



**STATE OF HAWAII
DEPARTMENT OF TAXATION**
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To: The Honorable Donovan Dela Cruz, Chair
and Members of the Senate Committee on Ways & Means

Date: Thursday, March 29, 2018
Time: 10:50 A.M.
Place: Conference Room 211, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: H.B. 2656, H.D. 2, S.D. 1, Relating to a Small Craft Beer Producer Tax Credit

The Department of Taxation (Department) appreciates the intent of H.B. 2656, H.D. 2, S.D. 1, and offers the following comments for your consideration.

H.B. 2656, H.D. 2, S.D. 1, amends Hawaii Revised Statutes (HRS) chapter 235, by creating a new nonrefundable income tax credit for qualified taxpayers who are small craft beer producers. A summary of the measure's key provisions are as follows:

- Sets the amount of the credit at 20% of the qualified expenses incurred by the qualified taxpayer during a taxable year;
- Sets an aggregate cap of \$300,000 in total tax credits allowed for all qualified taxpayers in any taxable year;
- Sets a cap of \$50,000 on the annual tax credit allowed to any individual qualified producer;
- Defines "qualified expenses" as expenses incurred by a qualified taxpayer to manufacture beer; not including expenses incurred outside of the State;
- Requires qualified expenses to be calculated in accordance with the uniform capitalization rules of section 263A of the Internal Revenue Code;
- Defines "qualified taxpayer" as a person who:
 - Has a valid class 18 small craft producer pub license as described in HRS section 281-31(r), and
 - Complies with manufacturing limitations established in HRS section 281-31(r)(1);
- Specifies that "qualified producer" means a corporation producing 100% of its beer products in the State;

- Directs the Department of Business, Economic Development, and Tourism (DBEDT) to:
 - Maintain records of the names and addresses of qualified taxpayers claiming the credit and the total amount of their qualified expenses;
 - Verify the nature and the amount of qualified expenses and calculate the total amount of all qualified and cumulative expenses that it certifies;
 - Certify the amount of the tax credit for each taxpayer for each taxable year and the cumulative amount of the tax credit; and
 - Issue a certificate to the taxpayer verifying the above information that the taxpayer will file along with taxpayer's tax return;
- Appropriates an unspecified amount to DBEDT to meet the requirement for monitoring, verification, and certification of small craft beer producer tax credit claims;
- Has a defective effective date of July 1, 2112; and
- Applies to taxable years beginning after December 31, 2018 and ending on December 31, 2023.

First, the Department notes that the Senate Committee on Economic Development, Tourism, and Technology amended this measure by reducing the credit amount from 40% of qualified expenses incurred to 20% of qualified expenses incurred, inserting an aggregate cap of \$300,000 for the total amount of tax credits that may be claimed by all qualified taxpayers in any taxable year, inserting a cap of \$50,000 for the annual tax credit allowed to each qualified producer, and amending the definition of "qualified producer" to include all corporations producing 100% of their beer products in the State – not just domestic corporations. The Committee also amended the measure to make it applicable to taxable years beginning after December 31, 2018, and ending on December 31, 2023.

Second, the Department notes that under subsection (c), the distribution and share of the tax credit is determined by rule. The Department recommends subsection (c) be amended so that distribution of the tax credit be done in accordance with Internal Revenue Code Section 704 instead of by rule.

Third, the Department notes that the measure's definition of "qualified expenses" for the credit is quite broad and ambiguous. As currently written, the credit amount may be based on expenses incurred at every step of the beer-making process, with no distinction between equipment, capital, and labor, as long as those expenses were incurred within the State. The Department suggests being more specific as to the expenses that qualify for the credit.

Finally, if the Committee wishes to advance this measure, the Department notes that it is able to implement this measure with current applicability to taxable years beginning after December 31, 2018. This will allow the Department sufficient time to make the necessary form and computer system changes.

Thank you for the opportunity to provide comments.



DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804
Web site: www.hawaii.gov/dbedt

DAVID Y. IGE
GOVERNOR

LUIS P. SALAVERIA
DIRECTOR

MARY ALICE EVANS
DEPUTY DIRECTOR

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Statement of
LUIS P. SALAVERIA
Director
Department of Business, Economic Development, and Tourism
before the
SENATE COMMITTEE ON WAYS AND MEANS

Thursday, March 29, 2018
10:50 a.m.
State Capitol, Conference Room 211

in consideration of

HB2656, HD2, SD1
RELATING TO SMALL CRAFT BEER PRODUCER TAX CREDIT.

Chair Dela Cruz, Vice Chair Keith-Agaran, and Members of the Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) **appreciates the intent** of HB2656, HD2, SD1 which establishes a tax credit for small craft beer producers, so long as the tax credit does not adversely impact the Administration's revenue and budget priorities. DBEDT offers the following **comments**:

- The cost to implement the process to monitor and certify the tax credit, at a minimum, would cost \$50,000 on a recurring basis; and
- The impact to state tax revenues is unknown.

