

TESTIMONY BY GEORGINA K. KAWAMURA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 560, H.D. 1

March 2, 2009

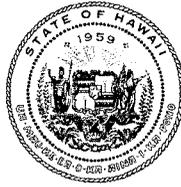
RELATING TO VETERANS SERVICES

House Bill No. 560, H.D. 1, creates the Veterans' Services Special Fund to provide a funding mechanism for positions and programs in the Office of Veterans' Services. This special fund would generate revenues through a Veterans' Services tax imposed on every person who sells or uses any liquor in the State who is subject to gallonage tax under Chapter 244D for deposit into this fund.

We are opposed to this bill. As a matter of general policy, this department does not support the creation of any special or revolving fund which does not meet the requirements of Sections 37-52.3 and 37-53.4 of the Hawaii Revised Statutes. Special or revolving funds should: 1) reflect a clear nexus between the benefits sought and charges made upon the users or beneficiaries of the program; 2) provide an appropriate means of financing for the program or activity; and 3) demonstrate the capacity to be financially self-sustaining. It is difficult to determine whether there is a clear nexus between the benefits sought and charges made upon the users or beneficiaries of the program.

LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR



KURT KAWAFUCHI
DIRECTOR OF TAXATION

SANDRA L. YAHIRO
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
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**HOUSE COMMITTEE ON FINANCE
TESTIMONY REGARDING HB 560 HD 1
RELATING TO VETERANS SERVICES**

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)

DATE: MARCH 2, 2009

TIME: 11:30AM

ROOM: 308

This measure, among other things, proposes a new veterans' services tax on all alcoholic beverage varieties. This measure also creates a new special fund for the benefit of veterans' services.

The House Committee on Economic Revitalization, Business & Military Affairs made amendments to the bill unrelated to the tax provision.

The Department of Taxation (Department) takes **no position on the tax provisions** in the measure; however **has concerns regarding the depositing of the tax into a special fund because the tax increase does not assist in closing the general fund budget gap.**

The Department strongly supports and appreciates the hard work and sacrifice that Hawaii veterans contribute and agrees that funding services for them is important.

Regardless of the merits of the special fund proposed in this legislation, the Department has concerns regarding a tax increase of this kind to be deposited into a special fund. Creation of new special funds will not help with this year's general fund budget constraints. However, the Department recommends that the measure be passed for further discussion.

This bill will result in an indeterminate revenue loss due to the unspecified tax rates. The Department also notes that because the bill creates a new tax, computer modifications by the Department may be needed, which take time and cost money not factored into the budget.

STATE OF HAWAII
OFFICE OF VETERANS SERVICES
TESTIMONY ON H.B. No. 560, HD 1, RELATING TO VETERANS SERVICES
HOUSE COMMITTEE ON FINANCE

March 2, 2009

Good morning Chair Marcus Oshiro, Vice-Chair Marilyn Lee and members of the House Committee on Finance.

I am Carswell Ross, Acting Director of the Office of Veterans Services (OVS). We appreciate this opportunity to comment on the intent of H.B. 560, HD1. This measure establishes the Veterans' Services Special Fund to fund positions and programs in the Office of Veterans' Services. It establishes a veterans' service tax on liquor and deposits the revenue into the Veterans' Services Special Fund.

The OVS supports the concept of providing a stream of additional funds to support veterans and veteran programs, as long as its implementation does not impact or replace the priorities set forth in the Executive Biennium Budget for Fiscal Years 2009-2010. Never the less, it may not be practical to implement this measure at this time. We are concerned about increasing taxes which may cause an increased financial burden on the public during an economic downturn. It most definitely is a matter worthy of consideration when the state's fiscal situation improves.

Thank you for this opportunity to speak on behalf of Hawaii's veteran community.

I will respond to questions from the committee.

