

---

**Finance Committee**

---

**HB 2165**

**Brief Description:** Concerning vapor products, e-cigarettes, and nicotine products taxation.

**Sponsors:** Representatives Harris, Cody, Pollet, Doglio, Kagi, Ryu and Slatter.

**Brief Summary of Bill**

- Imposes a 60 percent tax on vapor products.
- Creates the Essential Public Health Services account.
- Authorizes the Governor to enter into vapor products taxation compacts with federally recognized Indian tribes, and establishes requirements for such compacts.

**Hearing Date:** 3/21/17

**Staff:** Rachelle Harris (786-7137).

**Background:**

Regulation and Taxation of Vapor Products.

Vapor products are regulated by state law and are defined for such purposes as any noncombustible product that may contain nicotine that employs a heating element, or another electronic, chemical, or other means that can be used to produce vapor or aerosol from a solution or other substance. The term is inclusive of electronic cigarettes, electronic pipes, and any vapor cartridge or other container that is intended to be used with or in an electronic cigarette or other similar device.

In 2016 the legislature established retailer, distributor, and delivery sale licenses administered by the Liquor and Cannabis Board (LCB) to regulate the sale and distribution of vapor products. Possession of one or more license types is required in order to engage in the sale, distribution, or delivery of vapor products. Vapor products are required to be labeled with various health and safety warnings. It is illegal for a person under the age of eighteen to purchase or possess vapor products, and retailers must display signage clearly identifying that the sale of vapor products to persons under age eighteen is prohibited.

---

*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

The use of vapor products is prohibited in various places including inside child care facilities, schools, within 500 feet of schools, school buses, and elevators. The LCB has various enforcement powers related to the sale and distribution of vapor products, including the ability to enter and inspect businesses where vapor products are sold, to suspend or revoke a retailer, distributor, or delivery sale license, and to impose monetary penalties for licensee violations.

Vapor products are subject to normal sales and use taxes, but are not subject to any additional taxation.

#### Tribal Compacting.

The Governor is authorized by statute to enter into compacts and agreements with the Indian tribes of the state regarding matters of mutual interest or concern. Among these contracts are those regarding the sale and taxation of cigarettes. In general, cigarettes sold on Indian lands during a contract term are subject to a tribal cigarette tax equal to the total combined rate of state cigarette and state and local sales and use taxes. Cigarettes sold on Indian land are exempt from state cigarette taxes, and from state sales and use taxes.

#### **Summary of Bill:**

##### Vapor Products Tax.

The sale, use, consumption, handling, possession, or distribution of vapor products is subject to a tax of 60 percent of the taxable sales price. The tax is levied on both vapor cartridges and hardware used to create vapor from cartridges, such as e-cigarettes. The distributor is responsible for the payment of the tax, but the tax may be imposed on the consumer if it was not previously collected. The tax may be collected only once during the commercial distribution and retail sales process. The tax applies to preexisting inventories of vapor products. Retailers and distributors must report the tax due on preexisting inventories of vapor products on or before October 31, 2017.

All proceeds from the vapor products tax must be deposited into the State General Fund until the end of fiscal year 2020. Beginning in fiscal year 2021, 40 percent of the proceeds from the vapor products tax must be deposited into the Essential Public Health Services Account created in the bill, and 60 percent must be deposited into the State General Fund.

The Department of Revenue (DOR) is responsible for administration of the tax and all agency administrative provisions apply with respect to collection and administration of the tax. The DOR and LCB have various enforcement powers, including inspection of records and premises of distributors and retailers, and seizure of illegally held vapor products.

##### Essential Public Health Services Account.

The Essential Public Health Services account is created in the State Treasury. Beginning in fiscal year 2021, the account will be funded with 40 percent of the proceeds from the vapor products tax. The Department of Health must use the funds in the account for four purposes: (1) to fund foundational health services; (2) to fund tobacco, vapor product, and nicotine control and prevention, and other substance use prevention and education programs; (3) at least 10 percent of funds to support increased access and training of public health professionals at public health

programs at institutions of higher education in Washington; and (4) no more than 12.5 percent may be provided to the LCB to enforce vapor products regulations.

Tribal Compacting for Vapor Products.

The Governor is granted the authority to enter into vapor products tax contracts with federally recognized Indian tribes located within the geographic boundaries of the state of Washington. With the exception of contracts with the Puyallup Tribe, each contract must require that the tribal vapor products tax rate be 100 percent of the combined sum of the state vapor products tax and state and local sales and use taxes. Contracts with the Puyallup Tribe must set the tribal tax rate at 90 percent of the state vapor products tax. Any vapor products tax agreement with the Puyallup Tribe must also require the tribe to remit to the state 30 percent of all vapor products tax revenue it collects. The tribal vapor products tax is in lieu of all state and local taxes that would otherwise be applicable to sales of vapor products.

The Governor may delegate the power to negotiate vapor product tax contracts to the DOR. The DOR must consult with the LCB during any such negotiations.

**Appropriation:** None.

**Fiscal Note:** Requested on 03/14/2017.

**Effective Date:** The bill takes effect on October 1, 2017.