
**Consumer Protection & Business
Committee**

HB 1940

Brief Description: Concerning the cannabis industry.

Sponsors: Representatives Morgan, Wylie, Reed, Parshley and Hill.

Brief Summary of Bill

- Authorizes out-of-state ownership of licensed cannabis businesses.
- Authorizes the Liquor and Cannabis Board (LCB) to impose additional licensing fees to recover costs incurred from investigating a nonresident required to be investigated.
- Exempts cannabis producers, processors, and retailers in the Cannabis Social Equity Program from the Business & Occupation Tax, for the five years beginning after the licensee exceeds \$5,000 in sales revenues.

Hearing Date: 2/19/25

Staff: Peter Clodfelter (786-7127).

Background:

Cannabis Licensing and Residency Requirement.

Washington Initiative 502, passed in 2012, is administered to require all owners of licensed cannabis businesses to have lawfully resided in Washington for at least six months prior to applying for a cannabis license from the Liquor and Cannabis Board (LCB). Additionally, no cannabis license may be issued to a person under the age of 21 years, or to a partnership, employee cooperative, association, nonprofit corporation, or corporation unless formed under Washington law and unless all of the members are qualified to obtain a license. If a manager or

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agent conducts the business of a licensed cannabis establishment, the manager or agent must possess the same qualifications required of the licensee.

To apply for a cannabis producer, processor, or retailer license there is a \$250 application fee, plus fees equivalent to \$1,381 for license issuance and annually for license renewal. When an application for a cannabis license is submitted to the LCB, the LCB may inspect the premises proposed to be licensed, and may inquire into all matters in connection with the construction and operation of the premises. The LCB conducts a financial investigation to determine the source of funds as well as a criminal history record information check. The LCB is not currently accepting applications for new cannabis producer, processor, or retailer licenses, other than at certain times through the Cannabis Social Equity Program (Program).

Business & Occupation Tax.

Licensed cannabis producers, processors, and retailers are subject to Washington's Business & Occupation Tax (B&O Tax) and no exemption currently exists related to their business activities.

Cannabis Social Equity Program.

The Program is administered by the LCB, and a Cannabis Social Equity Technical Assistance Grant Program (Grant Program) is administered by the Department of Commerce (Department). The Legislature directed the creation of the Program in 2020, which was developed with input from the Social Equity in Cannabis Task Force and the Office of Equity, and runs until July 1, 2032. The Dedicated Cannabis Account funds \$3 million annually to the Department for the Grant Program. The Department also maintains a roster of mentors.

Through the Program, certain cannabis retailer, producer, and processor licenses are available to social equity applicants. Initially, the Program was limited to the issuance or reissuance of cancelled cannabis retailer licenses or certain unissued cannabis retailer licenses, and a first round of licensing for 45 available cannabis retailer licenses was conducted in 2024. While several retailer licenses have been issued through the Program and opened for business, other social equity applicants who received a preliminary letter of approval have been unable to secure a location or complete the licensing process to open for business.

In 2023 the Legislature expanded the Program to include making available cancelled cannabis producer and cannabis processor licenses to social equity applicants, and authorize additional cannabis retailer licenses for issuance in the Program. At any time through these provisions, the LCB may issue up to 100 cannabis processor licenses to social equity applicants. The LCB may also issue up to 10 cannabis producer licenses to social equity applicants in conjunction with a cannabis processor license. An additional 52 new cannabis retailer licenses were also authorized and made available pursuant to the legislation enacted in 2023.

The cannabis producer, processor, and additional retailer licenses made available under the 2023 legislation have not yet been issued. The LCB completed rulemaking updates to the Program effective January 18, 2025, which would govern future licensing activity through the Program.

Summary of Bill:

Cannabis Licensing and Residency Requirement.

The requirement for a person to have lawfully resided in Washington for at least six months prior to applying for a cannabis license from the LCB is eliminated. References to specified business entities in the cannabis licensing statute are changed to entity.

The LCB may impose additional licensing fees to recover additional costs incurred from investigating a nonresident required to be investigated. If, after reasonable efforts, the LCB is unable to investigate a nonresident required to be investigated, in accordance with the investigatory standards applicable to the investigation of a state resident, the LCB may deny a license or license renewal to an entity.

Business & Occupation Tax—Cannabis Social Equity Program .

An exemption from the B&O Tax is provided to a cannabis producer, processor, or retailer, licensed by the LCB under the Program, for the five years beginning after the licensee exceeds \$5,000 in sales revenues. A tax preference performance statement is included. The tax preference expires July 1, 2038.

Appropriation: None.

Fiscal Note: Requested on February 11, 2025.

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