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: LIQUOR, Additional tax; disposition to Veterans' services special fund

BILL NUMBER: HB 560, HD-1

INTRODUCED BY: House Committee on Economic Revitalization, Business & Military Affairs

BRIEF SUMMARY: Adds a new section to HRS chapter 244 to provide for the imposition of a veterans' services tax on every person who sells or uses any liquor in the state who is subject to a gallonage tax under this chapter at the following rates: to: \$___ per wine gallon on distilled spirits; \$___ per wine gallon on sparkling wine; \$___ per wine gallon on still wine; \$___ per wine gallon on cooler beverages; \$___ per wine gallon on beer other than draft; and \$___ per wine gallon on draft beer; and at a proportionate rate for any other quantity sold or used. All moneys collected shall be deposited to the credit of the veterans' services special fund.

Adds a new section to HRS chapter 363 to establish the veterans' services special fund to be used to provide support services to veterans as delineated.

EFFECTIVE DATE: July 1, 2009

STAFF COMMENTS: The proposed measure established an additional tax on alcoholic beverages with the revenues derived from the tax deposited into the veterans' special fund which shall be used to provide support services to Hawaii veterans.

While the measure does not contain any rates, care should be exercised in attempting to generate additional revenues from specific excise taxes, like the liquor tax, as it should be noted that Hawaii's tax rates on these products are among the highest, if not the highest, in the nation. Not only would another tax reaffirm the perception that Hawaii is a tax hell, but it would probably have an effect on the consumption of taxed product. The additional imposition will, no doubt, have an effect on behavioral responses, so instead of seeing growing collections from higher tax rates, lawmakers may just find that collections will drop due to its effect to discourage consumption.

More importantly, lawmakers should realize that much of the alcohol consumed in Hawaii is due to visitors. In fact, if one divided the amount of alcohol consumed in the state by the resident population, the rate would be so high that all residents could be drunk 24 hours a day. With the economic slump hitting the visitor market, it would not be surprising to see liquor tax collections actually go down in the next few months as the number of visitors ebbs. Thus, much of the revenue expectation proposed in this bill will fall on residents who may react negatively to the additional cost of the product.

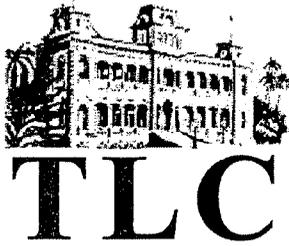
As it has been noted with earmarked funding that has no relationship to the function being funded, it is questionable whether the earmarking will generate sufficient funds for the goals of the program. If the funding of a veterans' service special fund is deemed a priority by the legislature, it would be preferable to appropriate funds for the program rather than rely on an unreliable source of funding as proposed by

HB 560, HD1 - Continued

this measure.

While it is generally acknowledged that consumption of alcohol in moderation is acceptable, this measure sends the opposite message if programs for veterans' are to be adequately funded. Instead of encouraging consumption in moderation what this measure does say is pleased consume more so we can raise money for these programs.

Digested 2/27/09



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March 2, 2009

Testimony To: House Committee on Finance
Representative Marcus R. Oshiro, Chair

Presented By: Tim Lyons, Legislative Liaison
Anheuser Busch Companies

Subject: H.B. 560, HD 1 – RELATING TO VETERANS SERVICES

Chair Oshiro and Members of the Committee:

I am Tim Lyons, Legislative Liaison for Anheuser Busch Companies and we oppose this bill.

We do not oppose this bill based on any disrespect or lack of appreciation for veterans. We find it somewhat ironic that, as it is stated in the purpose section of this bill, that there is a realization that the public cannot be any further taxed in order to gain additional funds into the general fund however, for some reason it is easier to apply a tax on the products that consumers purchase in order to gain those funds.

The consumers of our state are already overtaxed, you have heard that time and time again. Plus at this point, according to our figures we are already the second highest beer taxed state in the nation and we don't think that there is any merit to claim that you are number one in taxes.

Due to societal and cultural changes over the last few years, there has been a huge change in the consumer who buys alcoholic beverages. These products are even more "price sensitive" than they ever were. In other words, as the price goes up, the purchase volume goes down. So while you may want to increase the tax for these products in order to fund a veterans program, an "earmarking" of such a program is likely to result in less money being available in the general fund due to declining sales volume. With the country and this state's economic woes, we think this is hardly the time for a price increase on commerce and it is on behalf of that purchasing public that we appeal to you to not increase the tax rates on these products.

