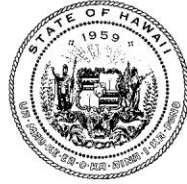


NEIL ABERCROMBIE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

FREDERICK D. PABLO
DIRECTOR OF TAXATION

JOSHUA WISCH
DEPUTY DIRECTOR

To: The Honorable Sylvia Luke, Chair
and Members of the House Committee on Finance

Date: Thursday, April 4, 2013
Time: 2:00 p.m.
Place: Conference Room 308, 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



MAUI BREWING CO.

April 2, 2013

State of Hawaii
Committee on Finance
Rep. Sylvia Luke, Chair
Rep. Scott Y. Nishimoto, Vice Chair
Rep. Aaron Ling Johanson, Vice Chair

Re: Testimony in Strong Support of 1261

Aloha Ladies and Gentlemen of the Committee:

I am writing to you in strong support of SB1261. This bill will serve to support and promote the burgeoning Craft Brewing industry in Hawaii, currently there are eight operational breweries with 7 more "breweries in planning". These business will create jobs and promote Hawaii.

I support this measure as it allows for the creation of a Small Brewers Tax provision which exists currently under federal law. The truly "Local" brewers, brewers that brew 100% of our product in Hawaii with local labor, myself at Maui Brewing Co. and our bretheren at Hawaii Nui Brewing Co. in Hilo, Kauai Island Brewing and Kauai Beer Company on Kauai, and Big Island Brewhaus on Hawaii stand united on this cause. The passage of this provision will allow for job creation, reinvestment in our communities, and allow us to be competitive with large breweries from the mainland where costs of production can be almost half as much.

Collectively, Hawaii's local brewers account for less than 2% of beer sold in Hawaii, approximately 620,000 gallons versus the 31,000,000 gallons imported into the State. The tax provision as proposed results in a very small, almost insignificant decrease in the amount collected by State taxes. We need to view this as an investment in job creation and supporting Hawaii manufacturing. At the same time, the resulting increases in production volume and removing burden from unemployment will result in a net gain to the State.

In 2005 when I started Maui Brewing Co. I did so with the vision of producing the highest quality ales and lagers available in the State, and doing so with a strong commitment to always brewing in Hawaii. At that time most so-called "Hawaiian" beers were being brewed in the mainland and shipped to Hawaii; it was my goal to bring truth and authenticity to Hawaiian Beer. We have stayed true to our vision and have brought attention to craft beer in Hawaii for the first time in history. We have won more awards at all levels of competiton for our beers than any other brewery in the State. We are proud that in the craft brewing community around the world the name "Maui Brewing Co." is synonomous with world-class beer of a truly local Hawaiian origin. It has become increasingly difficult to grow and remain competitive with the extremely high cost of production in Hawaii relative to our mainland counterparts, this compiled with the highest taxes in the Nation result in a disincentive to manufacturing in the State and a complete lack of competitive capability. One look at the store shelves will show you that our true Hawaiian beers are the most expensive beers on the shelf. Unfortunately this keeps them out of the reach of the average hawaiian family. This is a sad state of affairs.

Maui Brewing Co. is Hawaii's largest craft brewery, we are also the only brewery canning our beer in the State. We purchase our cans from a local Ball Corporation plant in Kapolei further supporting local labor. We hope to see other new local breweries canning here soon. Bottles are not made in Hawaii and we, as do many others, believe the can is better for beer. One reason for our growth is we have begun to sell our beer in the mainland and international markets. Additionally our cardboard tray manufacturer has announced plans to break ground (April 29th) in Kapolei on a new facility in Hawaii to bring local cardboard manufacturing back. This is directly related to the growth of industry in Hawaii, more beer brewed here means more jobs for the economy.

HANDCRAFTED ALES & LAGERS BREWED WITH ALOHA
910 HONDAPIILANI HWY #55, LAHAINA, MAUI, HI 96761
877.628.4273 • 808.669.0191 FAX

I am often asked why my beers sell for the same price, and in some instances cheaper, on the west coast than in Hawaii, as exported beer should be more expensive. Sadly, the State taxation in Hawaii is so high that we can ship our beer AND pay taxes to the Western States for less than just the tax in Hawaii. For example, CA is approx \$.45 per case versus Hawaii at \$2.09 per case.

