

# HOUSE BILL REPORT

## HB 2434

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### As Reported by House Committee On:

Finance

**Title:** An act relating to revising the tobacco products tax by imposing the tax upon those persons who acquire tobacco products for resale from persons who are immune from state tax.

**Brief Description:** Changing the taxation of tobacco products to provide for the taxation of products purchased for resale from persons immune from state tax.

**Sponsors:** Representatives Gombosky, Berkey and Rockefeller; by request of Department of Revenue.

### Brief History:

#### Committee Activity:

Finance: 1/24/02, 2/7/02 [DP].

#### Brief Summary of Bill

- Extends the tobacco products tax to sellers of tobacco products in cases where the tax has not already been imposed.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** Do pass. Signed by 11 members: Representatives Gombosky, Chair; Berkey, Vice Chair; Cairnes, Ranking Minority Member; Conway, Morris, Nixon, Orcutt, Roach, Santos, Van Loven and Veloria.

**Staff:** Rick Peterson (786-7150).

### Background:

Cigarette and tobacco products taxes are added directly to the price of these goods before the sales tax is applied. The current rate for the cigarette tax is 142.5 cents per pack of 20 cigarettes. The rate for tobacco products is 129.4 percent of the wholesale price. Examples of tobacco products are cigars, pipe tobacco, and chewing tobacco.

Revenue from the first 23 cents of the cigarette tax goes to the General Fund. The next

eight cents are dedicated to Water Quality Improvement Programs through June 30, 2021, and to the General Fund thereafter. The next 101 cents goes to the Health Services Account. The remaining 10.5 cents are dedicated to youth violence prevention and drug enforcement. The tobacco products tax of 129.4 percent is divided as follows: 48.15 percent goes to the General Fund, 64.5 percent to the Health Services Account, and the remaining 16.75 percent is dedicated to Water Quality Improvement Programs through June 30, 2021, and to the General Fund thereafter.

The tobacco products tax is due from the distributor when the distributor brings tobacco products into the state, manufactures tobacco products in the state, or ships tobacco products to retailers in the state.

The tax is based on the wholesale price. The wholesale price is the price charged by the manufacturer to a distributor.

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**Summary of Bill:**

Sellers of tobacco products must pay the tobacco products tax in cases where the tax has not already been imposed.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect July 1, 2002.

**Testimony For:** The wholesale distribution system for tobacco products has been adversely impacted by competitors who are buying tobacco products through Indian businesses and avoiding the tax. This creates a disadvantage for distributors who pay the tax. The recent tax hike makes buying tobacco products through Indian businesses very attractive. The bill will close a loophole and level the playing field.

(With concerns) The tax is currently paid by the wholesaler. Retailers do not have to deal with the tax. But under this bill the retailer is put in the position of proving whether the tax has been paid or not.

**Testimony Against:** None.

**Testified:** Catarina Wong, Core-Mark International; Julie Sexton, Department of Revenue; Gary O'Neil, Department of Revenue; Leslie Cushman, Department of Revenue; Mark Triplett, Smokeless Tobacco Association/Cigar Association; and T.K Bentler, Washington Association of Neighborhood Stores.