Based on the above, we cannot recommend the passage of this bill.

Thank you.



WINE INSTITUTE

KATIE JACOY
WESTERN COUNSEL

March 2, 2009

To: Representative Marcus Oshiro
Chair, Committee on Finance

From: Katie Jacoy, Western Counsel
Wine Institute

Re: In opposition to HB560, HD1 Relating to the Liquor Tax Law

Wine Institute ("WI") is a public policy association representing 970 California wineries. WI opposes SB 42 because it proposes to increase the liquor tax on all wines by an undisclosed amount to help pay the cost of providing care to the uninsured. Such tax increases unfairly burdens wine consumers with a societal cost that should be shared by the public equally. It will also ultimately harm the responsible wine consumers in Hawaii by increasing the price of wine, which is unduly burdensome during the current severe economic downturn.

Without any increase, Hawaii's liquor tax on wine is already the eighth highest in the nation. With any potential liquor tax increase, Hawaii wine consumers will likely pay one of the highest prices in the United States for their wine, given Hawaii's general excise tax of 4% or 4.5% and the higher transportation costs to ship wine to Hawaii. In the current economic environment, none of the tiers - winery, distributor, or retailer/restaurant - are in the position to absorb any additional cost, so any increased tax will be passed onto the consumer.

Any increase in the liquor tax on wine unfairly harms the wine consumer in Hawaii:

- Hawaii wine consumers already pay a disproportionate share of taxes through the existing liquor tax imposed on wine. Most other products they buy do not carry such an additional tax burden. The cost of health care for the uninsured is a societal burden that should be shared equally by everyone, not placed disproportionately on the wine consumer.
- Alcohol beverage taxes are regressive, disproportionately hitting those with lower incomes. Hawaii residents already struggle with high housing, food, and fuel costs. Under this bill, they could be forced to pay even more for the simple pleasure of responsibly consuming wine.



WINE INSTITUTE

KATIE JACOY
WESTERN COUNSEL

- Excise taxes are inefficient and wasteful because they are levied at the producer level. Since the taxes are marked up by the distributors and retailers as the wines move through the three-tier system, they usually double by the time they reach the consumer.
- Data indicates that when taxes are imposed on specific products, overall sales decrease. If overall sales decrease, local restaurants and wine retailers are also negatively impacted. This bill could result in a reduction of the total wine tax revenue to the state.
- Scores of medical research reports show that moderate wine consumption reduces the risk of coronary heart disease and is healthful. Wine consumption in moderation saves on health care costs: the U.S. Department of Health & Human Services found that 6 to 13 glasses of wine per week saves on average of \$400 per year per wine drinker in Medicare expenses. Wine is a beverage of moderation. Its use should not be discouraged by excise tax increases resulting in higher wine prices to the consumer.

FINTestimony

From: Kym Sparlin [ksparlin@pmcihawaii.com]
Sent: Friday, February 27, 2009 12:53 PM
To: FINTestimony
Subject: RE: Testimony for HB560 on 3/2/2009 11:30:00 AM

Amy Hirano will be present to testify on behalf of Katie Jacoy.

Kym Sparlin
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-----Original Message-----

From: mailinglist@capitol.hawaii.gov [mailto:mailinglist@capitol.hawaii.gov]
Sent: Friday, February 27, 2009 12:52 PM
To: FINtestimony@capitol.hawaii.gov
Cc: ksparlin@pmcihawaii.com
Subject: Testimony for HB560 on 3/2/2009 11:30:00 AM

Testimony for FIN 3/2/2009 11:30:00 AM HB560

Conference room: 308
Testifier position: oppose
Testifier will be present: No
Submitted by: Katie Jacoy
Organization: Wine Institute
Address: 2103 N Oakes Street, Unit D Tacoma, WA
Phone: 253-302-5250
E-mail: ksparlin@pmcihawaii.com
Submitted on: 2/27/2009

Comments: