

JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
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GARY S. SUGANUMA
DIRECTOR

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DEPARTMENT OF TAXATION
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**TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION**

TESTIMONY ON THE FOLLOWING MEASURE:

S.B. No. 641, Relating to Alcohol.

BEFORE THE:

Senate Committee on Commerce and Consumer Protection

DATE: Monday, February 10, 2025
TIME: 9:35 a.m.
LOCATION: State Capitol, Room 229

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

The Department of Taxation (DOTAX) offers the following comments regarding S.B. 641 for your consideration.

S.B. 641 amends section 244D-1, Hawaii Revised Statutes (HRS), by inserting a new definition for "low alcohol by volume spirits beverage" to mean any alcoholic beverage containing no more than five percent alcohol by volume, including distilled spirits mixed with other nonalcohol or alcohol components.

The bill also amends section 244D-4, HRS, to specify a \$0.85 per wine gallon tax on low alcohol by volume spirits beverages commencing July 1, 2025, and the bill takes effect on the same date.

DOTAX requests that both the effective date of the tax and the bill be amended to January 1, 2026, to allow time to make the necessary form, instruction, and system changes. Thank you for the opportunity to provide comments on this measure.

SB-641

Submitted on: 2/6/2025 10:55:11 AM

Testimony for CPN on 2/10/2025 9:35:00 AM

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

Comments:

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

My name is Kati Conant, and my husband and I are the owners of Napali Brewing Company, a family-owned craft brewery on Kaua'i. I strongly support SB 661, which establishes a fair tax rate of \$0.85 per gallon for cooler beverages.

However, I respectfully suggest an amendment to increase the ABV threshold from 5% to 7%, aligning it with other legislation. This change ensures consistency and better reflects the craft beverage market.

I appreciate your consideration and urge you to support SB 661 with this amendment.

Mahalo for your time.

Respectfully,
Kati Conant
Owner, Napali Brewing Company

TAX FOUNDATION OF HAWAII

735 Bishop Street, Suite 417

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: LIQUOR; New Tax Rate for Low Alcohol by Volume Spirits Beverage

BILL NUMBER: HB 939, SB 641

INTRODUCED BY: HB by TODD, QUINLAN; SB by KEOHOKALO, CHANG, FEVELLA, KIM

EXECUTIVE SUMMARY: Defines “low alcohol by volume spirits beverage.” Establishes a tax on low alcohol by volume spirits beverages at a rate of \$0.85 per wine gallon.

SYNOPSIS: Amends section 244D-1, HRS, adding a definition for “Low alcohol by volume spirits beverage” as any alcoholic beverage containing no more than 5% alcohol by volume. Includes distilled spirits mixed with other ingredients, including both nonalcohol and alcohol components.

Amends section 244D-4, HRS, beginning July 1, 2025, to impose a tax of \$0.85 per wine gallon on Low alcohol by volume spirits beverages.

EFFECTIVE DATE: July 1, 2025.

STAFF COMMENTS: The apparent purpose of the bill is to allow seltzer beverages to qualify for a 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 such beverages have a much lower alcoholic content than distilled spirits, a lower tax rate may be appropriate.

Digested: 2/2/2025



February 7, 2025

Chairman Jarrett Keohokalole, Vice-Chair Carol Fukunaga & Members of the Consumer Protection & Commerce Committee
Hawaii State Capitol
415 South Beretania Street
Honolulu, HI 96813

Dear Chairman Keohokalole, Vice-Chair Fukunaga & Members of the Consumer Protection & Commerce Committee:

Today, we write to oppose S.B. 641, a proposal that would provide a tax break to distilled beverages by creating a new category of “low alcohol by volume spirits beverages” with an excise tax rate lower than beer. We represent brewers, beer importers, and wholesalers of all sizes in Hawaii. Our members produce beer products – as well as some of the country’s leading liquor-based canned cocktails.

The beer industry supports a tax and regulatory framework that treats liquor, wine, and beer as clearly distinct categories – rather than being taxed based on alcohol by beverage (ABV). Every state and the federal government has done this since the repeal of Prohibition in 1933, and it is vital to maintain these distinct categories due to the notable differences in how these products are made and consumed. This change would blur the lines between distinctly different alcohol categories. Beer, wine and liquor are not the same, and this legislation would send a confusing message to consumers. It’s also worth noting that 86% of beer has an average alcohol by volume (ABV) of 5% or less

Furthermore, granting these canned cocktails greater market access could prove dangerous in the long run as big liquor companies have already admitted that they see these ready-to-drink canned cocktails as a recruitment tool to get customers interested in higher ABV products, such as a full handle of hard liquor. CEOs of some of the world’s largest liquor producers have confirmed that these new ready-to-drink canned cocktails serve as “[a consumer recruitment vehicle](#)” (Brown-Foreman) and are “[a great way to recruit people into the franchise](#)” (Pernod Ricard).

During the last legislative session, more than a dozen U.S. states rejected proposals similar to S.B. 641 due to concerns about the impact of such legislation. In fact, two separate studies – one by the [Maryland Alcohol and Tobacco Commission \(ATC\)](#) and one by [Public Sector Consultants](#) – show that these types of bills result in lost revenue for states and increased consumer prices. Notably, consumers in Michigan saw a 44 percent increase in prices for hard liquor canned cocktails, while consumers in Nebraska saw a shocking 65 percent increase in prices for hard liquor canned cocktails once their states passed legislation similar to S.B. 641. Further, these two studies found that Michigan and Nebraska lost out on a significant amount of tax revenue once these bills were enacted, with Michigan losing an estimated \$2.6 million and Nebraska losing an estimated \$1.8 million.