Thank you for the opportunity to provide these comments.



Chamber *of* Commerce HAWAII
The Voice of Business

**Testimony to the Senate Committee on Ways and Means
Thursday, March 29, 2018 at 10:50 A.M.
Conference Room 211, State Capitol**

**RE: HOUSE BILL 2656 HD2 SD1 RELATING TO SMALL CRAFT
BEER PRODUCTION TAX CREDIT**

Chair Dela Cruz, Vice Chair Keith-Agaran, and Members of the Committee:

The Chamber of Commerce Hawaii ("The Chamber") **supports** HB 2656 HD2 SD1, which establishes an income tax credit for small craft beer producers to encourage and expand the growth of a local industry.

The Chamber is Hawaii's leading statewide business advocacy organization, representing about 2,000+ businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

The Chamber is very supportive of bills that work to improve the small business climate in Hawaii. This tax credit would help to enable small craft brewers to grow and expand their small businesses operations, and work to remain competitive with much larger, mainland brewers.

Thank you for the opportunity to testify.



Kauai Beer Company

4265 Rice Street
Lihue, Hi
96766

Jim Guerber
808.639.7821
jim@kauaibeer.com

HB 2656, H.D.2, S.D.1 Relating to Small Craft Producer Tax Credit
Senate Committee on Ways and Means
Thurs, March 29, 2018 at 10:50 a.m. Conference Room 211

Chair Senator Donovan Dela Cruz, Vice Chair Senator Gilbert Keith-Agaran, and members of the Senate Committee on Ways and Means

Position: **Support with amended language:**

Include on Page 6, line 4 (1): **class 1 malt beverage manufacturer, class 14 brewpub,**

Kauai Beer Company holds a class 14 Brewpub license.

My name is Jim Guerber and I am the President of the Kauai Beer Company, located in downtown Lihue, Kauai on Rice Street. We have been in business here since 2006 and began formally serving beer in September 2013, with only three employees. We have been instrumental in the effort to revitalize our downtown and are widely recognized for our contribution in that regard. We are in the process of renovating an adjacent space, which will dramatically enhance our ability to serve a larger customer base, increase production and increase our personnel, which is presently 34 full and part-time personnel.

The Kauai Beer Company supports HB 2656 H.D.2 with amendments as suggested by the Hawaiian Craft Brewers Guild because:

Hawaii's craft breweries are growing and incentives such as the small craft producers tax credit help spur that growth. Only 5% of the beer sold in Hawaii is produced in Hawaii, leaving room for increased local production and growth of our craft beer sector. Small craft producers are making high quality craft beer brewed in the State of Hawaii, providing opportunities to reach additional customers and expand the volume of local production.

Production costs are high for Hawaii's craft brewers. A craft producer tax credit helps Hawaii's breweries stay competitive with mainland manufacturers able to produce at about half the cost of our local operations and ship to Hawaii. This hits home with a visit to the store finding

beers manufactured in Hawaii amongst the most expensive on the shelf. The purpose of this bill is to establish a tax credit that supports small craft producers manufacturing in Hawaii, allowing local production to expand and growth of the industry.

Brewery businesses are benefiting the business community and helping to stimulate local labor and economies. Hawaii's craft beer producers support the local economy with jobs that offer careers, allowing our employees to live and raise families here on Kauai. We use locally grown ingredients in our beer such as a variety of citrus fruits, Guava, Lilikoi and others. We are presently exploring the possibility of having hops grown here, a boon for the local ag economy. Purchasing cans, packaging and other supplies made in state supports the growth of other local businesses

As more beer is brewed in Hawaii more jobs are created with greater contributions to the local economy.

The Kauai Beer Company supports HB2656 H.D.2 because the small craft producer tax credit will result in reinvestment in our economy and communities. Mahalo for your consideration of testimony in support.

Sincerely,

Jim Guerber
President
Kauai Beer Company



March 27, 2018

HB 2656 H.D.2, S.D.1 Relating to Small Craft Producer Tax Credit
Senate Committee on Ways and Means
Weds, March 29, 2018 at 10:50 a.m. Conference Room 211

Chair Senator Donovan Dela Cruz, Vice Chair Senator Gilbert Keith-Agaran, and members of the Senate Committee on Ways and Means

My name is Bret Larson and I am the owner of Kauai Island Brewing Company with a Class 14 brewpub license doing business in Eleele, Kauai. Our business began in 2012 with and started with 12 employees. We now provide 35 jobs in Hawaii. I'm writing on behalf of myself and our local family-operated business **in support of HB2656 HD2, SD1** which creates a Small Craft Beer Producer Tax Credit to promote the local production of craft beer.

