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**HOUSE BILL 2165**

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**State of Washington 65th Legislature 2017 Regular Session**

**By** Representatives Harris, Cody, Pollet, Doglio, Kagi, Ryu, and Slatter

AN ACT Relating to vapor products, e-cigarettes, and nicotine products taxation; amending RCW 66.08.145, 66.44.010, 82.24.510, 82.24.550, 82.26.060, 82.26.080, 82.26.150, 82.26.220, 82.32.300, and 43.06.450; adding new sections to chapter 43.06 RCW; adding a new section to chapter 82.08 RCW; adding a new section to chapter 82.12 RCW; adding a new chapter to Title 82 RCW; creating new sections; prescribing penalties; and providing an effective date.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

**Part I**

**Findings**

NEW SECTION. **Sec.**  (1) The legislature finds that the use of vapor inhalation products, such as e-cigarettes, e-devices, and vape pens, has risen at an alarming rate both among adults and youth. Vapor products pose a serious public health risk because of the addictiveness of nicotine, the impact of nicotine on fetal development and adolescent brain development, the risk of liquid nicotine poisoning, and exposure to carcinogens and other toxic chemicals. The legislature finds that the nicotine in these vapor products is almost exclusively processed or derived from tobacco and that the products are intended for human consumption in the oral or nasal cavity or absorption into the human body. Therefore, the legislature finds that these vapor products, including electronic cigarettes and other products are "tobacco products" as defined in RCW 82.26.010. Although these products have been documented as being interchangeably used by consumers with cigarettes or other tobacco products, and there is nicotine produced or derived from tobacco in the product intended for human consumption and absorption into the human body, the manufacturers, wholesalers, and retailers have not been paying the tax levied on tobacco products pursuant to chapter 82.26 RCW. The legislature intends to transition from no tobacco or cigarette tax having been paid on these products to adopting a specific tax rate for vapor products in this act. Adoption of this specific tax will resolve claims of nonpayment of tobacco product taxes pursuant to chapter 82.26 RCW. The legislature believes that vapor products containing nicotine have always been subject to taxation pursuant to chapter 82.26 RCW, and passage of this act may not be interpreted as an indication otherwise.

(2) Specifically, the legislature finds that:

(a) Vapor products are battery-operated devices with cartridges or refillable tanks that contain a mixture of various liquids, such as propylene glycol, glycerol, nicotine, and chemical flavorings. The devices atomize the liquid mixture, producing a vapor that the user inhales;

(b) Vapor products are heavily promoted as being far less costly than consuming the equivalent nicotine through cigarettes, with one industry estimate that vapor products are over eighty percent less expensive. Legislative testimony has indicated that refillable nicotine liquid and disposable e-cigarettes are as low as ten and twenty percent of the cost of a pack of cigarettes in Washington. For Washington residents, industry promotions note thousands of dollars in individual savings annually, compared to smoking cigarettes, due in part to consumers and retailers of vapor products not paying the taxes which the state places on cigarettes or other tobacco products;

(c) The sale of vapor products has rapidly increased over the past several years. Nationally, the percentage of middle school and high school students who have used vapor products more than doubled from 2011 to 2012. The December 2016 report by the centers for disease control finds that sixteen percent of high school students nationwide are using e-cigarettes or vapor products. The legislature finds that vapor products are heavily promoted to attract youth to purchase them, with concomitant addiction to nicotine. Research shows that most young e-cigarette and vapor product users also smoke cigarettes, and that the attraction and low cost availability of vapor products is mitigating the positive benefits from the decline in cigarette use among youth;

(d) In Washington, the 2014 healthy youth survey found that almost twenty-three percent of twelfth graders had used an e-cigarette in the past month. These rates are alarming because an overwhelming majority of smokers begin smoking and become addicted to nicotine as teenagers, and the equipment used may be sold and used interchangeably for marijuana and nicotine. Current law in Washington prohibits the sale of vapor products containing nicotine to minors, but given the availability of vapor products online and equipment sold separately at retail stores, this law is difficult to enforce;

(e) The low cost of e-cigarettes and nicotine liquids for vapor products, particularly compared to cigarettes, is a key factor in youth access and use. E‑cigarettes are advertised as saving smokers thousands of dollars. One survey of adult users has shown that the low price of e-cigarettes compared to other tobacco products is a key reason for their use, and youth are even more sensitive to price than adults. Increasing the price of vapor products will decrease youth access and addiction, just as raising taxes on cigarettes to discourage youth and adult smoking decreased youth access and addiction; and

(f) Public health infrastructure and enforcement to prevent youth access to tobacco and vapor products in Washington will benefit from the investment of tax revenues and fees established or increased by this act.

(3) The legislature finds, therefore, that this act is necessary to protect the public health, safety, and welfare by providing consumers with information about products that are potentially dangerous, providing support for programs that reduce youth access to addictive nicotine products, preventing nicotine poisonings of children, and providing support for many essential public health services and educational programs for which needs and cost are increased due to increased consumption of vapor products.

**Part II**

**Tax on Vapor Products**

NEW SECTION. **Sec.**  The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

(1) "Actual price" means the total amount of consideration for which vapor products are sold, valued in money, whether received in money or otherwise, including: (a) Any charges by the seller necessary to complete the sale such as charges for delivery, freight, transportation, or handling; and (b) in the case of a taxpayer importing vapor products into the state, any expenses of the taxpayer or any person affiliated with the taxpayer that are necessary to complete the importation, such as delivery, freight, transportation, federal taxes, or handling of the product.

(2) "Affiliated" means related in any way by virtue of any form or amount of common ownership, control, operation, or management.

(3) "Board" means the Washington state liquor and cannabis board.

(4) "Business" means any trade, occupation, activity, or enterprise engaged in selling or distributing vapor products in this state.

(5) "Distributor" has the same meaning as provided in RCW 70.345.010.

(6) "Indian country" has the same meaning as provided in RCW 82.24.010.

(7) "Manufacturer" has the same meaning as provided in RCW 70.345.010.

(8) "Manufacturer's representative" means a person hired by a manufacturer to sell or distribute the manufacturer's vapor products and includes employees and independent contractors.

(9) "Person" means: Any individual, receiver, administrator, executor, assignee, trustee in bankruptcy, trust, estate, firm, copartnership, joint venture, club, company, joint stock company, business trust, municipal corporation, corporation, limited liability company, association, or society; the state and its departments and institutions; any political subdivision of the state of Washington; and any group of individuals acting as a unit, whether mutual, cooperative, fraternal, nonprofit, or otherwise. Except as provided otherwise in this chapter, "person" does not include any person immune from state taxation, including the United States or its instrumentalities, and federally recognized Indian tribes and enrolled tribal members, conducting business within Indian country.

(10) "Place of business" means any place where vapor products are sold or where vapor products are manufactured, stored, or kept for the purpose of sale, including any vessel, vehicle, airplane, or train.

(11) "Retail outlet" has the same meaning as provided in RCW 70.345.010.

(12) "Retailer" has the same meaning as provided in RCW 70.345.010.