If this legislation were enacted, we estimate that about 46 percent of canned cocktails would be reclassified, decreasing vital tax revenue and costing Hawaii nearly \$5 million over 5 years (2026-2030) in lost revenue.

Liquor, wine and beer are different types of alcohol beverages and should be taxed as such. We oppose S.B. 641 and encourage Hawaii to maintain clear tax distinctions between these three categories of alcohol beverages.

Thank you for your consideration on this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Crawford". The signature is fluid and cursive, with the first name "Brian" and last name "Crawford" clearly distinguishable.

Brian Crawford
President & CEO



Sally Jefferson
Director, Western States

HAWAII STATE SENATE
THE THIRTY-THIRD LEGISLATURE
REGULAR SESSION OF 2025

COMMITTEE ON COMMERCE AND CONSUMER PROTECTION
February 10, 2025

Testimony in Opposition to SB 641

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

Thank you for the opportunity to provide testimony in **opposition** to SB 641 RELATING TO ALCOHOL which would provide a substantial state tax break to “low alcohol by volume spirits beverages”. Wine Institute is a public policy association representing more than 1,000 California wineries and associate members. California wineries produce 90% of the wine produced in the United States and provide a significant portion of the wine sold in licensed establishments in Hawaii.

We are opposed to this legislation which sharply reduces the gallonage tax rate for spirit-based ready-to-drink products (RTDs) based entirely on alcohol by volume (ABV), without any regard to the method of production and raw material used. If the Legislature wishes to consider reducing taxes on alcohol beverages, it should evaluate the tax rates on all alcohol beverage categories rather than solely providing a special tax break to the fastest growing segment of spirits products.

Wine and distilled spirits are very different beverages in many ways, which is why state and federal excise taxes have treated them differently since the end of prohibition. The federal government (and most states including Hawaii) have controlled and taxed wine, beer and spirits based on two factors: 1) the license of the producer and its raw material (e.g., wineries fermenting grapes, breweries brewing grains and distilleries distilling other natural products), and 2) the ABV of the finished product. The federal government continues to regulate the producer, formula, labeling and containers of all alcohol, and it continues to charge federal excise tax rates based on both factors including taxing spirit RTD products at the same level as distilled spirits, just as most states do as well.

While proponents of these types of bills claim this proposal would benefit Hawaii consumers, recent research has shown the contrary. As shown in the graph below, Public Sector Consultants,

a nonpartisan public policy firm, analyzed pricing trends of hard liquor based ready-to-drink products from 2017-2022 in Michigan and Nebraska to determine if claims of consumer price reductions were accurate after those states lowered tax rates for spirit RTD products. According to their analysis and findings prices **jumped 44%** in Michigan and **65%** in Nebraska. These increases far outpaced inflation and the rapid overall increase in the consumer price index. Despite these claims, consumers are not benefiting from lower prices in either state since taxes were reduced on spirit-based RTDs.

Hard liquor based Ready-to-drink Four-week per Unit Prices, 2017-2022



Source: IRI Multi-Outlet (MULO) and PSC analysis

Public Sector Consultants (PSC) released an examination of spirit-based RTDs and their pricing trends from 2017-2022.12 PSC examined RTD pricing before and after the alcohol excise tax changes in Michigan and Nebraska. The chart above shows prices across the board have remained relatively similar since 2017 even after the alcohol excise tax was lowered in Michigan and Nebraska.

Hard Liquor-based Ready-to-drink Pricing Trends, 2017-2022 – Public Sector Consultants
Ready-to-Drink Alcohol Tax Report, Maryland Alcohol and Tobacco Commission

Additionally, the Maryland Alcohol Beverage Commission released a study in 2023 that included an examination of proponents’ claims that the popularity of spirit RTDs and their sales growth would more than offset state revenue losses as a result of lower tax rates on these products. To date, those claims have not panned out. In looking at Michigan and Nebraska, the Commission determined that those states lost significant tax revenue as a result, with MI losing an estimated \$2.6 million and NE losing an estimated \$1.8 million.

Given our serious concerns, we respectfully urge you to defer action on this legislation. Thank you for the opportunity to comment on SB 641.



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February 6, 2025

To: Commerce and Consumer Protection Committee
Chair Jarrett Keohokalole
Vice Chair Carol Fununaga

RE: SB641 Support w/ Amendments
February 10, 2025

Senator Keohokalole and Committee

Thank you for hearing SB 641 and moving it forward in support.

By setting a proper tax rate for low alcohol beverages, you will be encouraging growth and innovation for our beverage craft producers in the State. We will be able to craft new products for today's market and consumer expectations.

Please consider changing the ABV from 5% to 7% for industry consistency and fewer categories.

Sincerely,

Paula J. Hegele
President



SB-641

Submitted on: 2/6/2025 3:59:13 PM

Testimony for CPN on 2/10/2025 9:35:00 AM

Submitted By	Organization	Testifier Position	Testify
Jayne Kerns	Individual	Support	Written Testimony Only

Comments:

I support SB641 which defines "low alcohol by volume spirits beverage" and establishes a tax on low alcohol by volume spirits beverages at a rate of \$0.85 per wine gallon.

Mahalo for YOUR support of local brewing industry businesses!

Mahalo, Jayne Kerns