THE LEGISLATIVE CENTER

TLC

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February 17, 2010

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

Presented By: Tim Lyons, Legislative Liaison
Anheuser Busch Companies

Subject: H.B. 2850 – RELATING TO THE LIQUOR TAX

Chair Oshiro and Members of the Committee:

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

We understand that the state is in severe financial problems. We also understand that as legislators, particularly the Finance Committee, you need to look for revenue sources wherever you can possibly find them. We also think however, that it is totally within your purview to take a look at the consequences of those tax increases.

In the case of liquor products, you are talking about products that are extremely price sensitive and have great elasticity. That is to say, the majority of people who consume our products are not alcoholics, but rather are casual drinkers. This means that they can do with or they can do without and as history has shown throughout the nation, as the price goes up, sales go down. As sales go down, unemployment goes up.

We do not believe that in this economy, although it seems a perfectly natural reaction to increase taxes, that you also do not want to do anything that will promote more people losing their jobs or having their hours cut back based on reduced sales. A liquor tax increase of almost any nature will do that.

The Committee also needs to be reminded that what is proposed in this bill is almost a thirteen (13) percent increase on beer products. By our calculations the increases on beer proposed in this bill will result in $4,400,000 less in retail sales, 37 direct employment jobs lost and 43 beer industry jobs, all for a gain of $3.4 million more in the excise tax. In short, the liquor industry is not the "cash cow" as it once was. Sales were down before this recession even started and they have only plummeted further.

While we know that everyone has to do their part in this kind of an economy, we are also of the belief that if you ask an industry to do too much from their part, that jobs will suffer and all we will achieve is more unemployment and less personal income.

Based on the above, we are opposed to this bill.

Thank you.

L E G I S L A T I V E

TAXBILLSERVICE

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: LIQUOR, Increase tax

BILL NUMBER: HB 2850

INTRODUCED BY: Say

BRIEF SUMMARY: Amends HRS section 244D-4 to increase the liquor tax rates effective July 1, 2010 to: $6.60 per wine gallon on distilled spirits; $2.35 per wine gallon on sparkling wine; $1.55 per wine gallon on still wine; $ .95 per wine gallon on cooler beverages; $1.05 per wine gallon on beer other than draft; and $0.60 per wine gallon on draft beer.

Repeals this act on June 30, 2015 and provides that HRS section 244D-4(a) shall be reenacted on June 30, 2015 in the form in which it read on the day prior to the effective date of this act.

EFFECTIVE DATE: July 1, 2010

STAFF COMMENTS: It appears that the proposed measure temporarily increases the tax rate on alcoholic beverages to generate additional revenues for the general fund to address the state's financial crisis.

It should be remembered that 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 rate increase reaffirm the perception that Hawaii is a tax hell, but it would probably have an effect on the consumption of taxed product. Such a hike will, no doubt, have an effect on behavioral responses and affect actual consumption of these products, 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 would 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. Liquor tax revenues actually did decline from previous year collections when there was a bump in the visitor industry as experienced in the period following 9/11 and in the year of the financial meltdown of the Fall of 2008. Thus, much of the increase proposed in this bill will fall on residents who may react negatively to the increased cost of the product.

Rising cost of product will indeed have an effect on such products as seen with the programmed increases in the cigarette tax where the number of units consumed has turned downward with only the rising rates pushing the number of tax dollars collected upward.

Digested 2/16/10

GOODSILL ANDERSON QUINN & STIFEL
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MEMORANDUM

TO: Representative Marcus R. Oshiro
Chair, Committee on Finance
Via Facsimile: 586-6001

FROM: Mihoko E. Ito

DATE: February 16, 2010

RE: H.B. 2850 – Relating to The Liquor Tax
Hearing: Wednesday, February 17, 2010 at 1:30 p.m., Room 308

Dear Chair Oshiro and Members of the Committee:

I am Mihoko Ito, appearing on behalf of the Distilled Spirits Council of the United States ("DISCUS"). DISCUS is a national trade association representing producers and marketers of distilled spirits sold in the United States.

DISCUS opposes H.B. 2850. The bill seeks to temporarily increase the liquor tax rates during the period of July 1, 2010 to June 30, 2015.

This bill proposes an over 10% per wine gallon increase to the liquor tax assessed on distilled spirits in the State. Distilled spirits are among the most heavily taxed consumer products in the United States and are already assessed significant taxes and fees in Hawai'i. For a typical bottle of distilled spirits sold in Hawai'i, 25% of the retail price goes to pay State and local taxes and fees. When factoring in federal taxes and other fees, 51% of the purchase price of each bottle of distilled spirits goes toward such taxes and fees.

Liquor tax increases drive down retail sales as consumers react to higher prices. This, in turn, negatively impacts many other industries critical to our economy, such as hospitality, tourism, and dining. A liquor tax increase of this magnitude may result in the loss of an estimated 100 jobs in Hawai'i. Whether in the form of higher prices or job losses, an excessive liquor tax is counterproductive and will impact low to middle income taxpayers most. The tax increases proposed in this bill would further hurt—not help—Hawai'i's already suffering economy.

For the reasons stated above, we respectfully ask that you hold H.B. 2850. Thank you for the opportunity to testify.

February 16, 2010

Via Facsimile #586-6001

Honorable Marcus R. Oshiro, Chair
Honorable Marilyn B. Lee, Vice Chair
Committee on Finance
House of Representatives
State Capitol
415 South King Street
Honolulu, Hawaii 96813

Re: H.B. No. 2850 relating to the Liquor Tax

Dear Chair Oshiro, Vice Chair Lee, and Committee Members:

On behalf of the Hawaii Liquor Wholesalers Association ("HLWA"), we respectfully submit the following written testimony in opposition to H.B. No. 2850, relating to the liquor tax, which is to be heard by your Committee on Finance on February 17, 2010. H.B. No. 2850 would increase the taxes payable on distilled spirits, sparkling wine, still wine, cooler beverages and beer. While we understand that the State government faces substantial fiscal issues, HLWA believes that H.B. No. 2850 is inappropriate and unworkable for several reasons.

First, Hawaii's tax rates on liquor already are among the highest in the country. For example, it has been estimated that, as of July 1, 2008, the median tax rate on wine in the country was $3.75 per gallon, while Hawaii's existing tax rate is $5.98 per gallon. It also has been indicated that Hawaii's tax on beer is the second highest in the country. Thus, Hawaii's residents already are burdened by high tax rates on liquor.

Second, particularly in a recessionary economy, consumption of alcoholic beverages is likely to be highly elastic or sensitive to changes in prices. Thus, increasing the taxes on liquor, especially if combined with an increase in the general excise tax, may result in decreases in consumption that offset anticipated increases in tax revenue.

Third, a significant portion of alcoholic beverages are consumed by visitors. While businesses in the tourist industry are being forced to lower rates to attract visitors during this economic recession, the transient accommodations tax was raised last year and there may be an increase in the general excise tax as well. Adding an increase in the liquor tax would only make the cost of a vacation even more expensive, and is counter-productive to attempts to stimulate the State's number one economic driver.

For the foregoing reasons, we respectively oppose H.B. No. 2850. Thank you for your consideration of the foregoing.

Very truly yours,

HAWAII LIQUOR WHOLESALERS ASSOCIATION

Warren Shon
Its Vice President

WINE INSTITUTE

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February 17, 2010

TO: House Finance Committee
Representative Marcus Oshiro, Chair
Representative Marilyn B. Lee, Vice Chair

FROM: Katie Jacoy
Wine Institute

DATE: Wednesday, February 17, 2010
Conference Room 308
1:30 p.m.

RE: **<u>HB2850, Relating to the Liquor Tax</u>**

Chair Oshiro and Members of the Committee:

Wine Institute ("WI") is a public policy association representing 920 California wineries. WI opposes HB 2850 because it proposes to increase the liquor tax on all categories of alcoholic beverages, including wine. This proposed tax increase to $1.55 per wine gallon will ultimately harm the responsible wine consumers in Hawaii by increasing the price of wine, which is difficult to bear during the current severe economic downturn. In this economy, none of the tiers – winery, distributor, or retailer/restaurant – are in the position to absorb any additional costs, so any increased tax will be passed on to the consumer. Since liquor 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.

With this increase, Hawaii's liquor tax on wine will be the fifth highest in the nation. Hawaii wine consumers already pay one of the highest prices in the country for their wine, given Hawaii's general excise tax of 4.17% or 4.712% for the City and County of Honolulu, and the higher transportation costs to ship wine to Hawaii.

The Hawaii tourism industry is in crisis mode with tourism down about 15% over the last two years. On-premise sales of wine have decreased by about 10-15%. Tourism accounts for one-quarter of Hawaii's GDP and one-third of its jobs. Restaurants, hotels, and wine retailers can't afford a tax increase that will further discourage the purchase of wine.

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.

- Additional taxes are a burden for 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.

- Excise taxes are expensive 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 consumption should not be discouraged by excise tax increases resulting in higher wine prices to the consumer.

We ask that you reconsider raising liquor taxes at this time. Thank you for allowing me to provide testimony on this matter.

February 16, 2010

Committee on Finance
House of Representatives
The Twenty-Fifth Legislature
Regular Session of 2010

Aloha, Members of the Committee on Finance:

I am writing today to urge you to vote against the passage of HB2850, Relating to the Liquor Tax.

Less than 10 years ago, the State of Hawaii boasted a dozen craft breweries. Today, there are just five remaining. Producing beer in Hawaii is more expensive than producing it on the mainland by a factor of about 35 percent, even with shipping into Hawaii the landed cost is much lower. All of us who are making this diversified industry grow have made large investments and sacrifices. We need assistance from our state, not additional burden. Increasing liquor tax rates will absolutely cripple Hawaii's craft beer industry.

With the proposed tax increase, the five local breweries that are producing approximately 20,000 barrels of beer will contribute a mere $62,000 in additional income to the state budget – an insignificant drop in the state's budget bucket. However, that number means much more to our small, diversified businesses. The proposed tax increase will effectively stunt our growth, if not cripple us.

Kona Brewing Company alone employs 170 residents and has grown to be our country's 14th largest craft brewery. Consumer demand for American craft beer by small brewers has grown significantly in recent years. Despite this recent rise in demand, our small businesses are threatened by a surge of negative economic factors, including a nearly 40% increase in ingredient and operational costs in recent years and a deepening recession in the United States.

My hope as President and CEO of Kona Brewing Company is that the state will look at generating additional taxes from businesses located outside of Hawaii rather than its own home-grown businesses. In fact, there are more than a dozen states throughout the country that actually give small brewers a break with small brewer tax provisions.

I would like to recommend that you follow the lead of the Federal Trade and Tax Bureau along with the dozen other states and create a Hawaii small brewer tax that would lower the current draught beer tax by ½ from $.52/gallon to $.26/gallon for all draught beer – a total cost to of $121,000 to the state.

I invite you to visit our brewery the next time you find yourself on Hawaii's Big Island! I'd enjoy giving you a tour of our facility and explaining to you more about our unique industry.

Mahalo for your support,

Mattson C. Davis
President and CEO

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