We are in the process of expanding our existing brewery and adding additional cold storage space. By way of example, we recently purchased a large walk-in cooler for \$11,200, it cost over \$9,000 to have it shipped out to our location on Kauai; this same walk-in cooler would have cost us less the \$1000 to have it shipped to almost anywhere on the Mainland.. These are real costs associated with all aspects of our cost of goods - from grain, to hops. Our costs of doing business in Hawaii are almost double that of most business on the mainland.

Our company supports this legislation with amendments as suggested by the Hawaiian Craft Brewers Guild. 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. In speaking with others in our local beverage alcohol industry we agree that the small producer's tax credit would be utilized to invest in new equipment and our people in order to continue growing our companies locally.

Hawaii's craft breweries are growing and incentives such as the small craft producers tax credit help spur that growth. Only 5% of the beer sold in Hawaii is produced in Hawaii, leaving room for increased local production and growth of our craft beer sector. Small craft producers are making high quality craft beer brewed in the State of Hawaii, providing opportunities to reach additional customers and expand the volume of local production.

Production costs are high for Hawaii's craft brewers. A craft producer tax credit helps Hawaii's breweries stay competitive with mainland manufacturers able to produce at about half the cost of our local operations and ship to Hawaii. This hits home with a visit to the store finding beers manufactured in Hawaii amongst the most expensive on the shelf. The purpose of this bill is to establish a tax credit

Brewery Location: 4350 Waialo Rd, Port Allen, HI 96705
Mailing Address: PO Box 215, Eleele, HI 96705
www.kauaiislandbrewing.com

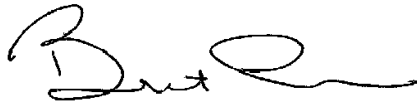
that supports small craft producers manufacturing in Hawaii, allowing local production to expand and growth of the industry.

Purchasing cans, packaging and other supplies made in state supports the growth of other local businesses. We see Hawaii's breweries supporting local agriculture through their use of locally grown fruits, spices, herbs, coffee and other agricultural products. As more beer is brewed in Hawaii more jobs are created with greater contributions to the local economy.

Kauai Island Brewing Company support HB2656, H.D.2., S.D.1 with amended language **to include the addition of class 14 brewpub and class 1 manufacturer of malt beverages**, as a "qualified taxpayer."

Mahalo for your consideration. We urge you to pass this bill.

Sincerely,

A handwritten signature in black ink, appearing to read "Bret Larson", with a stylized, flowing script.

Bret Larson
Owner, President, Kauai Island Brewing Company, LLC.
808-755-5926
bret@kauaiislandbrewing.com



Beer Lab HI

Derek Taguchi

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derek@beerlabhi.com

HB 2656 H.D.2, S.D.1 Relating to Small Craft Producer Tax Credit

Senate Committee on Ways and Means

Weds, March 29, 2018 at 10:50 a.m. Conference Room 211

Chair Senator Donovan Dela Cruz, Vice Chair Senator Gilbert Keith-Agaran, and members of the Senate Committee on Ways and Means

Position: **Support with amended language**

Include on Page 6, line 4 (1): **class 1 malt beverage manufacturer, class 14 brewpub, or**

Our brewpub holds a Class 14 license.

My name is Derek Taguchi I live in Honolulu, Oahu and I am the CFO at the Beer Lab HI brewery doing business in Honolulu, Oahu. Our brewery began in 2016 with 3 employees. We now provide 12 jobs in Hawaii.

We support HB 2656 H.D.2.,S.D.1 because the tax credit available to us will allow us to further expand our local company and provide more jobs to the local economy.

Expanding the craft beer we offer to customers is one of our goals. A small craft producer tax credit will encourage local production and help us achieve growth in our business here in Hawaii.

Hawaii's craft breweries are growing and incentives such as the small craft producers income tax credit help spur that growth. Only 5% of the beer sold in Hawaii is actually produced in Hawaii, leaving a great deal of room for growth of our craft beer sector. Our costs of production are high, approximately 40 to 50% higher than similar production costs on the mainland, with ingredients, equipment, and brewery modernization all contributing.

A craft producer tax credit helps Hawaii's breweries stay competitive with mainland manufacturers able to produce with lower costs and ship their craft beer to Hawaii.

Hawaii's craft beer producers support the local economy with jobs that offer careers and living wages for employees and their families. Passage of HB2656 H.D.2.,S.D.1 will stimulate the craft brewing sector, and in turn reinvestment in our communities. We use

locally grown ingredients in our beer such as tropical fruits, herbs and spices, and coffee which supports our local Hawaii farmers. Additionally, we strive to have 100% of our spent grain waste products utilized by local pig farmers as feed. Craft beer producers making 100% of their beer in Hawaii are contributing to the economic growth of other local manufacturers and suppliers with the purchase of cans and packaging.

Beer Lab HI supports HB2656 H.D.2.,S.D.1 with amendments language to include the addition of class 14 brewpub and class 1 manufacturer of malt beverages, a “qualified taxpayer.” Mahalo for your consideration. We urge you to pass this bill.

Thank you for the opportunity to provide testimony in support of HB 2656 H.D.2.,S.D.1.



Lanikai Brewing Company
175 Hamakua Drive, Unit C
Kailua, Hawaii 96734
www.lanikaibrewing.com

3/27/2018

RE: HB 2656 HD2SD1 relating to a small craft beer producer tax credit in support with amendments.

Aloha Chair, as well as all members of the Ways and Means committee,

Lanikai Brewing Company is a locally owned and operated Craft Brewery here on Oahu and we are in support of HB2656.

We suggest the following amendments:

Section 1: We suggest adding "Local Production" to clarify that this credit is for those that choose to produce here in Hawaii and support our economy with jobs and taxes.

Page 5 line 18: We very highly suggest to include all license types including Class 1, Class 14, Class 16 and Class 18. Often a license class is mandated by things other than choice, such as zoning, or other codes. Further, we suggest that this is applicable to ONLY those that are manufactured in Hawaii and beer produced out of Hawaii will be excluded.

Thank you for the opportunity to send testimony. This bill will absolutely create new jobs here in Hawaii, strengthen our Made in Hawaii brand value for locals and visitors, as well as allow the industry to flourish and expand. Further, due to the costs of manufacturing here locally, this would allow us small business owners to be more competitive on the national scale furthering growth of jobs here in Hawaii.

Lanikai Brewing Company is an Island Inspired® authentic Hawaiian craft beer company making 100% of our brews here in Hawaii. We take our cues from premium, local, rare, and exotic ingredients grown by local farmers and foraged across the Pacific to bring you bold and flavorful beers that you will find nowhere else utilizing Hawaiian terroir. **Please note that variances in growing season conditions can impact batch-to-batch flavor and aroma profiles.

‘Ōkole Maluna,

Steven R Haumschild

Steve Haumschild, MBA
CEO & Brewmaster
Certified Cicerone®
Lanikai Brewing Company, Island Inspired™ Craft Beer



Beer Lab HI

Kenneth Shiu

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808-728-9164

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HB 2656 H.D.2, S.D.1 Relating to Small Craft Producer Tax Credit

Senate Committee on Ways and Means

Weds, March 29, 2018 at 10:50 a.m. Conference Room 211

Chair Senator Donovan Dela Cruz, Vice Chair Senator Gilbert Keith-Agaran, and members of the Senate Committee on Ways and Means

Position: **Support with amended language**

Include on Page 6, line 4 (1): **class 1 malt beverage manufacturer, class 14 brewpub, or**

Our brewpub holds a Class 14 license.

My name is Kenneth Shiu I live in Honolulu, Oahu and I am the Head of Brewery Operations at the Beer Lab HI brewery doing business in Honolulu, Oahu. Our brewery began in 2016 with 3 employees. We now provide 12 jobs in Hawaii.

We support HB 2656 H.D.2.,S.D.1 because the tax credit available to us will allow us to further expand our local company and provide more jobs to the local economy.

Expanding the craft beer we offer to customers is one of our goals. A small craft producer tax credit will encourage local production and help us achieve growth in our business here in Hawaii.

Hawaii's craft breweries are growing and incentives such as the small craft producers income tax credit help spur that growth. Only 5% of the beer sold in Hawaii is actually produced in Hawaii, leaving a great deal of room for growth of our craft beer sector. Our costs of production are high, approximately 40 to 50% higher than similar production costs on the mainland, with ingredients, equipment, and brewery modernization all contributing.

A craft producer tax credit helps Hawaii's breweries stay competitive with mainland manufacturers able to produce with lower costs and ship their craft beer to Hawaii.

Hawaii's craft beer producers support the local economy with jobs that offer careers and living wages for employees and their families. Passage of HB2656 H.D.2.,S.D.1 will stimulate the craft brewing sector, and in turn reinvestment in our communities. We use

locally grown ingredients in our beer such as tropical fruits, herbs and spices, and coffee which supports our local Hawaii farmers. Additionally, we strive to have 100% of our spent grain waste products utilized by local pig farmers as feed. Craft beer producers making 100% of their beer in Hawaii are contributing to the economic growth of other local manufacturers and suppliers with the purchase of cans and packaging.

Beer Lab HI supports HB2656 H.D.2.,S.D.1 with amendments language to include the addition of class 14 brewpub and class 1 manufacturer of malt beverages, a “qualified taxpayer.” Mahalo for your consideration. We urge you to pass this bill.

Thank you for the opportunity to provide testimony in support of HB 2656 H.D.2.,S.D.1.



