

SENATE BILL REPORT

SB 6505

As Reported by Senate Committee On:
Ways & Means, February 26, 2014

Title: An act relating to clarifying that marijuana, useable marijuana, and marijuana-infused products are not agricultural products.

Brief Description: Delaying the use of existing tax preferences by the marijuana industry to ensure a regulated and safe transition to the controlled and legal marijuana market in Washington.

Sponsors: Senators Hargrove, Hill and Braun.

Brief History:

Committee Activity: Ways & Means: 2/25/14, 2/26/14 [DP].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Hill, Chair; Honeyford, Capital Budget Chair; Hargrove, Ranking Member; Keiser, Assistant Ranking Member on the Capital Budget; Ranker, Assistant Ranking Member on the Operating Budget; Bailey, Becker, Billig, Braun, Conway, Dammeier, Hasegawa, Hewitt, Padden, Parlette, Rivers, Schoesler and Tom.

Staff: Dean Carlson (786-7305)

Background: Business and Occupation (B&O) Tax. Washington's major business tax is the 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. A business may have more than one B&O tax rate, depending on the types of activities conducted. Major tax rates are 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for services, and activities not classified elsewhere. Several lower rates also apply to specific business activities.

Retail Sales and Use Tax. Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services. A retail sale is a sale to the final consumer or end user of the property, digital product, or service. If retail sales taxes were not collected when the user acquired the property, digital products, or services, then use taxes applies to the value of property, digital product, or service when used in this state. The

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state, most cities, and all counties levy retail sales and use taxes. The state sales and use tax rate is 6.5 percent; local sales and use tax rates vary from 0.5 percent to 3.1 percent, depending on the location.

Property Tax. All real and personal property in this state is subject to the property tax each year based on its value, unless a specific exemption is provided by law. The tax bill is determined by multiplying the assessed value by the tax rate for each taxing district in which the property is located. The county treasurer mails a notice of tax due to taxpayers and collects the tax.

Tax Preferences. Washington has over 650 tax preferences authorized in law. A tax preference includes exemptions, deductions, credits, and preferential rates. Currently the agricultural industry has tax preferences for the B&O tax, retail sales and use tax, and property tax.

Marijuana for Recreational Use. In 2012 Washington voters approved Initiative 502, which established a regulatory system for the production, processing, and distribution of limited amounts of marijuana for nonmedical purposes. Under this system, the Liquor Control Board issues licenses to marijuana producers, processors, and retailers, and adopts standards for the regulation of these operations. Persons over 21 years of age may purchase up to 1 ounce of useable marijuana, 16 ounces of solid marijuana-infused product, and 72 ounces of liquid marijuana-infused product. The initiative established a marijuana excise tax at each level of production; the excise tax is in addition to the state's B&O tax and retail sales tax.

Summary of Bill: Marijuana, useable marijuana, and marijuana-infused products are excluded from existing tax preferences. The growing or producing of marijuana products is explicitly removed from the definitions of agriculture and farmer, which eliminates the ability for persons in that industry to take advantage of the agriculture exemptions. The exclusions for marijuana include eight B&O tax preferences; 16 sales and use tax preferences; four additional excise tax preferences; and four property tax preferences, two for real property and two for personal property.

Additionally, the bill exempts persons producing marijuana and marijuana products from inspection and licensing by the Department of Agriculture in regard to plants, seeds, and packaging. Marijuana is not subject to agriculture commodity provisions.

Appropriation: None.

Fiscal Note: Available.

[OFM requested ten-year cost projection pursuant to I-960.]

Committee/Commission/Task Force Created: No.

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

Staff Summary of Public Testimony: None.

Persons Testifying: No one.