

HOUSE BILL REPORT

HB 1384

As Reported by House Committee On:
Finance

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

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

Sponsors: Representatives Wylie, Waters and Timmons.

Brief History:

Committee Activity:

Finance: 2/20/25, 2/25/25 [DP].

Brief Summary of Bill

- Reduces the tax rate on table wine and cider sold by a winery that sells less than 20,000 gallons per year.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 15 members: Representatives Berg, Chair; Street, Vice Chair; Orcutt, Ranking Minority Member; Jacobsen, Assistant Ranking Minority Member; Abell, Chase, Mena, Parshley, Penner, Ramel, Santos, Scott, Springer, Walen and Wylie.

Staff: Rachelle Harris (786-7137).

Background:

Wine Taxes.

Wine is taxed when sold by wineries to distributors, when sold directly to consumers on the

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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 the premises of the seller.

For table wines, the total wine tax rate per liter is 22.92 cents. For fortified wines (more than 14 percent alcohol by volume), the total wine tax rate per liter is 45.36 cents. For cider, the total wine tax rate per liter is 8.14 cents. 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 multiple additional wine taxes primarily directed to the State General Fund. However, total wine taxes include a per-liter tax of 0.25 cents for wine and 0.05 cents for cider that is disbursed to the Washington Wine Commission. Also, from total wine taxes, 0.25 cents per liter is disbursed to Washington State University for wine and grape research through the Liquor Revolving Fund.

Tax Preference Performance Statement.

Tax preferences confer reduced tax liability upon a designated class of taxpayers. These include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. There are over 700 tax preferences. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement (TPPS) that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

Summary of Bill:

A winery that sells less than a combined total of 20,000 gallons of table wine and cider in a calendar year is subject to a reduced tax rate of 5.28 cents per liter of table wine and cider. A winery that qualifies for this tax rate is not subject to most other excise taxes on wine and cider. However, the additional tax of 0.25 cents for wine and 0.05 cents for cider that is disbursed to the Washington Wine Commission continues to apply.

The revenues from the reduced tax rate on table wine and cider must be deposited in the Liquor Revolving Fund, and Washington State University continues to receive its allocation of wine taxes for wine and grape research.

A TPPS is included, stating that the Legislature's public policy objective is to promote the development of small wineries and the jobs they provide and to extend this tax preference if a JLARC review finds the preference accomplishes its specified goals of increasing the number of Washington wineries, the number of wine industry jobs, or the amount of wine excise taxes collected. An expiration date is not specified, so the preference will

automatically expire after 10 years.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) Family farms and small wineries are essential parts of our tourism industry and agricultural picture. In the past, I have sought a lower tax rate for the first 20,000 gallons to be in alignment with out of state wineries. In the past, many new small wineries were coming on board, outpacing those that were failing. That is not true anymore, we are losing more wineries than are starting up. That means a hit on the general fund as well as our way of life and our reputation as a wine growing state. The small tax break received by small wineries will be substantial for their business. Many large wineries are no longer buying grapes from small vineyards. The wine industry is in a large slump. We have lost hundreds of small wineries in the past five years. This reduction in tax is minor, but it is big savings for small wineries. Small wineries don't use distributors because we cannot afford it; this bill would help us afford more.

(Opposed) None.

(Other) This applies to only 20,000 gallons or less, but it should apply to the first 20,000 gallons sold. Applying the exemption to all wineries would help the full industry. Many wineries producing more than 20,000 gallons are still small businesses and would benefit greatly. The commerce clause and case law do not allow discrimination between sizes of wineries, and this bill discriminates. Inclusion of all wineries would avoid this.

Persons Testifying: (In support) Representative Sharon Wylie, prime sponsor; Paul Beveridge, Family Wineries of Washington State; and Sandi Moreno, Leony's Cellars and Family Wineries of Washington State.

(Other) Annie McGrath, Washington Wine Institute; and Rowland Thompson, Wine Institute.

Persons Signed In To Testify But Not Testifying: None.