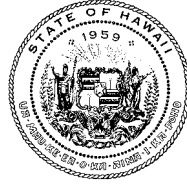


NEIL ABERCROMBIE  
GOVERNOR

SHAN TSUTSUI  
LT. GOVERNOR



FREDERICK D. PABLO  
DIRECTOR OF TAXATION

JOSHUA WISCH  
DEPUTY DIRECTOR

STATE OF HAWAII  
**DEPARTMENT OF TAXATION**  
P.O. BOX 259  
HONOLULU, HAWAII 96809  
PHONE NO: (808) 587-1540  
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To: The Honorable Clift Tsuji, Chair  
and Members of the House Committee on Economic Development and Business

Date: Friday, March 15, 2013  
Time: 9:00 a.m.  
Place: Conference Room 312, State Capitol

From: Frederick D. Pablo, Director  
Department of Taxation

Re: S.B. 1261 S.D.2 Relating to Liquor Tax Law

The Department **appreciates the intent** of S.B.1261 S.D.2 and provides the following information and comments for your consideration.

S.B. 1261 S.D.2 applies a reduced liquor tax rate upon all beer brewed by small brewers and defines small brewers as those that brew not more than 60,000 barrels of beer per year. The reduced rate will only apply to small brewers; a brewer brewing more than 60,000 barrels per year will pay the standard liquor tax on all beer produced. The bill also repeals the expired liquor tax rates. The bill has a defective effective date of July 1, 2050.

If the bill were to become effective upon approval, the Department believes that it can make the necessary form, form instructions, and system changes as it applies to taxable years beginning after December 31, 2013.

The Department notes that there is no effect in the budget window due to the defective start date. However, if made effective, the Department estimates this measure will result in an annual revenue loss of \$1 million.

Thank you for the opportunity to provide comments.

# TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: LIQUOR, Small breweries and brewpubs

BILL NUMBER: SB 1261, SD-2

INTRODUCED BY: Senate Committee on Ways and Means

BRIEF SUMMARY: Adds a new section to HRS chapter 244D to provide that a small brewery or brewpub that produces less than 60,000 barrels of beer and shall be subject to a gallonage tax of \$0.23 per gallon of beer on the first 60,000 barrels of beer brewed or produced during a taxable year. This reduced rate shall not apply to breweries that produce more than 60,000 barrels.

Defines “small brewery or brewpub” as a brewery or brewpub that brews or produces not more than 60,000 barrels of beer per taxable year. A brewery or brewpub that brews or produces more than 60,000 barrels of beer per taxable year shall not qualify as a small brewery or brewpub and beer produced by such a brewery or brewpub shall not qualify for the liquor tax rate of \$0.23.

EFFECTIVE DATE: July 1, 2050 for tax years beginning after December 31, 2013

STAFF COMMENTS: Currently, beer is subject to a state tax of \$0.93 cents per wine gallon while draft beer is subject to a tax of \$0.54. At the federal level, beer is subject to a tax of \$18 per barrel. Brewers who produce less than two million barrels are subject to a tax of \$7 on the first 60,000 barrels and \$18 after the first 60,000 barrels.

Digested 3/13/13

# Hawaiian Craft Brewers Guild

Thursday, March 14, 2013

TO:

House Committee on

## Economic Development & Business

Re: Additional Testimony in Strong Support of 1261

Aloha Ladies and Gentlemen of the Committee:

The Hawaiian Craft Brewers Guild is a craft brewing trade organization that seeks to promote authentic production of Craft Beer in Hawaii. We are united in our pursuit to showcase Hawaii in our wares and promote economic activity and industry growth in our communities.

The guild has compiled cost information that show the challenges involved in production in Hawaii. We feel that a small decrease in the State Excise Tax burden will greatly help Hawaii small brewers to succeed in the marketplace which can lead to the positive influences listed below.

labor: \$29.54/barrel, \$.95/gallon  
rent: \$12.40/barrel, \$.40/gallon  
water: \$2.33/barrel, \$.08/gallon  
utilities: \$17.49/barrel, \$.56/gallon  
COG: \$80.13/barrel, \$2.58/gallon  
supplies: \$6.80/barrel, \$.22/gallon  
marketing: \$2.80/barrel, \$.09/gallon  
shipping: \$24.10/barrel, \$.78/gallon  
Total per barrel: \$175.60, \$5.66/gallon

### Current taxes:

--HI State Excise = .54 draft & .93 packaged per gallon  
--Federal Excise = 22.5 cents per gallon

Currently 8 truly local breweries strong, and 8 potential breweries in planning in Hawaii according to the Brewers Association. These are all small businesses that hope to grow small manufacturing in the State of Hawaii. We support SB1261 with amendments as provided by the Hawaii Department of Taxation. We believe that SB1261 will serve to accomplish the following:

## **Hawaiian Craft Brewers Guild**

Create jobs in manufacturing and other areas for local residents

Reduce the reliance on service industry jobs. "Job diversification"

Increases ability to be competitive with mainland imported brands produced at much lower cost and without Hawaiian authenticity.

Promotes authentic local production

Protects the appellation that is "Hawaiian"

We believe that this legislation will result in a net overall gain to the State when decreases in unemployment and increases in production and sales are realized. We urge you to support the passage of this bill.

Some average costs per gallon to produce beer in Hawaii show the challenges facing small brewers in Hawaii:

As of the last hearing there has been no opposition testimony lodged against SB1261 and the comments by the tax department have been discussed and addressed with the amendments proposed. This clears the way to pass this bill.

Mahalo for your consideration,

Thomas Kerns  
President  
Hawaiian Craft Brewers Guild

Email:  
[bigislandbrewhaus@yahoo.com](mailto:bigislandbrewhaus@yahoo.com)

Ph:  
808-276-3301

Kyle Sleppy

Individual

March 15, 2013 @0900 hours

SB1261

I am in favor of the proposed bill, SB1261, which puts into place an excise tax per wine gallon of draft beer or small brewery or brewpub brewed beer to \$0.23, which is a lowered tax in favor of small breweries or brewpubs. I recommend this bill be passed with amendments. The amendments to it would be to further lower the proposed excise tax amount of \$0.23 to \$0.21 and raise the limits of production in sections 6-12 page 1, of the bill that defines a small brewery or brewpub and be restated as- "Small brewery or brewpub" means a brewery or brewpub that produces not more than 85,000 barrels of beer per taxable year.

I also propose an amendment to the tax rates for breweries or brewpubs not taxable under 244-D4 (a) (7) that would then fall under the tax rates defined under 244D-1 as redefined in section 11-18 on page 2, be redefined to their previous rates defined in section 3-10 of page 2.

Sincerely,

Kyle Sleppy