



**TO:** T.C. Broadnax, City Manager  
**FROM:** Danielle Larson, Tax & License Manager  
Andy Cherullo, Finance Director  
**COPY:** City Council and City Clerk  
**SUBJECT:** Ordinance – Amending Business & Occupation Tax Definition related to  
Recreational Cannabis – November 26, 2013  
**DATE:** November 4, 2013

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**SUMMARY:**

An ordinance amending Chapter 6A of the Tacoma Municipal Code (TMC) to ensure that sales of recreational cannabis by producers (farmers) are taxable under the City’s local Business & Occupation (B&O) tax. This amendment is being proposed in response to the voter-approved Initiative 502 (now codified generally as RCW 69.50.301 et seq.)

**BACKGROUND:**

Initiative 502, approved by Washington voters in November 2012, provides a framework for licensing and regulating the production, processing, and retail sale of recreational marijuana. The Washington State Liquor Control Board (“WSLCB”) established rules and procedures to implement Initiative 502. According to the WSLCB’s current timeline, the rules would become effective on November 16 and the State will begin accepting applications for all license types on November 18, 2013.

**ISSUE:**

Currently, TMC Chapter 6A.30 provides an exemption from B&O tax on sales of agricultural products that are produced by the same person. This exemption is intended for farmers who grow and sell their own products and is broad enough to include those persons who produce and sell recreational cannabis. With the passage of I-502 and the potential for producers to locate their businesses in the City of Tacoma, it is necessary to review taxation of recreational cannabis sales.

**ALTERNATIVES:**

Alternatives to the proposed legislation include taking no action. If Council chose to take no action at this time, then the wholesale sales of recreational cannabis by producers would remain exempt from the City’s B&O tax.

**RECOMMENDATION:**

City staff recommends the City Council adopt amendments to TMC Chapter 6A.30 regarding tax definitions as related to recreational cannabis. The proposed amendment will remove cannabis from the definition of an agricultural product and subject the wholesale sales made by cannabis producers to City B&O tax. The amendment will bring the Municipal Code into alignment with the cannabis retailer’s and processor’s requirement to remit local B&O tax on their respective sales and require tax to be paid by businesses at all levels of recreational cannabis sales.

**FISCAL IMPACT:**

The financial impacts are difficult to quantify for this new industry, but using the State of Washington’s estimates of the number of growers by population, the City of Tacoma may see additional annual revenues in the amount of \$15,000 per cannabis producer located in the City.