

HOUSE BILL REPORT

HB 1182

As Reported by House Committee On:
Regulated Substances & Gaming
Finance

Title: An act relating to providing a tax exemption for the first 20,000 gallons of wine sold by a winery in Washington.

Brief Description: Providing a tax exemption for the first 20,000 gallons of wine sold by a winery in Washington.

Sponsors: Representative Wylie.

Brief History:

Committee Activity:

Regulated Substances & Gaming: 1/10/23, 1/26/23 [DPS];
Finance: 2/20/23, 2/22/23 [DPS(RSG)].

Brief Summary of Substitute Bill

- Provides a reduced wine tax rate for the sale of a winery's first 20,000 gallons of table wine or cider per year, to be \$0.0528 per liter for table wine or cider instead of \$0.2292 for table wine and \$0.0814 for cider.
- Specifies that an existing \$0.0025 per liter tax for table wine and \$0.0005 per liter for cider continues to apply that funds the Washington Wine Commission, and that a portion of total wine taxes received continues to be allocated to Washington State University wine and grape research.
- Includes a tax preference performance statement.

HOUSE COMMITTEE ON REGULATED SUBSTANCES & GAMING

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass.
Signed by 10 members: Representatives Kloba, Co-Chair; Wylie, Co-Chair; Stearns, Vice

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.

Chair; Chambers, Ranking Minority Member; Robertson, Assistant Ranking Minority Member; Cheney, Morgan, Orwall, Reeves and Walsh.

Staff: Peter Clodfelter (786-7127).

Background:

Wine is taxed when sold by wineries to distributors, when sold directly to consumers on the winery premises, or when sold and shipped by a winery to consumers or retailers. Consumers pay retail sales tax on wine in the original container and on wine consumed on-premises of the seller.

For table wines, the total wine tax rate per liter is \$0.2292. For fortified wines (more than 14 percent alcohol by volume), the total wine tax rate per liter is \$0.4536. For cider, the total wine tax rate per liter is \$0.0814. Cider is defined as table wine with alcohol content between 0.5 percent and 8.5 percent by volume made from apples or pears.

Wine taxes include a base rate that is directed to the Liquor Revolving Fund and then multiple additional wine taxes primarily directed to the General Fund. However, total wine taxes include a per liter tax of \$0.0025 for wine and \$0.0005 for cider that is disbursed to the Washington Wine Commission. Also, from total wine taxes, \$0.0025 per liter is disbursed to Washington State University for wine and grape research through the Liquor Revolving Fund.

Wine tax collections totaled \$26.6 million in fiscal year 2022 and \$27.3 million in fiscal year 2021.

Summary of Substitute Bill:

It is provided that a winery's sale of the first 20,000 gallons of table wine or cider in a calendar year is subject to a reduced tax rate of \$0.0528 per liter for table wine or cider and is generally not subject to any other wine taxes. However, the additional tax of \$0.0025 for wine and \$0.0005 for cider that is distributed to the Washington Wine Commission continues to apply. Taxes collected from the new reduced tax rate would be deposited in the Liquor Revolving Fund, and Washington State University would continue to receive its allocation of wine taxes for wine and grape research.

A tax preference performance statement is provided, categorizing the tax preference as one intended to provide tax relief to certain businesses or individuals, and provides that the specific public policy objective is to promote the development of small wineries for reasons described in the tax preference performance statement. The Joint Legislative Audit and Review Committee must conduct an initial evaluation of the tax preference by January 1, 2028, and a final evaluation by January 1, 2033.

If the review finds that the: (1) number of wineries producing less than 20,000 gallons per year that are going out of business has decreased; (2) number of wineries that were producing less than 20,000 gallons per year in 2023 that are subsequently producing more than 20,000 gallons per year has increased; and/or (3) amount of sales and use tax collected by wineries has increased, then it is provided that the Legislature intends to extend the expiration date of the tax preference.

Substitute Bill Compared to Original Bill:

The substitute bill modifies the proposed tax exemption for wineries' sales of their first 20,000 gallons of wine per calendar year to instead provide a reduced tax rate for wineries' sales of their first 20,000 gallons of table wine or cider (but not fortified wine) per calendar year. Instead of a complete exemption for the first 20,000 gallons, the substitute bill imposes a tax of \$0.0528 per liter for table wine or cider for a winery's sale of the first 20,000 gallons of table wine or cider in a calendar year. The substitute bill continues to apply the existing additional tax of \$0.0025 per liter for wine and \$0.0005 per liter for cider that funds the Washington Wine Commission, and to allocate an amount of wine taxes collected to Washington State University wine and grape research.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on January 26, 2023.

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

Staff Summary of Public Testimony:

(In support) Washington wineries produce world-class products but some wineries are struggling. Washington's wine taxes are high relative to many other states, notably California and Oregon. Washington's tax policy has not kept up and places Washington wineries at a disadvantage. Washington's tax is \$0.87 per gallon while Oregon's is \$0.67 per gallon and California's is \$0.20 per gallon. The 20,000 gallon limit to the tax exemption proposed in this bill is small relative to tax benefits available to breweries and distilleries, yet it will also be meaningful relief to family wineries. The maximum value of this tax exemption per individual winery could be up to about \$17,000 maximum and it would amount to at least a thousand or several thousand dollars for many small wineries. This will provide opportunities to invest in the business. Over 1,000 wineries in Washington produce and sell less than 20,000 gallons per year, whereas only 68 wineries have production and sales above that threshold. The tax preference performance statement included in the bill will ensure that if the policy is not working then it will not be continued. Wineries have recently faced challenges including COVID-19, smoke taint, supply chain issues, and

inflation. Wine retailers also support the bill and believe the bill will lead to more consumer selection and access to small wineries' products. Wineries are a major economic driver in both rural and urban areas. Opening a winery is difficult and takes capital, hard work, good fortune, good weather, and decent good luck. Many wineries barely made it through COVID-19 and this bill would provide meaningful relief.

Persons Testifying: Representative Sharon Wylie, prime sponsor; Paul Beveridge, Family Wineries of Washington State; Perry Preston, Stina's Cellars; Sandi Moreno, Leony's Cellars; Tom Wark, National Association of Wine Retailers; and Josh McDonald, Washington Wine Institute.

Persons Signed In To Testify But Not Testifying: None.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill by Committee on Regulated Substances & Gaming be substituted therefor and the substitute bill do pass. Signed by 13 members: Representatives Berg, Chair; Street, Vice Chair; Orcutt, Ranking Minority Member; Jacobsen, Assistant Ranking Minority Member; Barnard, Chopp, Ramel, Santos, Springer, Stokesbary, Thai, Walen and Wylie.

Staff: Kristina King (786-7190).

Summary of Recommendation of Committee On Finance Compared to Recommendation of Committee On Regulated Substances & Gaming:

No new changes were recommended.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) Washington has lost many of its small wineries in recent years and the remaining wineries need to be saved. The federal government provides similar tax breaks to small wineries. These small businesses must change how they operate to stay alive, and this bill will help them to change. By passing this bill, the Legislature will help a growing industry not only survive but also thrive.

(Opposed) None.

Persons Testifying: Representative Sharon Wylie, prime sponsor; Paul Beveridge, Family Wineries of Washington State; and Josh McDonald, Washington Wine Institute.

Persons Signed In To Testify But Not Testifying: None.