

Honolulu, Hawaii

February 20, 2015

RE: H.B. No. 145

H.D. 1

Honorable Joseph M. Souki
Speaker, House of Representatives
Twenty-Eighth State Legislature
Regular Session of 2015
State of Hawaii

Sir:

Your Committee on Consumer Protection & Commerce, to which was referred H.B. No. 145 entitled:

"A BILL FOR AN ACT RELATING TO TAXATION,"

begs leave to report as follows:

The purpose of this measure is to amend the excise tax rate on the sale of large cigars.

Specifically, the measure amends the tax rate on sales of large cigars that occur on or after July 1, 2015, to the lesser of 50 cents for each large cigar or fifty per cent of the wholesale price of each large cigar.

ABC Stores, Cigar Association of America, Inc., Hawaii Cigar Association, Hawaii Farm Bureau, Hawaii Food Industry Association, Kauai Cigar Company, and three individuals submitted testimony in support of the measure. The Department of Health, University of Hawaii Cancer Center, American Cancer Society Cancer Action Network, American Heart Association, American Lung Association of the Mountain Pacific, Campaign for Tobacco-Free Kids, Coalition for a Tobacco-Free Hawaii, and Hawaii COPD Coalition submitted testimony in opposition to the measure. The Department of Taxation and the Tax Foundation of Hawaii submitted comments on the measure.

Your Committee finds that the excise tax rate imposed on the sale of large cigars makes it difficult for local producers of



cigars to compete with mail-order suppliers that sell cigars in Hawaii without paying state taxes and whose customers do not file their tax liability under the State's use tax law. While this measure addresses this issue by setting a cap on the excise tax imposed on the sale of large cigars, your Committee believes that a more effective way to help local producers of cigars compete would be to provide an income tax credit to those producers.

Accordingly, your Committee has amended this measure by:

- (1) Deleting its contents and replacing it with provisions that establish an income tax credit for taxpayers who produce, in the State, cigars for sale; and
- (2) Changing the effective date to apply the tax credit to taxable years beginning after December 31, 2112, to facilitate further discussion.

As affirmed by the record of votes of the members of your Committee on Consumer Protection & Commerce that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 145, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 145, H.D. 1, and be referred to the Committee on Finance.

Respectfully submitted on
behalf of the members of the
Committee on Consumer
Protection & Commerce,



ANGUS L.K. MCKELVEY, Chair



