

# SENATE BILL REPORT

## ESHB 2493

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As of Second Reading

**Title:** An act relating to the taxation of cigarettes and other tobacco products.

**Brief Description:** Concerning the taxation of cigarettes and other tobacco products.

**Sponsors:** House Committee on Finance (originally sponsored by Representatives Cody, Williams, Pedersen, Kagi, Nelson, Orwall, McCoy, Dickerson, White, Hunt, Darneille, Moeller and Roberts).

**Brief History:** Passed House: 3/19/10, 54-42.

**Committee Activity:**

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### SENATE COMMITTEE ON WAYS & MEANS

**Staff:** Dean Carlson (786-7305)

**Background:** Tobacco products are subject to various taxes, including state retail sales and use taxes and tobacco taxes that are paid by wholesalers or distributors of the products in the state. Since July 1, 2009, all collected tobacco taxes have been deposited in the state General Fund, except for approximately 21 percent of cigarette taxes that are deposited in the Education Legacy Trust Account (\$83 million in 2009).

Cigarette Taxes. The cigarette tax is added directly to the price of cigarettes before the sales tax is applied. The cigarette tax is due from the first person who sells, uses, consumes, handles, possesses, or distributes the cigarettes in the state. The cigarette tax rate is \$0.10125 per cigarette (\$2.025 per pack of 20 cigarettes). The taxpayer pays the cigarette tax by purchasing cigarette tax stamps that are placed on cigarette packs.

Tobacco Products Taxes. The tobacco products tax applies to all tobacco products, except cigarettes, which are taxed separately. Examples of tobacco products include cigars, pipe tobacco, snuff, and chewing tobacco. The tobacco products tax is due from the distributor when the distributor brings tobacco products into the state, manufactures tobacco products in the state, or ships tobacco products to retailers in the state.

The tobacco products tax rate is 75 percent of the wholesale price, but for cigars the tax is capped at .50 cents per cigar. The wholesale price is, generally, the actual purchase or selling

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price charged by the manufacturer or distributor. These tobacco products are not subject to any stamp requirement.

Tobacco Prevention and Control Account. The Tobacco Prevention and Control Account (TPC Account) and the Tobacco Settlement Account were created in 1999, following Washington's entry into the Tobacco Master Settlement Agreement. Revenue for the TPC Account comes from the Tobacco Settlement Account, investments, donations, and other revenue directed by law. Expenditures from the TPC Account are subject to appropriations.

**Summary of Bill:** Beginning April 1, 2010, taxes on cigarettes are increased \$1 per pack, and taxes on tobacco products are generally increased from 75 percent to 95 percent of the taxable sales price, with some exceptions.

Cigarette Tax. Beginning April 1, 2010, the cigarette tax rate is increased from \$0.10125 to \$0.15125 per cigarette (from \$2.025 to \$3.025 per pack of 20 cigarettes). The additional cigarette taxes are deposited in the state General Fund. The amount of cigarette taxes deposited into the Education Legacy Trust Account is adjusted to 14 percent of the total cigarette tax to reflect its approximate share of the new total cigarette tax.

Tobacco Products Tax. Beginning July 1, 2010, the tobacco products tax is increased from 75 percent to 95 percent of the taxable sales price, with some exceptions.

*Large Cigars.* The tobacco products tax rate on large cigars is 95 percent of the taxable sales price but not to exceed .65 cents per cigar.

*Small Cigars.* The tobacco products tax rate on small cigars is a per cigar tax that is the same as the per cigarette tax (\$3.025 per pack of 20). Small cigars are defined as cigars with a cellulose acetate integrated filter.

*Moist Snuff.* The tobacco products tax rate on moist snuff is based on a single unit package. The tax rate is the greater of 83.5 percent of the per pack tax on cigarettes or \$2.526. For units larger than 1.2 ounces, the tax rate is increased proportionally based on the package size.

Tobacco Tracking Code. Within one year of the date that the federal government requires a tobacco code to track tobacco products, all individual packages must contain the code that would verify if taxes have been paid on the product. If the federal government does not implement a tobacco code by July 1, 2011, the Department of Revenue must, by July 1, 2014, recommend to the Legislature a method of determining whether tax has been paid on a product.

**Appropriation:** None.

**Fiscal Note:** Available.

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

**Committee/Commission/Task Force Created:** No.

**Effective Date:** The bill contains an emergency clause and takes effect on April 1, 2010.