SENATE BILL REPORT
SB 5650

As of February 5, 2026

Title: An act relating to authorizing a local excise tax on cannabis.

Brief Description: Authorizing a local excise tax on cannabis.

Sponsors: Senators Wagoner, Christian and Holy.

Brief History:
Committee Activity: Ways & Means: 2/05/26.

Brief Summary of Bill

- Authorizes counties and cities to impose a local excise tax on the retail sale of cannabis products.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Alia Kennedy (786-7405)

Background: Cannabis Excise Tax. A cannabis excise tax equal to 37 percent of the selling price is imposed on each retail sale of cannabis concentrates, useable cannabis, and cannabis-infused products. The excise tax is separate and in addition to general state and local retail sales and use taxes. The tax must be reflected in the price list or quoted shelf price in the licensed cannabis retail establishment and in any advertising that includes prices for all cannabis products. Qualifying sales of medical cannabis products and certain high-CBD or low-THC products are exempt from the cannabis excise tax.

Local Cannabis Excise Tax. Under the Washington State Constitution, taxing power is vested in the Legislature. Local governments generally may not impose taxes without explicitly authorized by the Legislature in state law. The Legislature has not authorized counties, cities, or towns to impose additional local excise taxes on the sale of cannabis.

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.

Dedicated Cannabis Account. The Dedicated Cannabis Account is an appropriated account in the custody of the State Treasurer. All revenue received by the Liquor and Cannabis Board (LCB) from cannabis-related activities must be deposited in the Dedicated Cannabis Account. Funds in the account include the cannabis excise tax collected on sales of cannabis products, license fees, penalties, and forfeitures from cannabis producers, processors, researchers, and retailers.

Cannabis Revenue Appropriations to Local Governments. The Legislature annually appropriates moneys in the Dedicated Cannabis Account. Distributions are first made in fixed amounts to a variety of state agencies and universities for specific purposes. Local governments receive a total of 5 percent of any remaining account funds after the initial distributions each fiscal year, as follows:

- 1.5 percent to local governments where cannabis retailers are physically located and each jurisdiction must receive a proportional share based on total revenues generated and taxes collected in such jurisdictions; and
- 3.5 percent to local governments on a per capita basis provided the jurisdiction does not prohibit cannabis siting—counties must receive 60 percent based on each county's total proportional population.

Summary of Bill: Local Cannabis Excise Tax. A local cannabis excise tax is authorized. The tax is in addition to the state cannabis excise tax and state and local retail sales and use taxes.

A county may impose an excise tax at a rate of up to 2 percent of the selling price on the retail sale of cannabis concentrates, useable cannabis, and cannabis-infused products. If a county has not imposed the tax before July 1, 2027, then any city within that county may impose the tax at a rate of up to 2 percent of the selling price on the retail sale of cannabis concentrates, useable cannabis, and cannabis-infused products. A county and a city within that county may not concurrently impose a cannabis excise tax.

Voter Approval. A county or city legislative authority may only impose the tax by ordinance and must condition its imposition on the specific authorization of a majority of the voters voting on a proposition submitted at a special or general election. The ordinance and ballot proposition may provide for the tax to apply for up to seven consecutive years. The legislative authority of a county or city may reimpose the tax for one or more additional periods of up to seven consecutive years as approved by the majority of voters voting on a proposition submitted at a special or general election.

Distributions. If the tax is imposed by a county, then the State Treasurer must distribute 15 percent of the moneys to the county in which the tax was collected. The remainder of the moneys collected must be distributed to the county and the cities within the county where licensed cannabis retailers are physically located. Each jurisdiction must receive a share of the revenue based on the proportional share of the total revenues generated in the individual jurisdiction from the taxes collected from licensed cannabis retailers physically located in

the county and the cities within the county.

If the tax is imposed by a city, then the State Treasurer must distribute 15 percent of the moneys to the county and the remainder must be distributed to the city.

The State Treasurer must distribute tax revenue on a monthly basis to a county and the cities within the county.

Administration. LCB must collect the tax on behalf of the county or city. Before the effective date of a resolution or ordinance to impose a cannabis excise tax, the legislative authority of the county or city must contract with LCB for tax administration and collection. LCB may deduct a percentage amount, as provided by contract, not to exceed 1 percent of the taxes collected for administration and collection expenses incurred by LCB.

Appropriation: None.

Fiscal Note: Available.

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: PRO: Cities and counties receive a fairly small amount of cannabis revenue from the state. This bill provides additional local revenue that can help offset the costs of providing services for cannabis businesses. The revenue from cannabis comes from local communities that do not receive much cannabis funding. Counties have the least revenue options of any major government in Washington. Counties, like the state, are struggling financially and need more revenue options. Rising costs from tort claims and caseload standards hinder the ability of counties to provide services. The bill is a step in the right direction. This bill would help local governments manage the public safety impacts of cannabis legalization, such as police response to impaired driving and retail theft. Cities bear significant zoning, land use, regulatory compliance, and education responsibilities related to cannabis. This bill would ease the financial burden on city resources.

CON: The purpose of legalizing cannabis was to create a safe, fully regulated market, that keeps products out of the hands of kids. Unfortunately, nearly half of the cannabis market is still illicit. Increasing cannabis costs drives more people to the illicit market. This bill would increase an already high tax on cannabis. Washington has one of the highest taxes on cannabis. The state tax is already harmful to the industry and creates a race to the bottom. The current tax structure results in ultra cheap products that harm the community. The industry remains under-capitalized, overregulated, and disproportionately vulnerable to price and market volatility. A local cannabis excise tax creates geographic inequities by making some jurisdictions more favorable to cannabis consumers. Washington residents

already have above the national average cost of living. Cannabis revenue is declining and adding an additional tax will only hurt sales. Local jurisdictions need more revenue sources but raising taxes on cannabis is not the right solution. The state should focus on rebalancing and improving existing state cannabis revenue distributions. The bill will harm small and medium cannabis craft operators across the state. The state cannabis excise tax should be restructured.

Persons Testifying: PRO: Paul Jewell, Washington State Association of Counties; Candice Bock, Association of Washington Cities; Pam Haley, Councilmember, City of Spokane Valley.

CON: Vicki Christophersen, Washington CannaBusiness Association; Ezra Eickmeyer, Producers NW; Shea Hynes, Lux Pot Shop; Caitlein Ryan, THE CANNABIS ALLIANCE; Paula Fillmore-Sardinas, WBBA; Bethany Rondeaux, Washington Cannabis Licensee Association; Amy Ross, Oz Gardenz; Jason Hutto, Cultivar Farms; Micah Sherman; Brandon Park; Shawn Denae WAGENSELLER, Washington Bud Company.

Persons Signed In To Testify But Not Testifying: CON: Eric Gaston, Stonr; Sara Eltinge, The Herbery; Jana House; Logan Bowers, Hashtag Cannabis; Anna Shreeve, The Bakeree; Mike Asai, Emerald City Collective.