(13) "Sale" has the same meaning as provided in RCW 70.345.010.

(14)(a) "Taxable sales price" means:

(i) In the case of a taxpayer that is not affiliated with the manufacturer, distributor, or other person from whom the taxpayer purchased vapor products, the actual price for which the taxpayer purchased the vapor products;

(ii) In the case of a taxpayer that purchases vapor products from an affiliated manufacturer, affiliated distributor, or other affiliated person, and that sells those vapor products to unaffiliated distributors, unaffiliated retailers, or ultimate consumers, the actual price for which that taxpayer sells those vapor products to unaffiliated distributors, unaffiliated retailers, or ultimate consumers;

(iii) In the case of a taxpayer that sells vapor products only to affiliated distributors or affiliated retailers, the price, determined as nearly as possible according to the actual price, that other distributors sell similar vapor products of like quality and character to unaffiliated distributors, unaffiliated retailers, or ultimate consumers;

(iv) In the case of a taxpayer that is a manufacturer selling vapor products directly to ultimate consumers, the actual price for which the taxpayer sells those vapor products to ultimate consumers;

(v) In the case of a taxpayer that has acquired vapor products under a sale, the price, determined as nearly as possible according to the actual price, that the taxpayer or other distributors sell the same vapor products or similar vapor products of like quality and character to unaffiliated distributors, unaffiliated retailers, or ultimate consumers;

(vi) In cases where section 202(2)(b) of this act applies, the value of the article used as defined in RCW 82.12.010; or

(vii) In any case where (a)(i) through (vi) of this subsection do not apply, the price, determined as nearly as possible according to the actual price, that the taxpayer or other distributors sell the same vapor products or similar vapor products of like quality and character to unaffiliated distributors, unaffiliated retailers, or ultimate consumers.

(b) For purposes of (a)(i) and (ii) of this subsection only, "person" includes both persons as defined in this section and any person immune from state taxation, including the United States or its instrumentalities, and federally recognized Indian tribes and enrolled tribal members, conducting business within Indian country.

(c) In any case where the taxable sales price is not indicative of a vapor product's true value at the time and place of the taxable event as provided in section 202(2)(a) of this act, "taxable sales price" means the true value of the vapor product as determined by the department. For purposes of this subsection, "true value" means market value based on sales at comparable locations in this state of the same or similar vapor product of like quality and character sold under comparable conditions of sale by comparable sellers to comparable purchasers.

(15) "Taxpayer" means a person liable for the tax imposed by this chapter.

(16) "Unaffiliated distributor" means a distributor that is not affiliated with the manufacturer, distributor, or other person from whom the distributor has purchased vapor products.

(17) "Unaffiliated retailer" means a retailer that is not affiliated with the manufacturer, distributor, or other person from whom the retailer has purchased vapor products.

(18) "Vapor product" has the same meaning as provided in RCW 70.345.010.

NEW SECTION. **Sec.**  (1) There is levied and collected a tax upon the sale, use, consumption, handling, possession, or distribution of all vapor products in this state equal to sixty percent of the taxable sales price.

(2)(a) The tax under this section must be collected at the time the distributor: (i) Brings, or causes to be brought, into this state from without the state vapor products for sale; (ii) makes, manufactures, fabricates, or stores vapor products in this state for sale in this state; (iii) ships or transports vapor products to retailers in this state, to be sold by those retailers; or (iv) handles for sale any vapor products that are within this state but upon which tax has not been imposed.

(b) The tax imposed under this section must also be collected by the department from the consumer of vapor products where the tax imposed under this section was not paid by the distributor on such vapor products.

(3)(a) The legislature intends for the revenues generated by the tax imposed under this section to help offset lost revenue from any legislation that raises the legal smoking age. Therefore, until the end of fiscal year 2020, one hundred percent of the moneys collected under this section must be deposited into the state general fund.

(b) Beginning in fiscal year 2021, the moneys collected under this section must be deposited as follows:

(i) Sixty percent into the state general fund; and

(ii) Forty percent into the essential public health services account created in section 204 of this act.

NEW SECTION. **Sec.**  (1)(a) Except as provided in (b) of this subsection, a bundled transaction that includes a vapor product is subject to the tax imposed under this chapter on the entire selling price of the bundled transaction.

(b) If the selling price is attributable to products that are taxable and products that are not taxable under this chapter, the portion of the price attributable to the nontaxable products are subject to the tax imposed by this chapter unless the seller can identify by reasonable and verifiable standards the portion that is not subject to tax from its books and records that are kept in the regular course of business for other purposes including, but not limited to, nontax purposes.

(2) The definitions in this subsection apply throughout this section unless the context clearly requires otherwise.

(a) "Bundled transaction" means:

(i) The sale of two or more products where the products are otherwise distinct and identifiable, are sold for one nonitemized price, and at least one product is a vapor product subject to the tax under this chapter; and

(ii) A vapor product provided free of charge with the required purchase of another product. A vapor product is provided free of charge if the sales price of the product purchased does not vary depending on the inclusion of the vapor product provided free of charge.

(b) "Distinct and identifiable products" does not include packaging such as containers, boxes, sacks, bags, and bottles, or materials such as wrapping, labels, tags, and instruction guides, that accompany the sale of the products and are incidental or immaterial to the sale thereof.

NEW SECTION. **Sec.**  (1) The essential public health services account is created in the state treasury. As specified in section 202 of this act, forty percent of revenues from the tax collected under section 202 of this act must be deposited into the account beginning in fiscal year 2021. Moneys in the account may be spent only after appropriation to the department of health. The department of health must use the moneys in the account for each of the four following purposes: (a) To fund foundational health services; (b) to fund tobacco, vapor product, and nicotine control and prevention, and other substance use prevention and education; (c) at least ten percent of funds deposited must be used to support increased access and training of public health professionals at public health programs at accredited public institutions of higher education in Washington; and (d) enforcement by the board of the provisions of chapter 70.345 RCW, provided that no more than 12.5 percent of the funds deposited into the account created in this section may be utilized and distributed by the department to the board for these enforcement purposes.

(2) To determine the funding for foundational health services pursuant to subsection (1)(a) of this section, the department of health and representatives of local health jurisdictions must work together to: (a) Arrive at a mutually acceptable allocation and distribution of funds from the account; and (b) determine the best accountability measures to ensure efficient and effective use of funds, emphasizing use of shared services where appropriate.

NEW SECTION. **Sec.**  It is the intent and purpose of this chapter to levy a tax on all vapor products sold, used, consumed, handled, possessed, or distributed within this state. It is the further intent and purpose of this chapter to impose the tax only once on all vapor products in this state. Nothing in this chapter may be construed to exempt any person taxable under any other law or under any other tax imposed under this title.

NEW SECTION. **Sec.**  (1) The tax imposed by section 202 of this act does not apply with respect to any vapor products which under the Constitution and laws of the United States may not be made the subject of taxation by this state.

(2) The provisions of RCW 82.32.805 and 82.32.808 do not apply to this section.

NEW SECTION. **Sec.**  (1) Every distributor must keep at each place of business complete and accurate records for that place of business, including itemized invoices, of vapor products held, purchased, manufactured, brought in or caused to be brought in from without the state, or shipped or transported to retailers in this state, and of all sales of vapor products made.

(2) These records must show the names and addresses of purchasers, the inventory of all vapor products, and other pertinent papers and documents relating to the purchase, sale, or disposition of vapor products. All invoices and other records required by this section to be kept must be preserved for a period of five years from the date of the invoices or other documents or the date of the entries appearing in the records.

(3) At any time during usual business hours the department, board, or its duly authorized agents or employees may enter any place of business of a distributor, without a search warrant, and inspect the premises, the records required to be kept under this chapter, and the vapor products contained therein, to determine whether or not all the provisions of this chapter are being fully complied with. If the department, board, or any of its agents or employees are denied free access or are hindered or interfered with in making such examination, the registration certificate issued under RCW 82.32.030 of the distributor at such premises are subject to revocation by the department, and any licenses issued under chapter 70.345, 82.26, or 82.24 RCW are subject to suspension or revocation by the board.

NEW SECTION. **Sec.**  Every person required to be licensed under chapter 70.345 RCW who sells vapor products to persons other than the ultimate consumer must render with each sale itemized invoices showing the seller's name and address, the purchaser's name and address, the date of sale, and all prices. The person must preserve legible copies of all such invoices for five years from the date of sale.

NEW SECTION. **Sec.**  (1) Every retailer must procure itemized invoices of all vapor products purchased. The invoices must show the seller's name and address, the date of purchase, and all prices and discounts.

(2) The retailer must keep at each retail outlet copies of complete, accurate, and legible invoices for that retail outlet or place of business. All invoices required to be kept under this section must be preserved for five years from the date of purchase.

(3) At any time during usual business hours the department, board, or its duly authorized agents or employees may enter any retail outlet without a search warrant, and inspect the premises for invoices required to be kept under this section and the vapor products contained in the retail outlet, to determine whether or not all the provisions of this chapter are being fully complied with. If the department, board, or any of its agents or employees are denied free access or are hindered or interfered with in making the inspection, the registration certificate issued under RCW 82.32.030 of the retailer at the premises is subject to revocation by the department, and any licenses issued under chapter 70.345, 82.26, or 82.24 RCW are subject to suspension or revocation by the board.

NEW SECTION. **Sec.**  (1)(a) Where vapor products upon which the tax imposed by this chapter has been reported and paid are shipped or transported outside this state by the distributor to a person engaged in the business of selling vapor products, to be sold by that person, or are returned to the manufacturer by the distributor or destroyed by the distributor, or are sold by the distributor to the United States or any of its agencies or instrumentalities, or are sold by the distributor to any Indian tribal organization, credit of such tax may be made to the distributor in accordance with rules prescribed by the department.

(b) For purposes of this subsection (1), the following definitions apply:

(i) "Indian distributor" means a federally recognized Indian tribe or tribal entity that would otherwise meet the definition of "distributor" under section 201 of this act, if federally recognized Indian tribes and tribal entities were not excluded from the definition of "person" in section 201 of this act.

(ii) "Indian retailer" means a federally recognized Indian tribe or tribal entity that would otherwise meet the definition of "retailer" under section 201 of this act, if federally recognized Indian tribes and tribal entities were not excluded from the definition of "person" in section 201 of this act.

(iii) "Indian tribal organization" means a federally recognized Indian tribe, or tribal entity, and includes an Indian distributor or retailer that is owned by an Indian who is an enrolled tribal member conducting business under tribal license or similar tribal approval within Indian country.

(2) Credit allowed under this section must be determined based on the tax rate in effect for the period for which the tax imposed by this chapter, for which a credit is sought, was paid.

(3) The provisions of RCW 82.32.805 and 82.32.808 do not apply to this section.

NEW SECTION. **Sec.**  All of the provisions contained in chapter 82.32 RCW not inconsistent with the provisions of this chapter have full force and application with respect to taxes imposed under the provisions of this chapter.

NEW SECTION. **Sec.**  The department must authorize, as duly authorized agents, enforcement officers of the board to enforce provisions of this chapter. These officers are not employees of the department.

NEW SECTION. **Sec.**  (1) The department may by rule establish the invoice detail required under section 207 of this act for a distributor and for those invoices required to be provided to retailers under section 209 of this act.

(2) If a retailer fails to keep invoices as required under section 209 of this act, the retailer is liable for the tax owed on any uninvoiced vapor products but not penalties and interest, except as provided in subsection (3) of this section.

(3) If the department finds that the nonpayment of tax by the retailer was willful or if in the case of a second or plural nonpayment of tax by the retailer, penalties and interest must be assessed in accordance with chapter 82.32 RCW.

NEW SECTION. **Sec.**  (1) No person may transport or cause to be transported in this state vapor products for sale other than: (a) A licensed distributor under chapter 70.345 RCW, or a manufacturer's representative authorized to sell or distribute vapor products in this state under chapter 70.345 RCW; (b) a licensed retailer under chapter 70.345 RCW; (c) a seller with a valid delivery sale license under chapter 70.345 RCW; or (d) a person who has given notice to the board in advance of the commencement of transportation.

(2) When transporting vapor products for sale, the person must have in his or her actual possession, or cause to have in the actual possession of those persons transporting such vapor products on his or her behalf, invoices or delivery tickets for the vapor products, which must show the true name and address of the consignor or seller, the true name and address of the consignee or purchaser, and the quantity and brands of the vapor products being transported.

(3) In any case where the department or the board, or any peace officer of the state, has knowledge or reasonable grounds to believe that any vehicle is transporting vapor products in violation of this section, the department, board, or peace officer is authorized to stop the vehicle and to inspect it for contraband vapor products.

(4) This section does not apply to a motor carrier or freight forwarder as defined in Title 49 U.S.C. Sec. 13102 or an air carrier as defined in Title 49 U.S.C. Sec. 40102.

NEW SECTION. **Sec.**  The board must compile and maintain a current record of the names of all distributors, retailers, and delivery sales licenses under chapter 70.345 RCW and the status of their license or licenses. The information must be updated on a monthly basis and published on the board's official internet web site. This information is not subject to the confidentiality provisions of RCW 82.32.330 and must be disclosed to manufacturers, distributors, retailers, and the general public upon request.

NEW SECTION. **Sec.**  (1) No person engaged in or conducting business as a distributor or retailer in this state may:

(a) Make, use, or present or exhibit to the department or the board any invoice for any of the vapor products taxed under this chapter that bears an untrue date or falsely states the nature or quantity of the goods invoiced; or

(b) Fail to produce on demand of the department or the board all invoices of all the vapor products taxed under this chapter within five years prior to such demand unless the person can show by satisfactory proof that the nonproduction of the invoices was due to causes beyond the person's control.

