

Multiple Agency Fiscal Note Summary

Bill Number: 2033 HB	Title: Nicotine product taxation
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Estimated Cash Receipts

Agency Name	2025-27			2027-29			2029-31		
	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total
Department of Revenue	50,442,000	50,442,000	50,436,000	81,571,000	81,571,000	81,561,000	94,987,000	94,987,000	94,975,000
Total \$	50,442,000	50,442,000	50,436,000	81,571,000	81,571,000	81,561,000	94,987,000	94,987,000	94,975,000

Estimated Operating Expenditures

Agency Name	2025-27				2027-29				2029-31			
	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total
Department of Revenue	2.2	742,900	742,900	742,900	.1	21,000	21,000	21,000	.1	21,000	21,000	21,000
Liquor and Cannabis Board	2.3	0	0	760,916	1.3	0	0	368,490	1.3	0	0	368,490
Total \$	4.5	742,900	742,900	1,503,816	1.4	21,000	21,000	389,490	1.4	21,000	21,000	389,490

Estimated Capital Budget Expenditures

Agency Name	2025-27			2027-29			2029-31		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
Liquor and Cannabis Board	.0	0	0	.0	0	0	.0	0	0
Total \$	0.0	0	0	0.0	0	0	0.0	0	0

Estimated Capital Budget Breakout

Prepared by: Megan Tudor, OFM	Phone: (360) 890-1722	Date Published: Revised 4/ 2/2025
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Department of Revenue Fiscal Note

Bill Number: 2033 HB	Title: Nicotine product taxation	Agency: 140-Department of Revenue
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Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

Account	FY 2026	FY 2027	2025-27	2027-29	2029-31
GF-STATE-State 01 - Taxes 01 - Retail Sales Tax	(1,000,000)	(2,600,000)	(3,600,000)	(5,800,000)	(7,100,000)
GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax	(71,000)	(187,000)	(258,000)	(429,000)	(513,000)
GF-STATE-State 01 - Taxes 26 - Other Tobacco Tax	15,200,000	39,100,000	54,300,000	87,800,000	102,600,000
Performance Audits of Government Account-State 01 - Taxes 01 - Retail Sales Tax	(1,000)	(5,000)	(6,000)	(10,000)	(12,000)
Total \$	14,128,000	36,308,000	50,436,000	81,561,000	94,975,000

Estimated Expenditures from:

Account	FY 2026	FY 2027	2025-27	2027-29	2029-31
FTE Staff Years	3.1	1.3	2.2	0.1	0.1
GF-STATE-State 001-1	522,700	220,200	742,900	21,000	21,000
Total \$	522,700	220,200	742,900	21,000	21,000

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact: Rachele Harris	Phone: (603) 60-786-7137	Date: 03/11/2025
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Request # 2033-1-1

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

CURRENT LAW:

The other tobacco products (OTP) tax applies to moist snuff and other tobacco products. "Moist snuff" is tobacco that is finely cut, ground, or powdered; is not for smoking; and is intended to be placed in the oral, but not the nasal, cavity.

"Tobacco products" include products, regardless of form, that contain tobacco, but does not include cigarettes.

PROPOSAL:

This bill changes the definitions of "moist snuff" and "tobacco products" to include products containing nicotine, subjecting those products to the OTP tax.

"Moist snuff" now includes not only tobacco, but also similar products containing nicotine.

"Tobacco products" now include products that contain not only tobacco, but also nicotine, whether derived from tobacco or created synthetically.

The definition of "tobacco products" is amended so that the OTP tax will also apply to nicotine cessation products.