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March 27, 2018

HB 2656 H.D.2, S.D.1 Relating to Small Craft Producer Tax Credit
Senate Committee on Ways and Means
Weds, March 29, 2018 at 10:50 a.m. Conference Room 211

Chair Senator Donovan Dela Cruz, Vice Chair Senator Gilbert Keith-Agaran, and members of the Senate Committee on Ways and Means,

Position: **Support with amended language**

Include on Page 6, line 4 (1): **class 1 malt beverage manufacturer, class 14 brewpub, or**

I'm writing on behalf of our small, local family-operated business, Big Island Brewhaus in Kamuela on the Big Island. We support HB 2656, H.D.2 S.D.1 which creates a Small Craft Beer Producer Tax Credit in order to promote the local production of craft beer.

The majority of Hawaii craft beer producers hold class 14 brewpub licenses. A few have or are applying for class 18 small craft producer pub licenses. The Big Island Brewhaus strongly supports HB2656 H.D.2, S.D.1, and would encourage the inclusion of class 14 brewpub, class 1 malt beverage manufacturer, as well as class 18 small craft producer in the definition of "qualified taxpayer".

Hawaii's local brewers account for less than 5% of all beer sold in Hawaii, approximately 60,000 barrels versus the 1,200,000 total barrels imported into the State from outside producers. The establishment of a tax credit for Hawaiian Small Producers is a direct incentive to produce locally; this may also serve to encourage those producers who have stopped or decreased producing in Hawaii to come back. It rewards small businesses in Hawaii for committing to authentic local brewing, winemaking, and distilling at very little cost. We view this as an investment in skilled job creation and encouraging Hawaii manufacturing.

A passage of this bill will create more jobs, pay more wages, create new products, allow businesses to grow not only in numbers but in volume, and ultimately reinvest in our communities growing the overall industry of locally made beverages. While we recognize that this credit results in a net loss of revenue to the State at an initial look, there is significant opportunity to have a net gain in revenue due to the growth of the overall industry.

Hawaiian manufacturing and producers operate under the highest cost conditions of any State. This has served to limit the availability of true, locally produced selections and give rise to a host of "faux-Hawaiian" products. As an isolated State we must invest in local manufacturing, these are jobs with good wages and benefits that can provide careers for our residents. Further if Hawaii is to continue to compete on the international forum for tourism it is important for us to deliver an authentic Hawaiian experience in our products. This could help the growth of authentic Hawaiian made craft beverages.

Big Island Brewhaus was founded initially in 2008 with 9 original employees as a community gathering place serving local cuisine and hand-crafted beers. We have grown into a team of 40 Big Island residents that sells award winning beers throughout Hawaii and is focused on using local sources for our food and beer. We have done this in the face of significant challenges to growth at all levels; financial, shipping, taxation, legislative and more. Incentives like this bill can help us continue our success and help others to do the same. We appreciate the ongoing support of all individuals and legislators who support issues which enable local manufacturers and businesses to thrive in Hawaii.

Mahalo for your consideration, We urge you pass this bill. Thank-you for the opportunity to provide testimony in support of HB2656 H.D.2, S.D.1.

Sincerely,

Thomas D. Kerns

Thomas Kerns

Founder & Brewer

Big Island Brewhaus

64-1066 Mamalahoa Highway

Kamuela, HI, 96743

BigIslandBrewhaus@yahoo.com

Cell# 808-276-3301



March 27, 2018

Senate Committee on Ways and Means
Thursday, March 29th, 2018, 10:50am
State Capitol, Conference Room 211

Re: HB2656 HD2 SD1, RELATING TO A SMALL CRAFT BEER PRODUCER TAX CREDIT, IN
SUPPORT WITH AMENDMENT: Include on Page 6, line 4 (1): class 1 malt beverage
manufacturer, class 14 brewpub, class 16 winery, or

Chair Senator Donovan Dela Cruz, Vice Chair Senator Gilbert Keith-Agaran, and members of the Senate Committee on Ways and Means,

My name is Garrett W. Marrero, I live in Kula, HI. My wife and I were selected as the National Small Business Persons of the year in 2017 for our work at Maui Brewing Co. I'm writing on behalf of myself and our local family-operated business in support of **HB2656** which creates a Small Craft Beer Producer Tax Credit to promote the local production of craft beer.

The purpose of this act is to establish a tax credit for small craft producers manufacturing in Hawaii to encourage local production and expand the growth of a local industry. The language in the bill should ensure that it requires beverages be made in Hawaii and that the "qualified producer" pays taxes in Hawaii in order to qualify for the credit. We ask that the language be amended to include Class 1, 14, and 16 licensees in order to achieve parity for the beverage alcohol industry and magnify the effect as much as possible.

Maui Brewing Co. is a small, independent craft brewery that began with just 26 on our team in 2005. We are now over 500 strong and Hawaii's largest craft brewery. These employees live in Hawaii, raise their children here, pay taxes, and contribute to the community. We offer jobs 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). We simply would not be where we are without our staff and they deserve the best we can offer.

Maui Brewing Co. supports this legislation with amendments as suggested by the Hawaiian Craft Brewers Guild. 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. In speaking with others in our local beverage alcohol industry we agree that the small producers tax credit would be utilized to invest in new equipment and our people in order to continue growing our companies locally.