(2)(a) No person, other than a licensed distributor or retailer or delivery sales licensee, may transport vapor products for sale in this state for which the taxes imposed under this chapter have not been paid unless:

(i) Notice of the transportation has been given as required under section 214 of this act;

(ii) The person transporting the vapor products actually possesses invoices or delivery tickets showing the true name and address of the consignor or seller, the true name and address of the consignee or purchaser, and the quantity and brands of vapor products being transported; and

(iii) The vapor products are consigned to or purchased by a person in this state who is licensed under chapter 70.345 RCW.

(b) A violation of this subsection (2) is a gross misdemeanor.

(3) Any person licensed under chapter 70.345 RCW as a distributor, and any person licensed under chapter 70.345 RCW as a retailer, may not operate in any other capacity unless the additional appropriate license is first secured, except as otherwise provided by law. A violation of this subsection (3) is a misdemeanor.

(4) The penalties provided in this section are in addition to any other penalties provided by law for violating the provisions of this chapter or the rules adopted under this chapter.

(5) This section does not apply to a motor carrier or freight forwarder as defined in Title 49 U.S.C. Sec. 13102 or an air carrier as defined in Title 49 U.S.C. Sec. 40102.

NEW SECTION. **Sec.**  (1) A retailer that obtains vapor products from an unlicensed distributor or any other person that is not licensed under chapter 70.345 RCW must be licensed both as a retailer and a distributor and is liable for the tax imposed under section 202 of this act with respect to the vapor products acquired from the unlicensed person that are held for sale, handling, or distribution in this state. For the purposes of this subsection, "person" includes both persons defined in this act and any person immune from state taxation, such as the United States or its instrumentalities, and federally recognized Indian tribes and enrolled tribal members, conducting business within Indian country.

(2) Every distributor licensed under chapter 70.345 RCW may sell vapor products to retailers located in Washington only if the retailer has a current retailer's license under chapter 70.345 RCW.

NEW SECTION. **Sec.**  A manufacturer that has manufacturer's representatives who sell or distribute the manufacturer's vapor products in this state must provide the board a list of the names and addresses of all such representatives and must ensure that the list provided to the board is kept current. A manufacturer's representative is not authorized to distribute or sell vapor products in this state unless the manufacturer that hired the representative has a valid distributor's license under chapter 70.345 RCW and that manufacturer provides the board a current list of all of its manufacturer's representatives as required by this section. A manufacturer's representative must carry a copy of the distributor's license of the manufacturer that hired the representative at all times when selling or distributing the manufacturer's vapor products.

NEW SECTION. **Sec.**  (1) Any vapor products in the possession of a person selling vapor products in this state acting as a distributor or retailer and who is not licensed as required under chapter 70.345 RCW, or a person who is selling vapor products in violation of RCW 82.24.550(6), may be seized without a warrant by any agent of the department, agent of the board, or law enforcement officer of this state. Any vapor products seized under this subsection are deemed forfeited.

(2) Any vapor products in the possession of a person who is not a licensed distributor or retailer and who transports vapor products for sale without having provided notice to the board required under section 214 of this act, or without invoices or delivery tickets showing the true name and address of the consignor or seller, the true name and address of the consignee or purchaser, and the quantity and brands of vapor products being transported may be seized and are subject to forfeiture.

(3) All conveyances, including aircraft, vehicles, or vessels that are used, or intended for use to transport, or in any manner to facilitate the transportation, for the purpose of sale or receipt of vapor products under subsection (2) of this section, may be seized and are subject to forfeiture except:

(a) A conveyance used by any person as a common or contract carrier having in actual possession invoices or delivery tickets showing the true name and address of the consignor or seller, the true name of the consignee or purchaser, and the quantity and brands of the vapor products transported, unless it appears that the owner or other person in charge of the conveyance is a consenting party or privy to a violation of this chapter;

(b) A conveyance subject to forfeiture under this section by reason of any act or omission of which the owner establishes to have been committed or omitted without his or her knowledge or consent; or

(c) A conveyance encumbered by a bona fide security interest if the secured party neither had knowledge of nor consented to the act or omission.

(4) Property subject to forfeiture under subsections (2) and (3) of this section may be seized by any agent of the department, the board, or law enforcement officer of this state upon process issued by any superior court or district court having jurisdiction over the property. Seizure without process may be made if:

(a) The seizure is incident to an arrest or a search warrant or an inspection under an administrative inspection warrant; or

(b) The department, board, or law enforcement officer has probable cause to believe that the property was used or is intended to be used in violation of this chapter and exigent circumstances exist making procurement of a search warrant impracticable.

(5) This section may not be construed to require the seizure of vapor products if the department's agent, board's agent, or law enforcement officer reasonably believes that the vapor products are possessed for personal consumption by the person in possession of the vapor products.

(6) Any vapor products seized by a law enforcement officer must be turned over to the board as soon as practicable.

(7) This section does not apply to a motor carrier or freight forwarder as defined in Title 49 U.S.C. Sec. 13102 or an air carrier as defined in Title 49 U.S.C. Sec. 40102.

NEW SECTION. **Sec.**  (1) In all cases of seizure of any vapor products made subject to forfeiture under this chapter, the department or board must proceed as provided in RCW 82.24.135.

(2) When vapor products are forfeited under this chapter, the department or board may:

(a) Retain the property for official use or upon application by any law enforcement agency of this state, another state, or the District of Columbia, or of the United States for the exclusive use of enforcing this chapter or the laws of any other state or the District of Columbia or of the United States; or

(b) Sell the vapor products at public auction to the highest bidder after due advertisement. Before delivering any of the goods to the successful bidder, the department or board must require the purchaser to pay the proper amount of any tax due. The proceeds of the sale must be first applied to the payment of all proper expenses of any investigation leading to the seizure and of the proceedings for forfeiture and sale, including expenses of seizure, maintenance of custody, advertising, and court costs. The balance of the proceeds and all money must be deposited in the general fund of the state. Proper expenses of investigation include costs incurred by any law enforcement agency or any federal, state, or local agency.

(3) The department or the board may return any property seized under the provisions of this chapter when it is shown that there was no intention to violate the provisions of this chapter. When any property is returned under this section, the department or the board may return the property to the parties from whom they were seized if and when such parties have paid the proper amount of tax due under this chapter.

NEW SECTION. **Sec.**  When the department or the board has good reason to believe that any of the vapor products taxed under this chapter are being kept, sold, offered for sale, or given away in violation of the provisions of this chapter, it may make affidavit of facts describing the place or thing to be searched, before any judge of any court in this state, and the judge must issue a search warrant directed to the sheriff, any deputy, police officer, or duly authorized agent of the department or the board commanding him or her diligently to search any building, room in a building, place, or vehicle as may be designated in the affidavit and search warrant, and to seize the vapor products and hold them until disposed of by law.

NEW SECTION. **Sec.**  (1) Preexisting inventories of vapor products are subject to the tax imposed in section 202 of this act. All retailers and other distributors must report the tax due under section 202 of this act on preexisting inventories of vapor products on a form, as prescribed by the department, on or before October 31, 2017.

