

SB 42

LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR



KURT KAWAFUCHI
DIRECTOR OF TAXATION

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DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
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**SENATE COMMITTEE ON HEALTH
TESTIMONY REGARDING SB 42
RELATING TO LIQUOR TAX**

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)

DATE: FEBRUARY 9, 2009

TIME: 2:45PM

ROOM: 016

This measure, among other things, proposes to increase the liquor tax on all alcoholic beverage varieties. This measure also creates a new special fund

The Department of Taxation (Department) takes no position on the tax provisions in the measure; however opposes the special fund because the tax increase does not assist in closing the general fund budget gap.

Creation of new special funds will not help with this year's budget constraints. Regardless of the merits of the special fund proposed in this legislation, the Department cannot support a tax increase of this kind to be deposited into a special fund. Any sin tax increase this session must be deposited to the benefit of the general fund.

This bill will result in an indeterminate revenue loss due to the unspecified tax rates.

As a technical matter, the Department suggests deleting the tax rates from 1997-1998 to clean up the statute.



THE LEGISLATIVE CENTER

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February 9, 2009

Testimony To: Senate Committee on Health
Senator David Y. Ige, Chair

Presented By: Tim Lyons, Legislative Liaison
Anheuser Busch Companies

Subject: S.B. 42 – RELATING TO THE LIQUOR TAX LAW

Chair Ige and Members of the Committee:

I am Tim Lyons, representing Anheuser Busch Companies and we oppose this bill.

Some might ask how we can oppose a bill when we don't even know what the rates will be however, we are operating on the presumption that it is certainly not a decrease that is proposed. Based on that, we do not support it.

Liquor products have extreme price elasticity, meaning that because the majority of our customers are what we would call "casual drinkers" it is not a "must have product" for them, but an option. As the price goes up, history and experience elsewhere dictates that the sales volume goes down. We do not need a government inspired reason to lose sales in this economy.

Additionally, we oppose this bill because we do not think it is good policy to earmark a revenue source. This takes the flexibility away from legislators trying to balance budgets and further creates a huge burden on that revenue source when, for a variety of reasons, funds fall short of an expected goal. The natural inclination is increase the rate again.

Lastly, 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.

Based on the above, we strongly oppose this bill and would remind you that we are only the conduit in this process. Whatever increases there are will be passed on disproportionately to those who can least afford it. The liquor tax is no doubt, a regressive tax, and it is those people that you will impact the most.

Thank you for your consideration.

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: LIQUOR, Increase tax; disposition to health systems special fund

BILL NUMBER: SB 42

INTRODUCED BY: Baker, Green and 1 Democrat

BRIEF SUMMARY: Amends HRS section 244D-4 to increase the liquor tax rates effective July 1, 2009 to: \$____ per wine gallon on distilled spirits; \$____ per wine gallon on sparkling wine; \$____ per wine gallon on still wine; \$____ per wine gallon on cooler beverages; \$____ per wine gallon on beer other than draft; and \$____ per wine gallon on draft beer.

Amends HRS section 244D-17 to provide that the increase in moneys attributable to the increase in the tax rate for the period of July 1, 2009, and thereafter, over the tax rate for the period July 1, 1998 to June 30, 2009, will be deposited into the health systems special fund.

Makes conforming amendments to HRS section 323F-21.

EFFECTIVE DATE: July 1, 2009

STAFF COMMENTS: The proposed measure increases the tax rate on alcoholic beverages with the amount of revenues attributable to the increase in the tax rate deposited into the health systems special fund to provide care for the uninsured.

While the measure does not contain any rates, 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 could 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. Thus, much of the increase proposed in this bill will fall on residents who may react negatively to the increased cost of the product.

So instead of supplementing the funding of the health systems, the general fund may be just as in need of those revenues. As it has been noted with earmarked funding that has no relationship to the function being funded, the funds earmarked will either more than sufficient or not enough to cover the cost of the designated program.

Digested 2/6/09

GOODSILL ANDERSON QUINN & STIFEL

A LIMITED LIABILITY LAW PARTNERSHIP LLP

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MEMORANDUM

TO: Senator David Y. Ige
Chair, Committee on Health

FROM: Mihoko E. Ito

DATE: February 8, 2009

RE: S.B. No. 42 – Relating to Liquor Tax Law
Hearing Date: Monday, February 9, 2009 at 2:45 pm, Room 016

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 has had a long standing commitment to combat alcohol abuse and encourage social responsibility. To that end, our members adhere to the Distilled Spirits Council’s Code of Responsible Practices, which include strict high standards to member company advertising practices.

DISCUS opposes S.B. 42, which seeks to increase liquor tax rates. S.B. 42 does not provide a rational nexus for increasing the tax rates, and discriminates against an important segment of the industry. We also feel it is not in the best interest of Hawai‘i to assess excessive taxes. Distilled spirits are the most heavily taxed consumer products in the United States. Studies have shown that excessive state taxes hit low to middle income taxpayers the most. Additionally, liquor tax increases negatively impact many other industries, such as hotels, conventions, tourism, restaurants, and stores which sell liquor.

For the reasons stated above, we respectfully ask that you hold S.B. 42. Thank you for the opportunity to testify.



HAWAII HEALTH SYSTEMS
C O R P O R A T I O N

"Touching Lives Every Day"

**The Senate
Committee on Health
Senator David Y. Ige, Chair
Senator Josh Green, M.D., Vice Chair**

Monday, February 9, 2009
2:45 PM
Conference Room 016
Hawaii State Capitol

Testimony Concerning SB 42 Relating to the Liquor Tax Law

Thomas M. Driskill, Jr.
President & Chief Executive Officer
Hawaii Health Systems Corporation

On behalf of the Hawaii Health Systems Corporation (HHSC) Corporate Board of Directors, thank you for the opportunity to present testimony in support of SB 42.

The purpose of this bill is to increase the liquor tax and direct the increased revenues from the increase to the health systems special fund of the Hawaii Health Systems Corporation. The Regions of HHSC are facing severe financial crisis for both fiscal year 2010 and fiscal year 2011. Whatever revenues would be provided to HHSC Regions from collections from increased liquor tax rates would be critically important to enable Regions to cope with the forecast financial crisis during the coming biennium. It can be argued that, since the tax rates have not been adjusted since 1997, it is reasonable to consider increasing tax rates in line with increases in pricing that have occurred since 1997. Also, given the costs incurred by the healthcare system, including HHSC regions and facilities, from the consumption of alcohol, the direction of tax revenues on sale of liquor seem especially appropriate.

Our projections are that HHSC regions and facilities will continue to be in financial stress for years to come and that the financial crisis will worsen rather than improve. Several bills are under consideration to enable financial and operational restructuring of HHSC regions, but the benefits of this legislation may not be fully realized for several

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years. Information on proposed legislation to enable financial and operational restructuring of HHSC regions has been provided to committee staff.

To sustain operations of HHSC regions and facilities at current service levels will require either that the State of Hawaii provide substantially increased general funds subsidy to our regions and facilities, or that legislation be enacted to provide for future substantial financial and operational restructuring of the system. HHSC regions have calculated cash flow shortfalls of \$35 million for fiscal year 2010 and \$31 million for fiscal year 2011. Information on projected cash flow shortfalls has been provided to committee staff. Since these projections were made prior to the realization of the severity of the recession being faced by the State of Hawaii and the nation, we are concerned the cash flow pressures the HHSC regions will face in FY 2010 and FY 2011 will be much worse than forecast.

We understand the State is unable to provide substantially more general funds subsidy to HHSC and the impact of legislation for substantial financial and operational restructuring of HHSC may not be realized for several years. HHSC regions will be facing cash flow shortfalls that may render them unable to continue to provide services at current levels without financial relief. Therefore we recommend that increasing liquor tax rates and requiring the revenues from the increased rates be deposited into the health systems special fund be seriously considered.



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COMMITTEE ON HEALTH

Senator David Y. Ige, Chair
Senator Josh Green, M.D., Vice Chair

COMMITTEE ON COMMERCE AND CONSUMER PROTECTION

Senator Rosalyn H. Baker, Chair
Senator David Y. Ige, Vice Chair

Monday, February 9, 2009

2:45 PM

Conference Room 016

State Capitol

SB 42 RELATING TO THE LIQUOR TAX LAW.

Increases the liquor tax and directs the increased revenues to the health systems special fund.

By Howard Ainsley
East Hawaii Regional CEO
Hawaii Health Systems Corporation (HHSC)

Thank you for the opportunity to provide testimony in support of SB 42 to increase the liquor tax and direct the increased revenues to the health systems special fund.

This bill would provide essential funds in this period of dramatic budget shortfalls. SB 42 will strengthen the healthcare safety net for East Hawaii. Your support for SB 42 is greatly appreciated. Thank you.

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www.hhsc.org <<http://www.hhsc.org>>



LEAHI HOSPITAL
HAWAII HEALTH SYSTEMS CORPORATION

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February 8, 2009

TO: The Senate Committee on Health
Senator David Y. Ige, Chair
Senator Josh Green, M.D., Vice Chair
Conference Room 016

FROM: Vincent H.S. Lee, Regional Chief Executive Officer

RE: SENATE BILL 42: RELATING TO THE LIQUOR TAX LAW

Thank you for providing the Hawaii Health Systems Corporation Oahu region an opportunity to submit testimony in strong support of SB 42. The purpose of SB 42 is to authorize an increase the liquor tax and directs the increased revenues to the health systems' special fund.