Hawaii's local brewers account for less than 5% of beer sold in Hawaii, approximately 60,000 barrels versus the 1,200,000 barrels imported into the State. The establishment of a tax credit for Small Producers is a direct incentive to produce locally, this may also serve to encourage those who have stopped or decreased producing in Hawaii to come back. We view this as an investment in job creation and encouraging 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.

Handcrafted Ales & Lagers Brewed with Aloha
605 Lipoa Parkway, Kihei, HI 96753
808.213.3002

We are proud that in the craft brewing community around the world the name “Maui Brewing Co.” is synonymous 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, with costs more than doubling in less than 10 years, relative to our mainland counterparts. This paired with the highest liquor taxes in the Nation result in a disincentive to manufacturing in the State and not just a lack of competitive capability but with odds stacked against. The disincentive of local production has encouraged an outward migration of jobs, taxes, and manufacturing. We should encourage brewing and selling our products in Hawaii, and the support of our government officials with a tax credit rewarding local operations. We believe in a strong Hawaii, this starts with small businesses which are the backbone of any strong community.

Hawaiian producers operate under the highest cost conditions of any State. One look at the store shelves will show you that true Hawaiian beers are the most expensive beers on the shelf, this leads to lower volume and velocity of sales. This in itself has served to limit the availability of true, locally produced selections and give rise to a host of “faux-hawaiian” products. As a State, we must invest in local manufacturing, these are jobs with good wages and benefits that can provide careers for our residents. Further if Hawaii is to continue to compete on the international forum for tourism it is incumbent upon us to deliver an authentic Hawaiian experience in our products. How can we do that if we instead serve beers, wine and spirits bearing Hawaiian names but made across the world except in Hawaii?

We are the #5 purchaser of cans from a local Ball Corporation plant in Kapolei further supporting local labor. Many breweries here buy cardboard trays and boxes from Rengo, a local manufacturer in Kapolei. This is directly related to the growth of industry in Hawaii, more beer brewed here means more jobs for the economy. The Craft Brewing industry has proven a direct correlation of lower taxation and an increase in jobs and economic activity. States such as CA, CO, WA, OR, and NY have a thriving craft beverage industry due to the supportive nature of the tax structures established whether that be lower rates for small producers or tax credits to produce in the State. This bill provides a way to immediately support the growing industry.

Hawaii's breweries are also large supporters of agriculture brewing with many different agricultural products. Most breweries in the State have strong ties to farmers on their island as the brewers give farmers spent grain for feed and compost, and the brewers buy fruits, spices and etc to brew unique styles. Supporting brewers means supporting farmers.

This year Maui Brewing Co. will begin adding natural craft sodas, distilled spirits, cider and canned cocktails to our distributed lineup. These additional local beverage lines will add to not only our employment base but that of our wholesaler partners. Additional wages and taxes will be paid based on growth. It is imperative to have the support of the State when working to increase manufacturing within the State.

Thank you for the opportunity to offer these comments. We urge you to support the passage of HB2656.

Sincerely,



Garrett W. Marrero
CEO/Founder

Handcrafted Ales & Lagers Brewed with Aloha
605 Lipoa Parkway, Kihei, HI 96753
808.213.3002

Homebrew in Paradise

Bill Sumrow
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808-834-2739
bill@homebrewinparadise.com



HB 2656, H.D.2, S.D.1 Relating to Small Craft Producer Tax Credit

Senate Committee on Ways and Means

Weds, March 29, 2018 at 10:50 a.m. Conference Room 211

Chair Senator Donovan Dela Cruz, Vice Chair Senator Gilbert Keith-Agaran, and members of the Senate Committee on Ways and Means

Position: **Support with amended language**

Include on Page 6, line 4 (1): **class 1 malt beverage manufacturer, class 14 brewpub, or**

Our brewery will apply for a class 14 brewpub license.

My name is Bill Sumrow, I live in Honolulu, HI and I am the owner of Homebrew in Paradise, LLC and Co-Founder of Broken Boundary Brewery, LLC, a brewery in planning in Kalihi Kai, Honolulu, HI. Our business is planned to open with 5 new employees by the end of 2018

All of us at Homebrew in Paradise, LLC and Broken Boundary Brewery, support HB 2656 H.D.2. S.D.1 because this tax credit will help us to re-invest in our business at a faster pace than in our current plan. Manufacturing costs in Hawaii are significantly higher when compared to costs on the Mainland and the help this tax credit will provide will help to make us more competitive with brands from the Mainland.

Hawaii's craft breweries are growing and incentives such as the small craft producers tax credit help spur that growth. Only 5% of the beer sold in Hawaii is produced in Hawaii, leaving room for increased local production and growth of our craft beer sector. Small craft producers are making high quality craft beer brewed in the State of Hawaii, providing opportunities to reach additional customers and expand the volume of local production.

