
Finance Committee

HB 1933

Brief Description: Authorizing smaller local governments with a scarcity of manufacturing and industrial lands to establish a tax on cannabis producers and processors.

Sponsors: Representatives Wicks, Eslick and Pollet.

Brief Summary of Bill

- Allows some counties, cities, and towns to impose a local excise tax on marijuana producers and processors of 1 percent or less of gross receipts.

Hearing Date: 1/25/22

Staff: Rachelle Harris (786-7137).

Background:

Business & Occupation Tax.

Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. Businesses must pay the B&O tax even though they may not have any profits or may be operating at a loss.

A taxpayer may have more than one B&O tax rate, depending on the types of activities conducted. Major B&O tax rates are:

- 0.471 percent for retailing;
- 0.484 percent for manufacturing, wholesaling, and extracting; and
- 1.5 percent (businesses with taxable income of less than \$1 million) or 1.75 percent (businesses with taxable income of \$1 million or more) for services and for activities not classified elsewhere.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

Several preferential rates also apply to specific business activities.

In addition, a taxpayer may be eligible to utilize other tax preferences, including credits and deductions, to reduce their tax liability. For example, a taxpayer engaging in activities subject to different B&O tax rates may be eligible for a Multiple Activities Tax Credit (MATC).

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Marijuana Producers and Processors - State B&O Tax.

Marijuana producers are licensed by the Washington State Liquor and Cannabis Board (LCB) to produce and sell marijuana at wholesale to marijuana processors and other marijuana producers. The gross income received from the sale of marijuana to marijuana processors and other marijuana producers is subject to the B&O tax under the wholesaling classification.

Marijuana processors are licensed by the LCB to process marijuana into useable marijuana, marijuana concentrates, and marijuana-infused products and sell these products at wholesale to marijuana retailers and other marijuana processors. Marijuana processors must report under both of the following B&O tax classifications:

- manufacturing B&O tax on the value of the useable marijuana, marijuana concentrates, and marijuana-infused products they process (manufacture) in Washington; and
- wholesaling B&O tax on all sales of useable marijuana, marijuana concentrates, and marijuana-infused products to marijuana retailers and other marijuana processors.

The MATC may be claimed by processors so that B&O tax is only paid under one classification for the same product.

Summary of Bill:

Subject to specific requirements, some counties, cities, and towns may impose a local excise tax on marijuana producers and processors. The tax may be no more than 1 percent of the producer or processor's gross receipts from sales of marijuana and marijuana products. The tax may be imposed by resolution or ordinance. A county ordinance does not apply to marijuana producers and processors located within an incorporated city or town within the county.

To be eligible to impose the tax, the jurisdiction must have a population of no more than 50,000 as of January 1, 2022. The jurisdiction's zoning and land use ordinances must permit licensed marijuana producers and processors to be sited within the jurisdiction. In addition, the jurisdiction must have a scarcity of manufacturing and industrial lands by demonstrating that it meets at least one of the following criteria:

- no area within the jurisdiction is designated as a manufacturing and industrial center or employment center by a regional planning authority;
- reviews or evaluations conducted pursuant to growth management review indicate the amount of industrial land in the jurisdiction is in the bottom quartile with respect to the amount of industrial land in all jurisdictions for which data is available; or
- the percentage of total employment within the jurisdiction classified as industrial

employment is no more than 20 percent of total employment.

Appropriation: None.

Fiscal Note: Requested on January 20, 2022.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.