Given the extremely limited state tax revenues being forecast for the state of Hawaii, in addition to the expected increasing health care needs of our island communities' aged population, the HHSC Oahu region fully embraces this legislative proposal. The additional revenue stream would help to ensure that the safety-net function of our state's community-hospital system will not be jeopardized. At the same time, such revenues could be utilized to expand present long-term care services in time to meet the demands of the aged baby-boomer groups in the upcoming years.

The measure will also be of benefit to the other HHSC regions and facilities by enhancing better access to acute, rural, and long-term health care.

I believe this measure deserves your thoughtful consideration and appreciate the opportunity to provide this testimony.

Respectfully submitted,

Vincent H.S. Lee
Regional Chief Executive Officer
HHSC Oahu Region
(808) 733-9722

**STATEMENT FOR THE SENATE HEALTH COMMITTEE
ON SENATE BILL 42
Increasing the Tax on Liquor**

by
Bob Speck
652 Kumukahi Pl.
Honolulu, HI 96825
Phone: 395-4292
E-Mail: bobspeck@ibm.net

February 9, 2009

I am opposed to SB 42

This is a regressive tax increase. Is it fair to place an additional tax burden on those who can least afford to pay? Why should they be asked to pay more than their fair share for the past uncontrolled growth in our government? Frankly, I am getting tired of these so called sin taxes. Who decided drinking is a sin? It wasn't Jesus since he turned water into wine at the Cana wedding feast.

I retired from the private sector 17 years ago. My pension today is the same as it was when I retired 17 years ago. I do not get cost of living increases like those receiving the fat government pensions.

According to the Tax Foundation of Hawaii, Hawaii has one of the highest liquor taxes in the nation. We tax liquor at \$5.75 a gallon compared to the District of Columbia which taxes liquor at \$1.50 a gallon. Do we want to contribute further to our reputation as a high tax state?

When I was a member of the Hawaii Kai Neighborhood Board, we passed a resolution saying we were opposed to **any** tax increases. We felt that rather than raise any taxes you should reduce the cost of government.

Many of you in your campaigns pledged that you were opposed to any tax increases. I ask you to honor your pledges and vote **NO** on this bill.

-

From: Michael758 [michael808a@hawaiiantel.net]
Sent: Sunday, February 08, 2009 2:55 AM
To: HTHTestimony
Subject: testimony

Categories: Blue Category

Dear Senate Health Committee;

Bill: SB42 OPPOSED

I'm opposed to regressive taxation of poor and working class people.

Respectfully, Michael Zehner

750 Amana st. #608, Honolulu, HI 96814

952-0275



WINE INSTITUTE

KATIE JACOY
WESTERN COUNSEL

February 6, 2009

To: Senator David Ige, Chair
Committee on Health

From: Katie Jacoy, Western Counsel
Wine Institute

Re: In opposition to SB42 Relating to the Liquor Tax Law

Wine Institute ("WI") is a public policy association representing 970 California wineries. WI opposes SB 42 because it proposes to increase the liquor tax on all wines by an undisclosed amount to help pay the cost of providing care to the uninsured. Such tax increases unfairly burdens wine consumers with a societal cost that should be shared by the public equally. It will also ultimately harm the responsible wine consumers in Hawaii by increasing the price of wine, which is unduly burdensome during the current severe economic downturn.

Without any increase, Hawaii's liquor tax on wine is already the eighth highest in the nation. With any liquor tax increase, Hawaii wine consumers will likely pay one of the highest prices in the United States for their wine, given Hawaii's general excise tax of 4% or 4.5% and the higher transportation costs to ship wine to Hawaii. In the current economic environment, none of the tiers - winery, distributor, or retailer/restaurant - are in the position to absorb any additional cost, so any increased tax will be passed onto the consumer.

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. The cost of health care for the uninsured is a societal burden that should be shared equally by everyone, not placed disproportionately on the wine consumer.
- 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.



WINE INSTITUTE

KATIE JACOY
WESTERN COUNSEL

- 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. 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 use should not be discouraged by excise tax increases resulting in higher wine prices to the consumer.

Hawaii Liquor Wholesalers Association
c/o 222 South Vineyard Street, Suite 401
Honolulu, HI 96813
Phone: (808) 531-4551

February 9, 2009

Senator David Y. Ige, Chair
Senator Josh Green, M.D. , Vice Chair
Committee on Health
State Capitol, Conference Room 016,
Honolulu, HI 96813

RE: SB42, Relating to the Liquor Tax Law

Dear Senator Ige, Vice Chair Green and Members of the Committee:

During these hard economic times, we fail to see the logic on an increase in our liquor tax structure. With restaurants and business closing (Nick's Fishmarket); the hotel business down 40% or more, now is not the time for a tax increase.

Thank you for your consideration of these comments. We encourage you to hold this bill.