology

Chair Ilagan, Vice Chair Hussey, and Members of the Committee:

I write in **support** of H.B. 1370, 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 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

HB-1370

Submitted on: 2/6/2025 8:00:59 AM

Testimony for ECD on 2/7/2025 10:15:00 AM

Submitted By	Organization	Testifier Position	Testify
Kathleen Conant	NAPALI BREWING COMPANY	Support	Written Testimony Only

Comments:

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

My name is Kati Conant, my husband and I own Napali Brewing Company, a family-owned craft brewery on Kaua'i. I strongly support HB 1370 because it fixes an unfair tax issue that hurts small breweries, bars, and restaurants like ours.

Right now, Hawai'i taxes kegs over seven gallons at \$0.54 per gallon, while smaller five-gallon kegs—commonly used by small businesses—are taxed at \$0.93 per gallon. This puts local brewers at a disadvantage while larger breweries benefit from lower rates.

HB 1370 is a simple fix that levels the playing field by taxing all draft beer at the same rate. Please support this bill to help small businesses stay competitive and keep craft beer accessible.

Mahalo for your time and consideration.

Respectfully,
Kati Conant
Owner, Napali Brewing Company

HB-1370

Submitted on: 2/6/2025 8:54:15 AM

Testimony for ECD on 2/7/2025 10:15:00 AM

Submitted By	Organization	Testifier Position	Testify
Sam DeWitt	Brewers Association	Support	Written Testimony Only

Comments:

Dear ECD Committee Members:

My name is Sam DeWitt, State Government Affairs Director for the Brewers Association, the 501(c)6 national trade association dedicated to promoting and protecting America's craft brewers, their beers, and the enthusiastic supporters of the craft beer industry. We ask for a Yes vote on HB 1370.

We believe the sale of kegs should not suffer a 2x higher tax than a can or a case. It simply doesn't make sense, and we urge members to vote yes and move HB 1370 forward. Correcting this oversight is a light but important lift, especially as brewers continue to suffer coming out of the pandemic and fires.

Let's make things just a little easier for these important community hubs and local businesses. Please vote Yes on HB 1370.

Thank you for your time.

Sincerely,

Sam DeWitt
Brewers Association
720.837.6935



February 5, 2025

COMMITTEE ON ECONOMIC DEVELOPMENT & TECHNOLOGY

Rep. Greggor Ilagan, Chair

Rep. Ikaika Hussey, Vice Chair

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

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

My name is Garrett W. Marrero, and I live in Kīhei, Hawai‘i. I am the CEO and Founder of Maui Brewing Co., operating locations in Lahaina, Kā‘anapali, and Kīhei 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, 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.

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.

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.

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605 Lipoa Parkway, Kihei, HI 96753
808.213.3002

HB1370 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.

Mahalo for your time and consideration!

Sincerely,

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

Garrett W. Marrero
CEO/Founder