Production costs are high for Hawaii's craft brewers. A craft producer tax credit helps Hawaii's breweries stay competitive with mainland manufacturers able to produce at about half the cost of our local operations and ship to Hawaii. This hits home with a visit to the store finding beers manufactured in Hawaii amongst the most expensive on the shelf. The purpose of this bill is to establish a tax credit that supports small craft producers manufacturing in Hawaii, allowing local production to expand and growth of the industry.

Brewery businesses are benefiting the business community and helping to stimulate local labor and economies. During my short time as the owner of Homebrew in Paradise, I have seen first hand what a thriving brewing industry has done to help the economic situation for many people. Each and every week, we get new customers that are eager to start learning to brew beer, fermented foods, and other beverages as a fun hobby and potential career.

Purchasing cans, packaging and other supplies made in state supports the growth of other local businesses. We see Hawaii's breweries supporting local agriculture through their use of locally grown fruits, spices, herbs, coffee and other agricultural products. As more beer is brewed in Hawaii more

jobs are created with greater contributions to the local economy. Small craft beer tourism would have greater opportunities to grow as breweries expand their operations.

Homebrew in Paradise, LLC and Broken Boundary Brewery, LLC support HB2656, H.D.2., S.D.1 with amended language to include the addition of class 14 brewpub and class 1 manufacturer of malt beverages, as a “qualified taxpayer.” Mahalo for your consideration. We urge you to pass this bill.

Thank you for the opportunity to provide testimony in support of HB 2656, H.D.2, S.D.1.



WAIKIKI BREWING COMPANY

Joe P. Lorenzen, Partner/Brewmaster

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HB 2656 H.D.2, S.D.1 Relating to Small Craft Producer Tax Credit

Senate Committee on Ways and Means

Weds, March 29, 2018 at 10:50 a.m. Conference Room 211

Chair Senator Donovan Dela Cruz, Vice Chair Senator Gilbert Keith-Agaran, and members of the Senate Committee on Ways and Means

Position: Support with amended language

Include on Page 6, line 4 (1): class 1 malt beverage manufacturer, class 14 brewpub, or

My name is Joe Lorenzen. I live in Honolulu, on the island of Oahu, and I am a partner in and Brewmaster of Waikiki Brewing Company which holds a Class 14 brewpub license with business locations in Waikiki and in Kaka'ako. Our brewery began with 15 employees in 2015, and now employs a staff of 45.

Waikiki Brewing Company supports HB 2656 H.D.2 S.D.1 because as a local manufacturer of craft beer, we face much higher costs of production than brewers who import their products to the state of Hawaii. This bill will serve to help even the playing field with the mainland companies while supporting local job creation and manufacturing.

Not only does our business directly create local jobs, but as a local manufacturer, we purchase ingredients and materials from other local producers, further having a positive impact on the local economy and job market.

Only 5% of the beer sold in Hawaii is actually produced in Hawaii, leaving a great deal of room for growth of our craft beer sector. Our costs of production are high, with ingredients, equipment, and brewery modernization all contributing.

A craft producer tax credit helps Hawaii's breweries stay competitive with mainland manufacturers able to produce with lower costs and ship their craft beer to Hawaii.

Hawaii's craft beer producers support the local economy with jobs that offer careers and living wages for employees and their families. Passage of HB2656 H.D.2 S.D.1 will stimulate the craft brewing sector, and in turn reinvestment in our communities.

Waikiki Brewing Company supports HB2656, H.D.2., S.D.1 with amended language to include the addition of class 14 brewpub and class 1 manufacturer of malt beverages, as a "qualified taxpayer." Mahalo for your consideration. We urge you to pass this bill.

Thank you for the opportunity to provide testimony in support of HB 2656,H.D.2, S.D.1.

Joe P. Lorenzen
Brewmaster/Partner
Waikiki Brewing Company



Cindy Goldstein
Executive Director
Hawaiian Craft Brewers Guild
98-814 C Kaonohi Street
Aiea, HI 96701

HB 2656 H.D.2, S.D.1 Relating to Small Craft Producer Tax Credit

Senate Committee on Ways and Means
Weds, March 29, 2018 at 10:50 a.m. Conference Room 211

Chair Senator Donovan Dela Cruz, Vice Chair Senator Gilbert Keith-Agaran, and members of the Senate Committee on Ways and Means,

Position: **Support with amended language**

Include on Page 6, line 4 (1): **class 1 malt beverage manufacturer, class 14 brewpub, or**

The Hawaiian Craft Brewers Guild is a non-profit Hawaii trade organization that promotes and encourages production of independent craft beer in Hawaii. The number of independent craft breweries in Hawaii continues to grow, with construction of new breweries and recent expansion by several breweries. The Hawaiian Craft Brewers Guild is united in our pursuit to promote economic activity for Hawaii's beer manufacturers and enhance opportunities in our communities. Our members represent the majority of the craft beer producers in Hawaii, with members producing 100% of their beer in Hawaii.

