

SENATE BILL REPORT

SB 5013

As Reported by Senate Committee On:
Business, Financial Services, Gaming & Trade, January 30, 2024

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: Senators Warnick, Keiser, Dhingra, Kuderer and Torres.

Brief History:

Committee Activity: Business, Financial Services, Gaming & Trade: 1/19/23; 1/25/24, 1/30/24 [DPS-WM, DNP].

Brief Summary of First Substitute Bill

- Reduces the tax rate imposed on the first 20,000 gallons of table wine or cider sold by a winery each calendar year until January 1, 2035.

SENATE COMMITTEE ON BUSINESS, FINANCIAL SERVICES, GAMING & TRADE

Majority Report: That Substitute Senate Bill No. 5013 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Stanford, Chair; Dozier, Ranking Member; Boehnke, Gildon, Lovick, MacEwen and Mullet.

Minority Report: Do not pass.

Signed by Senators Frame, Vice Chair; Hasegawa.

Staff: Alia Kennedy (786-7405)

Background: Definitions. Cider means table wine that contains no less than 0.5 percent of

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alcohol by volume (ABV) and not more than 8.5 percent of ABV and is made from normal alcoholic fermentation of the juice of sound, ripe apples or pears, and includes flavored, sparkling, or carbonated cider. Domestic winery means a place where wines are manufactured or produced within the state. Tax preference means an exemption, exclusion, deduction, credit, deferral, or preferential rate, for a tax administered by the Department of Revenue. Wine means any alcoholic beverage obtained by fermentation of fruits, such as grapes, berries, or apples, or other agricultural product containing sugar, to which any saccharine substances may have been added before, during, or after fermentation, and containing not more than 24 percent of ABV, including sweet wines fortified with wine spirits, such as port, sherry, muscatel, and angelica, not exceeding 24 percent of ABV and not less than 0.5 percent of ABV. Table wine refers to wine containing no more than 14 percent of ABV when bottled or packaged by the manufacturer. Fortified wine refers to wine containing more than 14 percent ABV when bottled or packaged by the manufacturer, with certain exceptions. Winery means a business conducted by any person for the manufacture of wine for sale, other than a domestic winery. Wine distributor means a person who buys wine from a domestic winery, wine certificate of approval holder, wine importer, or who acquires foreign produced wine from a source outside of the United States.

Wine and Cider Taxes. The Liquor and Cannabis Board (LCB) administers excise taxes relating to wine and cider. The Department of Revenue administers retail sales and use taxes on wine and cider when purchased in the original container and when consumed on the premises of the seller. For table wine, the total tax rate per liter is \$0.2292, which includes the following per liter taxes:

Base tax	\$0.2025
Additional tax	\$0.0142
Additional tax	\$0.0025
Additional tax	\$0.01

For fortified wine, the total tax rate per liter is \$0.4536, which includes the following per liter taxes:

Base tax	\$0.2025
Additional tax	\$0.0142
Additional tax	\$0.0025
Additional tax	\$0.2344

For cider, the total tax rate per liter is \$0.0814, which includes the following per liter taxes:

Base tax	\$0.0359
Additional tax	\$0.0025
Additional tax	\$0.0005
Additional tax	\$0.0018

Additional tax	\$0.0407
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The base taxes are distributed to the Liquor Revolving Fund. LCB is authorized to distribute \$0.25 per liter to Washington State University solely for wine and grape research. Additional taxes are deposited into the state general fund, except for the additional per liter tax of \$0.0025 and \$0.0005 for cider, which are distributed to the Washington Wine Commission to finance its activities.

Tax Preferences. All new tax preference legislation is required to include a tax preference performance statement. The performance statement must clearly specify the public policy objectives of the tax preference and the specific metrics and data that will be used by the Joint Legislative Audit and Review Committee to evaluate the efficacy of the tax preference. An automatic ten-year expiration date is applied to new tax preferences if an alternate expiration date is not provided in the new tax preference legislation.

Summary of Bill: The bill as referred to committee not considered.

Summary of Bill (First Substitute): The first 20,000 gallons of table wine or cider sold by a winery each calendar year is subject to a tax rate of \$0.0528 per liter. All revenue from the reduced tax rate on table wine and cider must be deposited in the Liquor Revolving Fund and are subject to allocation to the Washington State University.

The first 20,000 gallons of table wine or cider sold by a winery each year is not subject to any other taxes imposed on table wine or cider except those taxes for which revenues are distributed to the Washington Wine Commission.

The reduced tax rate for table wine and cider expires January 1, 2035.

The act contains a tax preference performance statement that states it is the Legislature's specific public policy objective to create and retain jobs in the wine industry. The Joint Legislative Audit and Review Committee must complete an initial tax preference performance review by January 1, 2029, and a final review by January 1, 2034.

EFFECT OF CHANGES MADE BY BUSINESS, FINANCIAL SERVICES, GAMING & TRADE COMMITTEE (First Substitute):

- Makes changes to the tax preference performance statement.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on January 22, 2024.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony (Regular Session 2023): PRO: The bill has no known opposition within the wine industry. Wineries are hurting in Washington and the state is losing about fifty each year. Wineries need a little bit of tax relief. Breweries and craft distillers already receive larger tax breaks than the one contained in this bill. There are 34 other states with lower tax rates than Washington. Most wineries in this state make less than 20,000 gallons each year and will not receive the full benefit of the tax exemption. The benefit is small but would help pay for equipment to help increase production. Tax breaks help small wineries grow. There is at least one winery in every district in Washington.

Persons Testifying (Business, Financial Services, Gaming & Trade): PRO: Senator Judy Warnick, Prime Sponsor; Tom Wark, National Association of Wine Retailers; Paul Beveridge, Family Wineries of Washington State; Sandi Moreno, Leony's Cellars; Perry Preston, Stina's Cellars; Josh McDonald, Washington Wine Institute.

Persons Signed In To Testify But Not Testifying (Business, Financial Services, Gaming & Trade): No one.

Staff Summary of Public Testimony On Proposed Substitute (Regular Session 2024): *The committee recommended a different version of the bill than what was heard.* PRO: Wine is an important industry in Washington. This bill will not only support small wineries but all wineries that sell wine in this state. The reduction in revenue from this bill is outweighed by the increased investment in the wine industry. Investing in wineries ensures they stay in Washington. Both small and large wineries are struggling. The small loss in revenue has a big impact on individual wineries, especially small wineries, who can use those funds to buy supplies or hire more employees. The tax on wine is from 1935. Bills like this one help wineries hire qualified employees and contribute to a living wage. The tax benefits of this bill help make Washington a more competitive wine industry. Opening a winery is a very difficult endeavor that takes significant capital, hard work, good fortune, and is impacted by the uncontrollable nature of weather patterns on the growth and maturity of grapes each growing season. Wine sales and tourism are down. Neighboring states, such as California and Oregon, tax wine at a lower rate.

Persons Testifying (Business, Financial Services, Gaming & Trade): PRO: Senator Judy Warnick, Prime Sponsor; Commissioner Amanda McKinney, Yakima County District 1; Josh McDonald, Washington Wine Institute; Paul Beveridge, Family Wineries of Washington State; Sandi Moreno, Family Wineries of Washington State.

Persons Signed In To Testify But Not Testifying (Business, Financial Services, Gaming & Trade): No one.