(2) A retailer required to comply with subsection (1) of this section is not required to obtain a distributor license as otherwise required under chapter 70.345 RCW as long as the retailer:

(a) Does not sell vapor products other than to ultimate consumers; and

(b) Does not meet the definition of "distributor" in section 201 of this act other than with respect to the sale of that retailer's preexisting inventory of vapor products.

(3) Taxes may not be collected under section 202(2)(c) of this act from consumers with respect to any vapor products acquired before the effective date of this section.

(4) For purposes of this section, "preexisting inventory" means an inventory of vapor products located in this state as of the moment that section 202 of this act takes effect and held by a distributor for sale, handling, or distribution in this state.

NEW SECTION. **Sec.**  (1) The taxes imposed by this chapter do not apply to the sale, use, consumption, handling, possession, or distribution of vapor products by an Indian retailer during the effective period of a vapor product tax contract subject to section 403 of this act or a vapor product tax agreement under section 404 of this act.

(2) The definitions in section 402 of this act apply to this section.

**Part III**

**Conforming Amendments**

**Sec.**  RCW 66.08.145 and 2016 sp.s. c 38 s 29 are each amended to read as follows:

(1) The liquor and cannabis board may issue subpoenas in connection with any investigation, hearing, or proceeding for the production of books, records, and documents held under this chapter or chapters 70.155, 70.158, 70.345, 82.24, ((~~and~~)) 82.26 ((~~RCW~~)), and 82.--- RCW (the new chapter created in section 503 of this act), and books and records of common carriers as defined in RCW 81.80.010, or vehicle rental agencies relating to the transportation or possession of cigarettes or other tobacco products.

(2) The liquor and cannabis board may designate individuals authorized to sign subpoenas.

(3) If any person is served a subpoena from the board for the production of records, documents, and books, and fails or refuses to obey the subpoena for the production of records, documents, and books when required to do so, the person is subject to proceedings for contempt, and the board may institute contempt of court proceedings in the superior court of Thurston county or in the county in which the person resides.

**Sec.**  RCW 66.44.010 and 1998 c 18 s 1 are each amended to read as follows:

(1) All county and municipal peace officers are hereby charged with the duty of investigating and prosecuting all violations of this title, and the penal laws of this state relating to the manufacture, importation, transportation, possession, distribution and sale of liquor, and all fines imposed for violations of this title and the penal laws of this state relating to the manufacture, importation, transportation, possession, distribution and sale of liquor ((~~shall~~)) belong to the county, city or town wherein the court imposing the fine is located, and ((~~shall~~)) must be placed in the general fund for payment of the salaries of those engaged in the enforcement of the provisions of this title and the penal laws of this state relating to the manufacture, importation, transportation, possession, distribution and sale of liquor((~~: PROVIDED, That~~)). However, all fees, fines, forfeitures and penalties collected or assessed by a district court because of the violation of a state law ((~~shall~~)) must be remitted as provided in chapter 3.62 RCW as now exists or is later amended.

(2) In addition to any and all other powers granted, the board ((~~shall have~~)) has the power to enforce the penal provisions of this title and the penal laws of this state relating to the manufacture, importation, transportation, possession, distribution and sale of liquor.

(3) In addition to the other duties under this section, the board ((~~shall~~)) must enforce chapters 82.24 ((~~and~~)), 82.26 ((~~RCW~~)), and 82.--- RCW (the new chapter created in section 503 of this act).

(4) The board may appoint and employ, assign to duty and fix the compensation of, officers to be designated as liquor enforcement officers. Such liquor enforcement officers ((~~shall~~)) have the power, under the supervision of the board, to enforce the penal provisions of this title and the penal laws of this state relating to the manufacture, importation, transportation, possession, distribution and sale of liquor. They ((~~shall~~)) have the power and authority to serve and execute all warrants and process of law issued by the courts in enforcing the penal provisions of this title or of any penal law of this state relating to the manufacture, importation, transportation, possession, distribution and sale of liquor, and the provisions of chapters 82.24 ((~~and~~)), 82.26 ((~~RCW~~)) , and 82.--- RCW (the new chapter created in section 503 of this act). They ((~~shall~~)) have the power to arrest without a warrant any person or persons found in the act of violating any of the penal provisions of this title or of any penal law of this state relating to the manufacture, importation, transportation, possession, distribution and sale of liquor, and the provisions of chapters 82.24 ((~~and~~)), 82.26 ((~~RCW~~)), and 82.--- RCW (the new chapter created in section 503 of this act).

**Sec.**  RCW 82.24.510 and 2013 c 144 s 50 are each amended to read as follows:

(1) The licenses issuable under this chapter are as follows:

(a) A wholesaler's license.

(b) A retailer's license.

(2) Application for the licenses must be made through the business licensing system under chapter 19.02 RCW. The board must adopt rules regarding the regulation of the licenses. The board may refrain from the issuance of any license under this chapter if the board has reasonable cause to believe that the applicant has willfully withheld information requested for the purpose of determining the eligibility of the applicant to receive a license, or if the board has reasonable cause to believe that information submitted in the application is false or misleading or is not made in good faith. In addition, for the purpose of reviewing an application for a wholesaler's license or retailer's license and for considering the denial, suspension, or revocation of any such license, the board may consider any prior criminal conduct of the applicant, including an administrative violation history record with the board and a criminal history record information check within the previous five years, in any state, tribal, or federal jurisdiction in the United States, its territories, or possessions, and the provisions of RCW 9.95.240 and chapter 9.96A RCW do not apply to such cases. The board may, in its discretion, grant or refuse the wholesaler's license or retailer's license, subject to the provisions of RCW 82.24.550.

(3) No person may qualify for a wholesaler's license or a retailer's license under this section without first undergoing a criminal background check. The background check must be performed by the board and must disclose any criminal conduct within the previous five years in any state, tribal, or federal jurisdiction in the United States, its territories, or possessions. A person who possesses a valid license on July 22, 2001, is subject to this subsection and subsection (2) of this section beginning on the date of the person's business license expiration under chapter 19.02 RCW, and thereafter. If the applicant or licensee also has a license issued under chapter 66.24 ((~~or~~)), 82.26, or 70.345 RCW, the background check done under the authority of chapter 66.24 ((~~or~~)), 82.26, or 70.345 RCW satisfies the requirements of this section.

(4) Each such license expires on the business license expiration date, and each such license must be continued annually if the licensee has paid the required fee and complied with all the provisions of this chapter and the rules of the board made pursuant thereto.

(5) Each license and any other evidence of the license that the board requires must be exhibited in each place of business for which it is issued and in the manner required for the display of a business license.

**Sec.**  RCW 82.24.550 and 2015 c 86 s 307 are each amended to read as follows:

(1) The board must enforce the provisions of this chapter. The board may adopt, amend, and repeal rules necessary to enforce the provisions of this chapter.

(2) The department may adopt, amend, and repeal rules necessary to administer the provisions of this chapter. The board may revoke or suspend the license or permit of any wholesale or retail cigarette dealer in the state upon sufficient cause appearing of the violation of this chapter or upon the failure of such licensee to comply with any of the provisions of this chapter.

(3) A license may not be suspended or revoked except upon notice to the licensee and after a hearing as prescribed by the board. The board, upon finding that the licensee has failed to comply with any provision of this chapter or any rule adopted under this chapter, must, in the case of the first offense, suspend the license or licenses of the licensee for a period of not less than thirty consecutive business days, and, in the case of a second or further offense, must suspend the license or licenses for a period of not less than ninety consecutive business days nor more than twelve months, and, in the event the board finds the licensee has been guilty of willful and persistent violations, it may revoke the license or licenses.

(4) Any licenses issued under chapter 82.26 or 70.345 RCW to a person whose license or licenses have been suspended or revoked under this section must also be suspended or revoked during the period of suspension or revocation under this section.

(5) Any person whose license or licenses have been revoked under this section may reapply to the board at the expiration of one year from the date of revocation of the license or licenses. The license or licenses may be approved by the board if it appears to the satisfaction of the board that the licensee will comply with the provisions of this chapter and the rules adopted under this chapter.

(6) A person whose license has been suspended or revoked may not sell cigarettes or tobacco products or permit cigarettes or tobacco products to be sold during the period of such suspension or revocation on the premises occupied by the person or upon other premises controlled by the person or others or in any other manner or form whatever.

(7) Any determination and order by the board, and any order of suspension or revocation by the board of the license or licenses issued under this chapter, or refusal to reinstate a license or licenses after revocation is reviewable by an appeal to the superior court of Thurston county. The superior court must review the order or ruling of the board and may hear the matter de novo, having due regard to the provisions of this chapter and the duties imposed upon the board.

(8) If the board makes an initial decision to deny a license or renewal, or suspend or revoke a license, the applicant may request a hearing subject to the applicable provisions under Title 34 RCW.

(9) For purposes of this section, "tobacco products" has the same meaning as in RCW 82.26.010.

**Sec.**  RCW 82.26.060 and 2009 c 154 s 3 are each amended to read as follows:

(1) Every distributor ((~~shall~~)) must keep at each place of business complete and accurate records for that place of business, including itemized invoices, of tobacco products held, purchased, manufactured, brought in or caused to be brought in from without the state, or shipped or transported to retailers in this state, and of all sales of tobacco products made.

(2) These records ((~~shall~~)) must show the names and addresses of purchasers, the inventory of all tobacco products, and other pertinent papers and documents relating to the purchase, sale, or disposition of tobacco products. All invoices and other records required by this section to be kept ((~~shall~~)) must be preserved for a period of five years from the date of the invoices or other documents or the date of the entries appearing in the records.

(3) At any time during usual business hours the department, board, or its duly authorized agents or employees, may enter any place of business of a distributor, without a search warrant, and inspect the premises, the records required to be kept under this chapter, and the tobacco products contained therein, to determine whether or not all the provisions of this chapter are being fully complied with. If the department, board, or any of its agents or employees, are denied free access or are hindered or interfered with in making such examination, the registration certificate issued under RCW 82.32.030 of the distributor at such premises ((~~shall be~~)) is subject to revocation, and any licenses issued under this chapter or chapter 82.24 or 70.345 RCW are subject to suspension or revocation, by the department or board.

**Sec.**  RCW 82.26.080 and 2005 c 180 s 5 are each amended to read as follows:

(1) Every retailer ((~~shall~~)) must procure itemized invoices of all tobacco products purchased. The invoices ((~~shall~~)) must show the seller's name and address, the date of purchase, and all prices and discounts.

(2) The retailer ((~~shall~~)) must keep at each retail outlet copies of complete, accurate, and legible invoices for that retail outlet or place of business. All invoices required to be kept under this section ((~~shall~~)) must be preserved for five years from the date of purchase.

(3) At any time during usual business hours the department, board, or its duly authorized agents or employees may enter any retail outlet without a search warrant, and inspect the premises for invoices required to be kept under this section and the tobacco products contained in the retail outlet, to determine whether or not all the provisions of this chapter are being fully complied with. If the department, board, or any of its agents or employees, are denied free access or are hindered or interfered with in making the inspection, the registration certificate issued under RCW 82.32.030 of the retailer at the premises is subject to revocation, and any licenses issued under this chapter or chapter 82.24 or 70.345 RCW are subject to suspension or revocation by the department.

**Sec.**  RCW 82.26.150 and 2013 c 144 s 52 are each amended to read as follows:

(1) The licenses issuable by the board under this chapter are as follows:

(a) A distributor's license; and

(b) A retailer's license.

(2) Application for the licenses must be made through the business licensing system under chapter 19.02 RCW. The board may adopt rules regarding the regulation of the licenses. The board may refuse to issue any license under this chapter if the board has reasonable cause to believe that the applicant has willfully withheld information requested for the purpose of determining the eligibility of the applicant to receive a license, or if the board has reasonable cause to believe that information submitted in the application is false or misleading or is not made in good faith. In addition, for the purpose of reviewing an application for a distributor's license or retailer's license and for considering the denial, suspension, or revocation of any such license, the board may consider criminal conduct of the applicant, including an administrative violation history record with the board and a criminal history record information check within the previous five years, in any state, tribal, or federal jurisdiction in the United States, its territories, or possessions, and the provisions of RCW 9.95.240 and chapter 9.96A RCW do not apply to such cases. The board may, in its discretion, issue or refuse to issue the distributor's license or retailer's license, subject to the provisions of RCW 82.26.220.

(3) No person may qualify for a distributor's license or a retailer's license under this section without first undergoing a criminal background check. The background check must be performed by the board and must disclose any criminal conduct within the previous five years in any state, tribal, or federal jurisdiction in the United States, its territories, or possessions. If the applicant or licensee also has a license issued under chapter 66.24 ((~~or~~)), 82.24, or 70.345 RCW, the background check done under the authority of chapter 66.24 or 82.24 RCW satisfies the requirements of this section.

(4) Each license issued under this chapter expires on the business license expiration date. The license must be continued annually if the licensee has paid the required fee and complied with all the provisions of this chapter and the rules of the board adopted pursuant to this chapter.

(5) Each license and any other evidence of the license required under this chapter must be exhibited in each place of business for which it is issued and in the manner required for the display of a business license.

**Sec.**  RCW 82.26.220 and 2015 c 86 s 308 are each amended to read as follows:

(1) The board must enforce this chapter. The board may adopt, amend, and repeal rules necessary to enforce this chapter.

(2) The department may adopt, amend, and repeal rules necessary to administer this chapter. The board may revoke or suspend the distributor's or retailer's license of any distributor or retailer of tobacco products in the state upon sufficient cause showing a violation of this chapter or upon the failure of the licensee to comply with any of the rules adopted under it.

(3) A license may not be suspended or revoked except upon notice to the licensee and after a hearing as prescribed by the board. The board, upon finding that the licensee has failed to comply with any provision of this chapter or of any rule adopted under it, must, in the case of the first offense, suspend the license or licenses of the licensee for a period of not less than thirty consecutive business days, and in the case of a second or further offense, suspend the license or licenses for a period of not less than ninety consecutive business days but not more than twelve months, and in the event the board finds the licensee has been guilty of willful and persistent violations, it may revoke the license or licenses.

(4) Any licenses issued under chapter 82.24 or 70.345 RCW to a person whose license or licenses have been suspended or revoked under this section must also be suspended or revoked during the period of suspension or revocation under this section.

(5) Any person whose license or licenses have been revoked under this section may reapply to the board at the expiration of one year of the license or licenses. The license or licenses may be approved by the board if it appears to the satisfaction of the board that the licensee will comply with the provisions of this chapter and the rules adopted under it.

(6) A person whose license has been suspended or revoked may not sell tobacco products or cigarettes or permit tobacco products or cigarettes to be sold during the period of suspension or revocation on the premises occupied by the person or upon other premises controlled by the person or others or in any other manner or form.

(7) Any determination and order by the board, and any order of suspension or revocation by the board of the license or licenses issued under this chapter, or refusal to reinstate a license or licenses after revocation is reviewable by an appeal to the superior court of Thurston county. The superior court must review the order or ruling of the board and may hear the matter de novo, having due regard to the provisions of this chapter and the duties imposed upon the board.

(8) If the board makes an initial decision to deny a license or renewal, or suspend or revoke a license, the applicant may request a hearing subject to the applicable provisions under Title 34 RCW.

**Sec.**  RCW 82.32.300 and 1997 c 420 s 9 are each amended to read as follows:

(1) The administration of this and chapters 82.04 through 82.27 RCW of this title is vested in the department ((~~of revenue which shall~~)), which must prescribe forms and rules of procedure for the determination of the taxable status of any person, for the making of returns and for the ascertainment, assessment and collection of taxes and penalties imposed thereunder.

(2) The department ((~~of revenue shall~~)) must make and publish rules and regulations, not inconsistent therewith, necessary to enforce provisions of this chapter and chapters 82.02 through 82.23B and 82.27 RCW, and the liquor ((~~control~~)) and cannabis board ((~~shall~~)) must make and publish rules necessary to enforce chapters 82.24 ((~~and~~)), 82.26 ((~~RCW~~)), and 82.--- RCW (the new chapter created in section 503 of this act), which ((~~shall have~~)) has the same force and effect as if specifically included therein, unless declared invalid by the judgment of a court of record not appealed from.

(3) The department may employ such clerks, specialists, and other assistants as are necessary. Salaries and compensation of such employees ((~~shall~~)) must be fixed by the department and ((~~shall be~~)) charged to the proper appropriation for the department.

(4) The department ((~~shall~~)) must exercise general supervision of the collection of taxes and, in the discharge of such duty, may institute and prosecute such suits or proceedings in the courts as may be necessary and proper.

**Part IV**

**Tribal Compacting**

**Sec.**  RCW 43.06.450 and 2001 c 235 s 1 are each amended to read as follows:

The legislature intends to further the government-to-government relationship between the state of Washington and Indians in the state of Washington by authorizing the governor to enter into contracts concerning the sale of cigarettes and vapor products. The legislature finds that these cigarette tax and vapor product tax contracts will provide a means to promote economic development, provide needed revenues for tribal governments and Indian persons, and enhance enforcement of the state's cigarette tax ((~~law~~)) and vapor product tax, ultimately saving the state money and reducing conflict. In addition, it is the intent of the legislature that the negotiations and the ensuing contracts ((~~shall~~)) have no impact on the state's share of the proceeds under the master settlement agreement entered into on November 23, 1998, by the state. Chapter 235, Laws of 2001 ((~~does~~)) and this act do not constitute a grant of taxing authority to any Indian tribe nor ((~~does it~~)) do they provide precedent for the taxation of non-Indians on fee land.

NEW SECTION. **Sec.**  A new section is added to chapter 43.06 RCW to read as follows:

(1) The governor may enter into vapor product tax contracts concerning the sale of vapor products. All vapor product tax contracts must meet the requirements for vapor product tax contracts under this section.

(2) Vapor product tax contracts must be in regard to retail sales in which Indian retailers make delivery and physical transfer of possession of the vapor products from the seller to the buyer within Indian country, and are not in regard to transactions by non-Indian retailers. In addition, contracts must provide that retailers may not sell or give, or permit to be sold or given, vapor products to any person who is under the state legal age for the purchase of vapor products.

(3) A vapor product tax contract with a tribe must provide for a tribal vapor product tax in lieu of all state vapor product taxes and state and local sales and use taxes on sales of vapor products in Indian country by Indian retailers. The tribe may allow an exemption for sales to tribal members.

(4) Vapor product tax contracts must provide that retailers must purchase vapor products only from:

(a) Wholesalers or manufacturers licensed to do business in the state of Washington;

(b) Out-of-state wholesalers or manufacturers who, although not licensed to do business in the state of Washington, agree to comply with the terms of the vapor product tax contract, are certified to the state as having so agreed, and do in fact so comply. However, the state may in its sole discretion exercise its administrative and enforcement powers over such wholesalers or manufacturers to the extent permitted by law;

(c) A tribal wholesaler that purchases only from a wholesaler or manufacturer described in (a), (b), or (d) of this subsection; and

(d) A tribal manufacturer.

(5) Vapor product tax contracts must be for renewable periods of no more than eight years.

(6) Vapor product tax contracts must include provisions for compliance, such as transport and notice requirements, inspection procedures, recordkeeping, and audit requirements.

(7) Tax revenue retained by a tribe must be used for essential government services. Use of tax revenue for subsidization of vapor products and food retailers is prohibited.

(8) The vapor product tax contract may include provisions to resolve disputes using a nonjudicial process, such as mediation.

(9) The governor may delegate the power to negotiate vapor product tax contracts to the department of revenue. The department of revenue must consult with the liquor and cannabis board during the negotiations.

(10) Information received by the state or open to state review under the terms of a contract is subject to the provisions of RCW 82.32.330.

(11) It is the intent of the legislature that the liquor and cannabis board and the department of revenue continue the division of duties and shared authority under chapter 82.--- RCW (the new chapter created in section 503 of this act) and therefore the liquor and cannabis board is responsible for enforcement activities that come under the terms of chapter 82.--- RCW (the new chapter created in section 503 of this act).

(12) Each vapor product tax contract must include a procedure for notifying the other party that a violation has occurred, a procedure for establishing whether a violation has in fact occurred, an opportunity to correct such violation, and a provision providing for termination of the contract should the violation fail to be resolved through this process, such termination subject to mediation should the terms of the contract so allow. A contract must provide for termination of the contract if resolution of a dispute does not occur within twenty-four months from the time notification of a violation has occurred. Intervening violations do not extend this time period. In addition, the contract must include provisions delineating the respective roles and responsibilities of the tribe, the department of revenue, and the liquor and cannabis board.

(13) The definitions in this subsection apply throughout this section unless the context clearly requires otherwise.