The majority of Hawaii craft beer producers hold class 14 brewpub licenses. Two to three breweries have, or are applying for, class 18 small craft producer pub licenses. One or two currently hold class 1 manufacturer liquor licenses. The Hawaiian Craft Brewers Guild strongly supports HB2656 H.D.2, S.D1, and would encourage the inclusion of class 14 brewpub and class 1 manufacturer of malt beverages; as well as class 18 small craft producer already in the definition of "qualified taxpayer".

Hawaii's craft breweries are growing and incentives such as a small craft producer tax credit can help continue to spur that growth. The number of breweries in Hawaii has increased from eight in 2013 to 15 at the end of 2017. Even given that rate of growth, only 5% of the beer sold in Hawaii is currently produced in Hawaii, providing opportunities to reach additional customers and increase the volume of local craft production.

Legislation that provides tax credits will stimulate the growth of Hawaii's small craft producers that have built their businesses across the state. The small producer credit

would be used to invest in new equipment and increased opportunity for employees, to continue growing our companies locally. As a State, we must invest in local manufacturing, these are jobs with good wages and benefits that can provide careers for our residents. The language in HB2656 H.D.2. S.D.1, should ensure that the tax credit requires beverages be made in Hawaii in order to qualify for the credit, and that a “qualified producer” produce 100% of their beverages in Hawaii. Including this provision will allow for job creation and reinvestment here in Hawaii, in local our communities.

Cost of production is high in Hawaii, with an estimated 40% or higher cost of production compared to the continental United States. Basic cost of goods for ingredients, equipment, and brewery modernization all contribute. The proposed bill and amendments help our local breweries remain successful and competitive with mainland manufacturers.

Hawaii’s craft beer producers provide good jobs that boost the local economy and support the growth of other businesses. Stimulating the craft producer sector multiplies economic growth across their local communities. Additional wages and taxes will be paid as craft producers experience increased success. Purchasing cans, packaging and other supplies made in state supports the growth of other local businesses. Craft producers use locally grown ingredients such as tropical fruits, herbs and spices, and coffee which supports our local Hawaii farmers. A small number of tour operators offer experiences to visit Hawaii’s craft breweries, with their expansion of tours tied to the growth of our Hawaii craft beer producers.

Mahalo for considering our Hawaiian Craft Brewers Guild testimony in support of HB2656, H.D.2., S.D.1 with the inclusion of class 1 manufacturer license of malt beverages and class 14 brewpub license.

Regarding Bill Number: **HB2656, HD2, SD1**

Measure Title: **Relating to Small Craft Beer Producer Tax Credit**

Position: Oppose

Aloha Chair Dela Cruz and members of the Senate Ways and Means Committee

My name is Cynthia Okazaki, Chair of Hawaii Partnership to Prevent Underage Drinking (HPPUD)

Mahalo for the opportunity to submit testimony.

I strongly **oppose** this bill for the following reasons:

Providing alcohol tax credits to beer producers will increase underage drinking rates for Hawai'i's youth.

The National Institutes of Health and the peer-reviewed journal, Preventive Medicine, show direct correlation to alcohol availability and underage drinking rates. The more alcohol is available in a community, the more underage youth have access and consume alcohol, the more alcohol-related problems occur within the community. The bottom line is that tax credits for beer produces means **increased underage drinking and alcohol-related harms for our youth.**

It is irresponsible public policy to support an industry that would increase alcohol availability that is associated with higher levels of disease burden, violent crimes, child abuse, and homicides.

According to the World Health Organization, alcohol is the leading risk factor for disease burden in the Western Pacific and the United States. A tax credit for beer producers will increase alcohol production and increase drinking rates for the general population. When the general public consumes more alcohol, there are more alcohol-related harms. A number of studies have linked greater alcohol availability with higher rates of violent crimes, child maltreatment and physical abuse, and homicides. Approving this tax credit would increase alcohol-related harms in our community and ignore the prevention science that warns against this irresponsible policy.

I implore you to **oppose HB2656, HD2, SD1** for the benefit of the people of Hawaii, especially the youth. To concede your vote to the wishes of the commercial interests will only be to the detriment of families and youth. Do not be responsible for a bill that would increase underage drinking and associated harms, more violence in our communities, and more deaths related to alcohol use in our state.

Mahalo for your time and attention to this urgent matter.

Sincerely,

Cynthia Okazaki

Chair, Hawaii Partnership to Prevent Underage Drinking

HB-2656-SD-1

Submitted on: 3/28/2018 10:45:20 AM

Testimony for WAM on 3/29/2018 10:50:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Melodie Aduja	Testifying for Oahu County Committee on Legislative Priorities of the Democratic Party of Hawai'i	Support	No

Comments: