TLC THE LEGISLATIVE CENTER

1188 Bishop Street, Ste. 1003
Honolulu, Hawaii 96813-3304
PHONE: (808) 537-4308 • FAX: (808)533-2739

February 15, 2011

Testimony To: House Committee on Economic Revitalization & Business
Representative Angus L. K. McKelvey, Chair

Presented By: Tim Lyons, Legislative Liaison
Anheuser Busch Companies

Subject: H.B. 1187 - RELATING TO THE LIQUOR TAX

Chair McKelvey 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, 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 <u>with</u> or they can do <u>without</u> and as history has shown throughout the nation, as the price goes up, sales go down. As sales go down, unemployment goes up.

We also do not believe that you can tax people into behaving responsibly. People who drink in moderation do not have health problems...abusive drinkers will drink regardless of the cost.

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 a fifty (50) percent increase on liquor products and that would place us nationally at least thirty-three (33) percent higher than any other state based on the liquor excise tax alone. By our calculations the increases on beer proposed in this bill will result in $17 million less in retail sales, 144 direct employment jobs lost and 169 beer industry jobs, all for a gain of $13 million more in the excise tax. In short, the liquor industry is not the "cash cow" it once was. Sales were down before this recession even started and they have only plummeted further. Although we are sometimes grouped under the heading of a "sin tax", we would like to remind this Committee that what we manufacture and sell is a legal product and it is not a sin to sit in your living room, watch the football game and , consume a beer.

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.

GOODSILL ANDERSON QUINN & STIFEL
A LIMITED LIABILITY LAW PARTNERSHIP LLP

GOVERNMENT RELATIONS TEAM:
GARY M. SLOVIN
ANNE T. HORIUCHI
MIHOKO E. ITO
CHRISTINA ZAHARA NOH
CHRISTINE OGAWA KARAMATSU

ALII PLACE, SUITE 1800 • 1099 ALAKEA STREET
HONOLULU, HAWAII 96813

MAIL ADDRESS: P.O. BOX 3196
HONOLULU, HAWAII 96801

TELEPHONE (808) 547-5600 • FAX (808) 547-5880
info@goodsill.com • www.goodsill.com

INTERNET:
gslovin@goodsill.com
ahoriuchi @goodsill.com
meito@goodsill.com
cnoh@goodsill.com
ckaramatsu@goodsill.com

TO: Representative Angus L. K. McKelvey
Chair, Committee on Economic Revitalization & Business
Via Email: ERBtestimony@Capitol.hawaii.gov

FROM: Mihoko E. Ito

DATE: February 14, 2011

RE: **H.B. 1187 – Relating to Liquor Tax**
Hearing: Tuesday, February 15, 2011 at 8:00 a.m., Room 312

Dear Chair McKelvey and Members of the Committee on Economic Revitalization & Business:

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. 1187. This bill proposes a 50% increase to the liquor gallonage tax assessed on liquor including distilled spirits. Distilled spirits are among the most heavily taxed consumer products in the United States. In Hawai'i, they are already assessed substantial taxes and fees which are significant compared to other states. 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. At a time when Hawaii's economy, including local businesses and consumers, is still recovering from the recession, increasing liquor taxes will impact consumer spending.

Higher tax rates are estimated to decrease retail spirits sales by $13.6 million. Including beer and wine in that estimate would increase the total to over $30 million.

Increasing the liquor gallonage tax rates would significantly increase costs for anyone that enjoys a cocktail, beer or glass of wine. 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 hurt, not help, Hawai‘i's economy.

For the reasons stated above, we respectfully ask that you hold H.B. 1187. Thank you for the opportunity to testify.

HAWAII FOOD INDUSTRY ASSOCIATION (HFIA)
1050 Bishop St. Box 235
Honolulu, HI 96813
Fax : 808-791-0702
Telephone : 808-533-1292

DATE: Tuesday, February 15, 2011 - TIME: 8:00 AM

PLACE: Conference Room 312

FROM: Hawaii Food Industry Association - Lauren Zirbel, Government Relations

TO: COMMITTEE ON ECONOMIC REVITALIZATION & BUSINESS

Rep. Angus L.K. McKelvey, Chair

Rep. Isaac W. Choy, Vice Chair

RE: HB 1187 RELATING TO THE LIQUOR TAX

HFIA strongly opposes this bill.

The legislature must stop taxing groceries. It is the most unfair and regressive way to fill the budget deficit.

The beverage industry is already doing more than its fair share to raise money for the State of Hawaii. The bottle bill has cost the industry a significant amount of profit percentage in surcharges and reduced sales. **Please don't pass on the tab for the budget deficit to the food and beverage industry.**

Our state already boasts the second **highest excise tax rate on beer in the country,** with only Alaska coming in higher. In fact, at $.93 per gallon, Hawaii's bottled beer excise tax rate is **260% higher than the national average** of $.26 per gallon.

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.

HFIA does not support tax increases, especially increases that will simply increase the costs to consumers at a time when taxpayers cannot afford such increases. **This tax is highly regressive and will impact the poor the most.**

If you pass this measure it will severely damage the retail and beverage industry, **costing the state many jobs.** The loss of these jobs will cost significantly more in the long run than the gains in revenue which this liquor tax increase may generate.

Thank you for the opportunity to provide this testimony.

WINE INSTITUTE

KATIE JACOY
WESTERN COUNSEL

TO: House Committee on Economic Revitalization & Business
Representative Angus, McKelvey, Chair
Representative Isaac Choy, Vice- Chair

DATE: February 15, 2011, 8:00am
Conference Room 312

RE: Opposition to HB1187
RELATING TO THE LIQUOR TAX

Wine Institute ("WI") is a public policy association representing 923 California wineries. WI opposes SB 1289 because it proposes to increase the liquor tax on all categories of alcoholic beverages, including wine, by 50%. This proposed 50% tax increase to $2.07 per wine gallon will ultimately harm the responsible wine consumers in Hawaii by increasing the price of wine, which is difficult to bear in tough economic times. 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 onto 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.

The justification for this excessive tax burden is the ***possibility*** that the higher tax passed onto consumers in higher alcohol prices will lower consumption by those abusing alcohol. It doesn't make sense to punish the vast majority of wine consumers on a chance that it will help abusers.

With this increase, Hawaii's liquor tax on wine will be the third highest in the nation, surpassed only by Alaska at $2.50 with no additional sales tax and Florida at $2.25 with an additional sales tax. Hawaii wine consumers already pay one of the highest prices in the United States for their wine, given Hawaii's general excise tax of 4.17% or 4.712% for Honolulu County and the higher transportation costs to ship wine to Hawaii.

After years of double-digit declines, Hawaii's tourism industry is finally recovering. After similar declines, on-premise sales of wine are beginning to increase as well. 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 hamper this much needed recovery.

2103 N OAKES STREET, UNIT D · TACOMA · WA · 98406 · 253/302-5250 · WWW.WINEINSTITUTE.ORG

A 50% 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.

- 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.

- 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.

- 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.

February 14, 2011

Via Email ERBtestimony@Capitol.hawaii.gov

Representative Angus L.K. McKelvey, Chair
Representative Isaac W. Choy, Vice Chair
Committee on Economic Revitalization & Business
State Capitol
415 South Beretania Street
Conference Room 312
Honolulu, HI 96813

Re: H.B. No. 1187 Relating to Liquor Tax

Dear Chair McKelvey, Vice Chair Choy 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. 1187, relating to the liquor tax, which is to be heard by your Committee on Economic Revitalization & Business on February 15, 2011. H.B. No. 1187 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. 1187 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 distilled spirits 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 other taxes, such as 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 two years ago and there may be yet another increase in transient accommodations tax this session. 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. 1187. Thank you for your consideration of the foregoing.

Very truly yours,

HAWAII LIQUOR WHOLESALERS ASSOCIATION

Warren Shon
Its Vice President

242923.1

Date: February 14, 2011 for Hearing on February 15, 2011

To: THE House Committee on Economic Revitalization and Business
Representative Angus McKelvey, Chair
Representative Isaac Choy, Vice-Chair

Re: Testimony on HB 1187, Relating to Liquor Tax

From: Paula Hegele, President, Tedeschi Vineyards, Ltd.

On behalf of Maui's only winery, I would like to strongly oppose the proposed increase to Hawaii's liquor taxes. This increase will have a significant negative impact on Tedeschi Vineyards dba Maui's Winery, as well as many other small businesses in the State.

Hawaii already stands out as being one of the highest liquor tax states in the country. As a local winery we continually struggle to keep up with raising costs of manufacturing in Hawaii and striving to create quality products from local agriculture. If our wine pricing goes up our sales are reduced. Yes, a tax increase would have to be passed on to the consumer, but it will hurt sales and a reduction in sales will mean that we will be forced to produce less, impacting the cost of goods produced and our employees.

We labor every day to produce the best products possible and fight to stay in business. We are just now beginning to stabilize after many years of losing sales due to the economy and lack of visitors to the Islands. We have just begun filling positions that had been eliminated and will have to lay-off again should sales decrease due to a liquor tax increase.

In these last few years, we have paid less in wine taxes however this is because we have unfortunately sold fewer gallons. The more gallons we sell the more taxes we will pay. Help me to increase sales and we will pay more in liquor taxes with the existing tax structure. Increasing the cost of our products via taxation will only reduce sales, especially as a local specialty wine. This means higher production costs, less retail sales and fewer gallons sold to pay liquor taxes on.

Please consider the full impact of increasing liquor taxes. Any tax increase would be a hardship, considering we already have the 8th highest liquor taxes in the country and the proposed 67% increase on wine is shocking. Maui liquor manufacturing companies, like us, are working hard to be a value to the State economy by producing locally, utilizing local agriculture ingredients whenever possible and hiring and training local employees in a unique industry, which is appreciated and supported by the visitors and residents.

We are hopeful and looking forward to your committee creating ideas to increase revenues by stimulating the sales of local business, please don't consider a tax increase that would create further hardship.