EFFECTIVE DATE:

This bill takes effect on January 1, 2026.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

ASSUMPTIONS:

- A typical alternative nicotine product costs \$7/unit.
- Washington's population is 2.4% of the U.S. population.
- Nicotine cessation products sale in the U.S. ranges from \$1.2 billion to \$1.5 billion annually.
- Local revenue estimates use the statewide average local sales and use taxes rate of 3%.
- The Department of Revenue (department) receives the taxes from monthly taxpayers the month after the business collects the sales tax from the consumer. Most local tax distributions occur the month after the department receives sales and use taxes that businesses collect. This leads to a one-month delay in revenue impacts for the state and a two-month delay in revenue impacts for local jurisdictions.
- Currently, tribes with compacts receive a share of state sales and use taxes and certain business and occupation taxes (RCW 43.06.523). Additionally, local governments may also receive a portion of state sales and use taxes. Under this legislation, the amount of revenue shared with tribes and local governments may decrease.
- This legislation] takes effect January 1, 2026, and impacts five months of state collections and four months of local collections in fiscal year 2026.

DATA SOURCES:

- Tobacco Insider, <https://tobaccoinsider.com>
- Economic and Revenue Forecast Council, November 2024 forecast
- U.S. Census, population data
- Office of Financial Management, population data

REVENUE ESTIMATES:

This bill increases state revenues by an estimated \$14.2 million in the five months of impacted collections in fiscal year 2026, and by \$36.3 million in fiscal year 2027, the first full year of impacted collections.

This bill also decreases local revenues by an estimated \$300,000 in the four months of impacted collections in fiscal year 2026, and by \$1.1 million in fiscal year 2027, the first full year of impacted collections.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2026 -	\$ 14,128
FY 2027 -	\$ 36,308
FY 2028 -	\$ 39,190
FY 2029 -	\$ 42,371
FY 2030 -	\$ 45,649
FY 2031 -	\$ 49,326

Local Government, if applicable (cash basis, \$000):

FY 2026 -	(\$ 300)
FY 2027 -	(\$ 1,100)
FY 2028 -	(\$ 1,400)
FY 2029 -	(\$ 1,500)
FY 2030 -	(\$ 1,600)
FY 2031 -	(\$ 1,700)

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

ASSUMPTIONS:

This proposal affects 3,800 taxpayers who have tobacco license endorsements.

FIRST YEAR COSTS:

The department will incur total costs of \$522,700 in fiscal year 2026. These costs include:

- Labor Costs – Time and effort equate to 3.07 FTEs.
 - Amend one administrative rule.
 - Create special notice and update relevant information on the department’s website.
 - Set up, program and test computer system changes.
 - Respond to data requests and questions, compile statistics, and manage data.
 - Process tax return work items, assist taxpayers with reporting questions and respond to inquiries via email, web message and paper correspondence.
 - Examine accounts and make corrections as necessary.
 - Gathering requirements, attending implementation meetings, and documenting and testing system changes.
 - Meet with tribes with revenue-sharing compact agreements to discuss changes that would be appropriate to preserve the intended benefits of the negotiated compact.
 - Answer additional phone calls and counter inquiries from businesses, individuals, and accountants regarding tax questions and tax return preparation.

Object Costs - \$114,000.

- Computer system changes, including contract programming.
- Printing and postage.
- Travel expenses for meetings with compacting tribes.

SECOND YEAR COSTS:

The department will incur total costs of \$220,200 in fiscal year 2027. These costs include:

Labor Costs – Time and effort equate to 1.3 FTEs.

- Respond to data requests and questions, compile statistics, and manage data.
- Process tax return work items, assist taxpayers with reporting questions and respond to inquiries via email, web message and paper correspondence.
- Examine accounts and make corrections as necessary.
- Meet with tribes with revenue-sharing compact agreements to discuss changes that would be appropriate to preserve the intended benefits of the negotiated compact.
- Answer additional phone calls and counter inquiries from businesses, individuals, and accountants regarding tax questions and tax return preparation.

Object Costs - \$39,100.

- Travel expenses for meetings with compacting tribes.