This disincentive to local sales has encouraged an outward migration of jobs, taxes, and manufacturing. We want to be encouraged to sell and brew our products in Hawaii, and the support of our government officials with a decrease in tax for in-state produced product is the only way. We are not asking to pay the lowest tax, but a tax competitive to other States. It is time to create a small brewers tax provision that will allow us to bring back and create more jobs through growth. We believe in a strong Hawaii, this starts with small businesses which are the backbone of any strong community.

Maui Brewing Co. currently employs 62 employees in the State. These employees live in Hawaii, raise their children here, pay taxes, and contribute to the community. Forty-one employees are full-time employees with family-level wages, insurance benefits including health (medical, drug, dental, vision and preventative care), life insurance, and 401(k). We currently match contributions to 401(k), and we have implemented a profit sharing plan as we believe in employee appreciation; we simply would not be where we are without our staff.

We need to create a Small Brewers classification in order to support the growing craft beverage industry in Hawaii. In speaking with others in our local industry, we collectively agree that the small brewers tax provision we are seeking would be utilized by us all to invest in new equipment and people in order to continue growing our companies locally. This would serve to bring local jobs to market and help get workers looking for jobs off unemployment and government assistance. Our growth would allow us to actually pay more in taxes as a result of increasing sales.

The Craft Brewing industry has proven a direct correlation of lower taxation and an increase in jobs and economic activity. Take note of the many States, CA, CO, WA, OR, AK that have thriving craft beverage industry, even Federally a bill is in progress to support a Small Brewers Tax Provision and stimulate the industry. You can look at the brewing industry by State relative to the tax rates charged and will see the direct positive impact. Growth of our industry in Hawaii means more jobs and more diversification in job opportunities. SB 1261 provides a way to immediately support the industry.

The small brewers tax provision proposed under SB1261 helps put Hawaii on a solid foundation and on track to a healthy and prosperous future. I respectfully request your support of SB1261 in the creation of a Small Brewers Tax provision to decrease the tax to .23 cents per gallon for brewers 60,000 barrels and under.

In reviewing testimony, there have only been supportive testimony and "comments" regarding the bill. I believe the "comments" have all been addressed with the amendments and this should give you the confidence to pass this bill. It is good for business and great for Hawaii.

Thank your for your time, please feel free to call me with any questions.

Mahalo,



Garrett W. Marrero
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808.280.4687 cell
G@MauiBrewingCo.com

HANDCRAFTED ALES & LAGERS BREWED WITH ALOHA
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877.628.4273 • 808.669.0191 FAX

FINTestimony

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, April 02, 2013 7:33 PM
To: FINTestimony
Cc: bret@kauaiislandbrewing.com
Subject: Submitted testimony for SB1261 on Apr 4, 2013 14:00PM

SB1261

Submitted on: 4/2/2013

Testimony for FIN on Apr 4, 2013 14:00PM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Bret Larson	Kauai Island Brewing Company	Support	No

Comments: Aloha Ladies and Gentleman of the Committee, We are providing testimony in support of Senate Bill 1261, which reduces the gallonage tax on the first 60,000 barrels of beer brewed or produced during a taxable year by a small brewery or brewpub in the State to \$0.23 per gallon of beer. We regret that we cannot attend this hearing in person but wish to express our strong support for SB 1261. We opened July 9, 2012 and have been operating our company successfully ever since. Over these 9 months, there is a strong feeling of optimism among our 35 employee's. We have plans to expand our business to include limited bottling or canning. With this expansion, comes additional employment. In addition to other benefits by way of previously submitted testimony, we believe tax revenue associated this additional employment will more than offset the difference in the gallonage tax the State currently charges brewers. We ask you to pass Senate Bill 1261. Thank you for your consideration in support of this bill. Sincerely, Bret Larson President/CEO, Kauai Island Brewing Company, LLC. bret@kauaiislandbrewing.com 808-755-5926

Please note that testimony submitted less than 24 hours prior to the hearing , improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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