(a) "Essential government services" means services such as tribal administration, public facilities, fire, police, public health, education, job services, sewer, water, environmental and land use, transportation, utility services, and economic development.

(b) "Indian country" has the same meaning as provided in RCW 82.24.010.

(c) "Indian retailer" or "retailer" means:

(i) A retailer wholly owned and operated by an Indian tribe;

(ii) A business wholly owned and operated by a tribal member and licensed by the tribe; or

(iii) A business owned and operated by the Indian person or persons in whose name the land is held in trust.

(d) "Indian tribe" or "tribe" means a federally recognized Indian tribe located within the geographical boundaries of the state of Washington.

(e) "Vapor products" has the same meaning as provided in section 201 of this act.

NEW SECTION. **Sec.**  A new section is added to chapter 43.06 RCW to read as follows:

(1) The governor is authorized to enter into vapor product tax contracts with federally recognized Indian tribes located within the geographical boundaries of the state of Washington, except the Puyallup Tribe of Indians. Each contract adopted under this section must provide that the tribal vapor product tax rate be one hundred percent of the state vapor product tax and state and local sales and use taxes. The tribal vapor product tax is in lieu of the state vapor product tax and state and local sales and use taxes, as provided in section 402(3) of this act.

(2) A vapor product tax contract under this section is subject to section 402 of this act.

NEW SECTION. **Sec.**  A new section is added to chapter 43.06 RCW to read as follows:

(1) The governor may enter into a vapor product tax agreement with the Puyallup Tribe of Indians concerning the sale of vapor products, subject to the limitations in this section. The legislature intends to address the uniqueness of the Puyallup Indian reservation and its selling environment through pricing and compliance strategies, rather than through the imposition of equivalent taxes. The governor may delegate the authority to negotiate a vapor product tax agreement with the Puyallup Tribe to the department of revenue. The department of revenue must consult with the liquor and cannabis board during the negotiations.

(2) Any agreement must require the tribe to impose a tribal vapor product tax with a tax rate that is ninety percent of the state vapor product tax. This tribal tax is in lieu of the combined state and local sales and use taxes and the state vapor product tax, and as such these state taxes are not imposed during the term of the agreement on any transaction governed by the agreement. The tribal vapor product tax must increase or decrease at the time of any increase or decrease in the state vapor product tax so as to remain at a level that is ninety percent of the rate of the state vapor product tax.

(3) The agreement must include a provision requiring the tribe to transmit thirty percent of the tribal tax revenue on all vapor products sales to the state. The funds must be transmitted to the state treasurer on a quarterly basis for deposit by the state treasurer into the general fund. The remaining tribal tax revenue must be used for essential government services, as that term is defined in section 402 of this act.

(4) The agreement is limited to retail sales in which Indian retailers make delivery and physical transfer of possession of the vapor products from the seller to the buyer within Indian country, and are not in regard to transactions by non-Indian retailers. In addition, agreements must provide that retailers may not sell or give, or permit to be sold or given, vapor products to any person who is under the state legal age for the purchase of vapor products.

(5)(a) The agreement must include a provision to price and sell the vapor products so that the retail selling price is not less than the price paid by the retailer for the vapor products.

(b) The tribal tax is in addition to the retail selling price.

(c) The agreement must include a provision to assure the price paid to the retailer includes the tribal tax.

(d) If the tribe is acting as a distributor to tribal retailers, the retail selling price must not be less than the price the tribe paid for such vapor products plus the tribal tax.

(6)(a) The agreement must include provisions regarding enforcement and compliance by the tribe in regard to enrolled tribal members who sell vapor products and must describe the individual and joint responsibilities of the tribe, the department of revenue, and the liquor and cannabis board.

(b) The agreement must include provisions for tax administration and compliance, such as transport and notice requirements, inspection procedures, recordkeeping, and audit requirements.

(c) The agreement must include provisions for sharing of information among the tribe, the department of revenue, and the liquor and cannabis board.

(7) The agreement must provide that retailers must purchase vapor products only from distributors or manufacturers licensed to do business in the state of Washington.

(8) The agreement must be for a renewable period of no more than eight years.

(9) The agreement must include provisions to resolve disputes using a nonjudicial process, such as mediation, and must include a dispute resolution protocol. The protocol must include a procedure for notifying the other party that a violation has occurred, a procedure for establishing whether a violation has in fact occurred, an opportunity to correct such violation, and a provision providing for termination of the agreement should the violation fail to be resolved through this process, such termination subject to mediation should the terms of the agreement so allow. An agreement must provide for termination of the agreement if resolution of a dispute does not occur within twenty-four months from the time notification of a violation has occurred. Intervening violations do not extend this time period.

(10) Information received by the state or open to state review under the terms of an agreement is subject to RCW 82.32.330.

(11) It is the intent of the legislature that the liquor and cannabis board and the department of revenue continue the division of duties and shared authority under chapter 82.--- RCW (the new chapter created in section 503 of this act).

(12) The definitions in this subsection apply throughout this section unless the context clearly requires otherwise.

(a) "Indian country" has the same meaning as provided in RCW 82.24.010.

(b) "Indian retailer" or "retailer" means:

(i) A retailer wholly owned and operated by an Indian tribe; or

(ii) A business wholly owned and operated by an enrolled tribal member and licensed by the tribe.

(c) "Indian tribe" or "tribe" means the Puyallup Tribe of Indians, which is a federally recognized Indian tribe located within the geographical boundaries of the state of Washington.

(d) "Vapor products" has the same meaning as provided in section 201 of this act.

NEW SECTION. **Sec.**  A new section is added to chapter 82.08 RCW to read as follows:

(1) The tax levied by RCW 82.08.020 does not apply to sales of vapor products by an Indian retailer during the effective period of a vapor product tax contract subject to section 403 of this act or a vapor product tax agreement under section 404 of this act.

(2) The definitions in section 402 of this act apply to this section.

NEW SECTION. **Sec.**  A new section is added to chapter 82.12 RCW to read as follows:

(1) The provisions of this chapter do not apply in respect to the use of vapor products sold by an Indian retailer during the effective period of a vapor product tax contract subject to section 403 of this act or a vapor product tax agreement under section 404 of this act.

(2) The definitions in section 402 of this act apply to this section.

**Part V**

**Miscellaneous Provisions**

NEW SECTION. **Sec.**  If any provision of this act or its application to any person or circumstance is held invalid, the remainder of the act or the application of the provision to other persons or circumstances is not affected.

NEW SECTION. **Sec.**  If any part of this act is found to be in conflict with federal requirements that are a prescribed condition to the allocation of federal funds to the state, the conflicting part of this act is inoperative solely to the extent of the conflict and with respect to the agencies directly affected, and this finding does not affect the operation of the remainder of this act in its application to the agencies concerned. Rules adopted under this act must meet federal requirements that are a necessary condition to the receipt of federal funds by the state.

NEW SECTION. **Sec.**  Part II of this act constitutes a new chapter in Title 82 RCW.

NEW SECTION. **Sec.**  This act takes effect October 1, 2017.

**--- END ---**