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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, Relating to Taxation.

BEFORE THE:

Senate Committee on Commerce and Consumer Protection

DATE: Wednesday, March 19, 2025

TIME: 10:00 a.m.

LOCATION: State Capitol, Room 229

Chair Keohokalole, Vice-Chair Fukunaga, and Members of the Committee:

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

H.B. 1370, H.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 is has a defective effective date of July 1, 3000.

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.

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

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

Hearing Date: Wednesday, March 19, 2025

Time: 10:00 AM

Place: Conference Room 229, State Capitol, 415 South Beretania Street

Committee On Commerce And Consumer Protection

Chair Keohokalole, Vice Chair Fukunaga, and Members of the Committee:

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



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

HB1370

Aloha members of the CPN committee,

As a local brewer and distiller located in Kailua Hawaii, I am writing in SUPPORT of HB 1370 HD1

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

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
***Coming soon Brewpub on North Shore of Oahu
FB: Lanikai Brewing Company, Instagram: @lanikaibrewing

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



LATE

March 19, 2025

To: Chair Jarrett Keohokalole
Members of the Senate Committee on Commerce and Consumer Affairs

From: Kona Brewing Hawaii
Nathalie Carisey; President

RE: HB1370 HD1; Relating to Alcohol; **In Support**
March 19, 2025; Conference Room 229

Kona Brewing Hawaii **supports** HB1370 HD1, 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.



LATE

March 17, 2025

COMMITTEE ON COMMERCE AND CONSUMER PROTECTION

Senator Jarrett Keohokalole, Chair
Senator Carol Fukunaga, Vice Chair

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

My name is Bret Larson, and I am a resident of Kauai, Hawai'i. I am writing in strong support of HB 1370 HD1 because it fixes an unfair tax issue that hurts small breweries, bars, and restaurants in our state.

Right now, Hawai'i has two different tax rates for beer, which doesn't make sense. Wine and spirits are taxed at one flat rate, but beer is split into "draft beer" and "other than draft beer." You'd think draft beer means anything from a keg and everything else (like cans and bottles) would be "other than draft." But that's not how the law works.

According to state tax law, "draft beer" only applies to kegs that are seven gallons or more, which are taxed at \$0.54 per gallon. Meanwhile, smaller kegs—like five-gallon kegs—are taxed at \$0.93 per gallon, just like packaged beer. The problem is, a lot of smaller breweries and bars use five-gallon kegs, which means they're paying way more in taxes than the bigger guys who use larger kegs.

The numbers speak for themselves: 86% of draft beer in Hawai'i is sold in kegs over seven gallons, while only 14% is in five-gallon kegs. That means small producers are stuck with the higher tax rate while the big guys save money. This bill levels the playing field and makes the tax system fairer for everyone.

HB 1370 HD1 is a simple fix. It makes the tax code clearer and stops penalizing smaller businesses just because they use smaller kegs. It helps local brewers and bars stay competitive, and it removes an unnecessary burden from small business owners who are already struggling with high costs.

Please support HB 1370 HD1. It's a common-sense change that helps local businesses and makes the tax system fairer.

Mahalo for your time and consideration.

Respectfully,

A handwritten signature in black ink, appearing to read "Bret Larson", with a stylized, flowing script.

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



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

Brewhaus: 808-887-1717

bigislandbrewhaus.com

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LATE

HB1370 HD1

Aloha members of the Committee on Commerce & Consumer Protection;;

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 Committee on CPN pass this bill. Mahalo for considering our testimony in support this bill.

Sincerely,

Thomas Kerns
President / Brewmaster
Big Island Brewhaus



LATE

LATE

March 18, 2025

COMMITTEE ON COMMERCE AND CONSUMER PROTECTION

Senator Jarrett Keohokalole, Chair

Senator Carol Fukunaga, Vice Chair

Re: Testimony in Strong Support of HB1370 HD1: 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.

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.

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

HB1370 HD1 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.

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

LATE

LATE

March 17th, 2025
RE: HB1370
Position: SUPPORT

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

My name is Naehalani Breeland, President and Co-Founder of Ola Brew Co. on Hawai'i Island. I am writing in support of HB1370, which seeks to amend the definition of "draft beer" in Hawaii's tax code. Updating this definition will create more clarity and less confusion in the industry. 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 (\$0.93/wine gallon), whereas the same draft beer served from a fifteen and a half gallon keg is taxed lower draft beer rate (\$0.54/wine gallon). 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 present day industry norms, as all draft beer—regardless of keg size—is dispensed the same way, from keg to tap. Also, the cost to consumers is the same for the same product regardless of whether it's being poured from a fifteen and a half gallon keg or a five gallon keg.

By redefining draft beer to include five-gallon kegs, HB1370 ensures tax fairness, aligns with current standard industry practices, and supports Hawaii's local beer industry. This is a simple yet necessary adjustment and will provide financial relief to small businesses while maintaining a consistent and equitable tax structure.

Mahalo for your time and consideration of this testimony,

Me ka ha'aha'a,



Co-Founder and President - Ola Brew Co
P 808-388-6654
naehalani@olabrewco.com



HAWAIIAN OLA
BREWING CORPORATION

74-5598 LUHIA ST.
KAILUA-KONA
HAWAII, 96740

WWW.OLABREWCO.COM



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

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INTRODUCED BY: House Committee on Economic Development

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, 3000.

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: 3/18/2025