ONGOING COSTS:

Ongoing costs for the 2027-29 biennium equal \$21,000 and include similar activities described in the second-year costs. Time and effort equate to 0.1 FTE.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2026	FY 2027	2025-27	2027-29	2029-31
FTE Staff Years	3.1	1.3	2.2	0.1	0.1
A-Salaries and Wages	258,100	117,900	376,000	13,200	13,200
B-Employee Benefits	93,000	42,500	135,500	4,800	4,800
C-Professional Service Contracts	74,700		74,700		
E-Goods and Other Services	45,500	18,200	63,700	2,600	2,600
G-Travel	39,100	39,100	78,200		
J-Capital Outlays	12,300	2,500	14,800	400	400
Total \$	\$522,700	\$220,200	\$742,900	\$21,000	\$21,000

III. B - Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

Job Classification	Salary	FY 2026	FY 2027	2025-27	2027-29	2029-31
EMS BAND 4	135,635	0.0		0.0		
EXCISE TAX EX 3	66,012	0.9	0.1	0.5	0.1	0.1
EXCISE TAX EX 4	72,924	0.2		0.1		
IT B A-JOURNEY	94,728	0.4		0.2		
IT QA-SR/SPEC	104,412	0.1		0.1		
IT SYS ADM-JOURNEY	99,444	0.1		0.1		
MGMT ANALYST4	78,468	0.3	0.3	0.3		
TAX INFO SPEC 1	47,988	0.1	0.1	0.1		
TAX POLICY SP 2	80,460	0.1		0.1		
TAX POLICY SP 3	91,068	0.2	0.1	0.1		
TAX POLICY SP 4	98,040	0.4	0.4	0.4		
WMS BAND 2	101,410	0.0		0.0		
WMS BAND 3	115,352	0.3	0.3	0.3		
Total FTEs		3.1	1.3	2.2	0.1	0.1

III. C - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Should this legislation become law, the department will use the expedited process to amend WAC 458-20-185, titled: "Tax on tobacco products."

This rulemaking would affect taxpayers who have tobacco license endorsements.

Individual State Agency Fiscal Note

Revised

Bill Number: 2033 HB	Title: Nicotine product taxation	Agency: 195-Liquor and Cannabis Board
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Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

	FY 2026	FY 2027	2025-27	2027-29	2029-31
FTE Staff Years	2.6	2.0	2.3	1.3	1.3
Account					
Liquor Revolving Account-State 501-1	477,464	283,452	760,916	368,490	368,490
Total \$	477,464	283,452	760,916	368,490	368,490

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact: Rachele Harris	Phone: 360-786-7137	Date: 03/11/2025
Agency Preparation: Colin O Neill	Phone: (360) 664-4552	Date: 04/01/2025
Agency Approval: Aaron Hanson	Phone: 360-664-1701	Date: 04/01/2025
OFM Review: Val Terre	Phone: (360) 280-3073	Date: 04/02/2025

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

Section 1 - this bill modifies definitions in RCW 82.26.010

(13) The definition of moist snuff is amended to include “a similar product containing nicotine”

(21) The definition of tobacco products is amended to include “or nicotine, whether derived from tobacco or created synthetically”

Section 2 – this act takes effect January 1, 2026.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

ENFORCEMENT DIVISION:

The Washington State Liquor and Cannabis Board ("Board") keeps detailed statistics on all of its enforcement activities and tracks this activity using a unit of measure called a Field Increment (FI). All direct enforcement activities such as premise checks, inspections and investigations are tracked to determine how many FI's are needed to accomplish each activity. Each FI is equivalent to 1/10th of an hour (6 minutes). For example, if a tavern premise check takes 2 FI's and two officers, it is anticipated that one check will consume 4 FI's. Using historical data to factor out indirect activities such as driving time, training, office time and leave, it has been determined that officers are available for an average of 4,220 FI's each year.

The agency has determined there will be increases in audits, premise checks, and licensee support and education as a result of this bill. Please see the attached "2033 HB Nicotine product taxation - Enforcement Field Increment Calculator.pdf" for the workload calculations.

FY26: 2.6 FTE LCB Enforcement Officer 2 - \$368,489/yr (\$308,507 salary/benefits, \$59,982 in associated costs). Onetime costs in FY26 of \$108,975 for equipment purchases.

FY27: 2.0 FTE LCB Enforcement Officer 2 - \$283,452/yr (\$237,312 salary/benefits, \$46,140 in associated costs).

FY28+: 1.3 FTE LCB Enforcement Officer 2 - \$184,245/yr (\$154,254 salary/benefits, \$29,991 in associated costs).

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2026	FY 2027	2025-27	2027-29	2029-31
501-1	Liquor Revolving Account	State	477,464	283,452	760,916	368,490	368,490
Total \$			477,464	283,452	760,916	368,490	368,490

III. B - Expenditures by Object Or Purpose

	FY 2026	FY 2027	2025-27	2027-29	2029-31
FTE Staff Years	2.6	2.0	2.3	1.3	1.3
A-Salaries and Wages	225,452	173,424	398,876	225,452	225,452
B-Employee Benefits	83,055	63,888	146,943	83,056	83,056
C-Professional Service Contracts					
E-Goods and Other Services	72,817	18,940	91,757	24,622	24,622
G-Travel	34,260	25,200	59,460	32,760	32,760
J-Capital Outlays	61,880	2,000	63,880	2,600	2,600
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total \$	477,464	283,452	760,916	368,490	368,490

III. C - Operating FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2026	FY 2027	2025-27	2027-29	2029-31
LCB Enforcement Officer 2	86,712	2.6	2.0	2.3	1.3	1.3
Total FTEs		2.6	2.0	2.3	1.3	1.3

III. D - Expenditures By Program (optional)

Program	FY 2026	FY 2027	2025-27	2027-29	2029-31
Enforcement Division (060)	477,464	283,452	760,916	368,490	368,490
Total \$	477,464	283,452	760,916	368,490	368,490

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Enforcement Field Increment (FI) Calculator

2033 HB "Nicotine product taxation" (FY26)

	Number of events	Time Factor	Staffing Factor	FI Total
Tobacco Audit	90	20	1.3	2332
Tobacco/Vapor Product Premises checks	519	2	1.3	1350
Non RVP Member Support and Education	779	7	1.3	7088

<u>Factors</u>	<u>Values</u>
License Count	5193
Audits conducted (historical)	897
Tobacco Audits	10%
Tobacco/Vapor Product Premises checks	10%
Non RVP Member Support and Education	15%

Total FI's	10,771
Total Field Increments per FTE	4,220
FTE's required	2.55
Round	2.60

FY27

	Number of events	Time Factor	Staffing Factor	FI Total
Tobacco Audit	90	20	1.3	2332
Tobacco/Vapor Product Premises checks	389	2	1.3	1013
Non RVP Member Support and Education	519	7	1.3	4726

<u>Factors</u>	<u>Values</u>
License Count	5193
Audits conducted (historical)	897
Tobacco Audits	10%
Tobacco/Vapor Product Premises checks	8%
Non RVP Member Support and Education	10%

Total FI's	8,070
Total Field Increments per FTE	4,220
FTE's required	1.91
Round	2.00

FY28+

	Number of events	Time Factor	Staffing Factor	FI Total
Tobacco Audit	90	20	1.3	2332
Tobacco/Vapor Product Premises checks	260	2	1.3	675
Non RVP Member Support and Education	260	7	1.3	2363

<u>Factors</u>	<u>Values</u>
License Count	5193
Audits conducted (historical)	897
Tobacco Audits	10%
Tobacco/Vapor Product Premises checks	5%
Non RVP Member Support and Education	5%

Total FI's	5,370
Total Field Increments per FTE	4,220
FTE's required	1.27
Round	1.30