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California's Cannabis Taxes

PRESENTED TO: Assembly Budget Subcommittee No. 4
On State Administration
Hon. Wendy Carrillo, Chair



LEGISLATIVE ANALYST'S OFFICE

Cannabis Tax Time Line

November 2016: Voters Passed Proposition 64

- Legalized adult-use cannabis and created licensing framework.
- Two statewide taxes: (1) retail excise tax on retailers and (2) cultivation tax on growers. Revenues allocated to many programs based on detailed formula.
- Broad local discretion on licensing and taxation.

June 2017: Legislature Passed SB 94

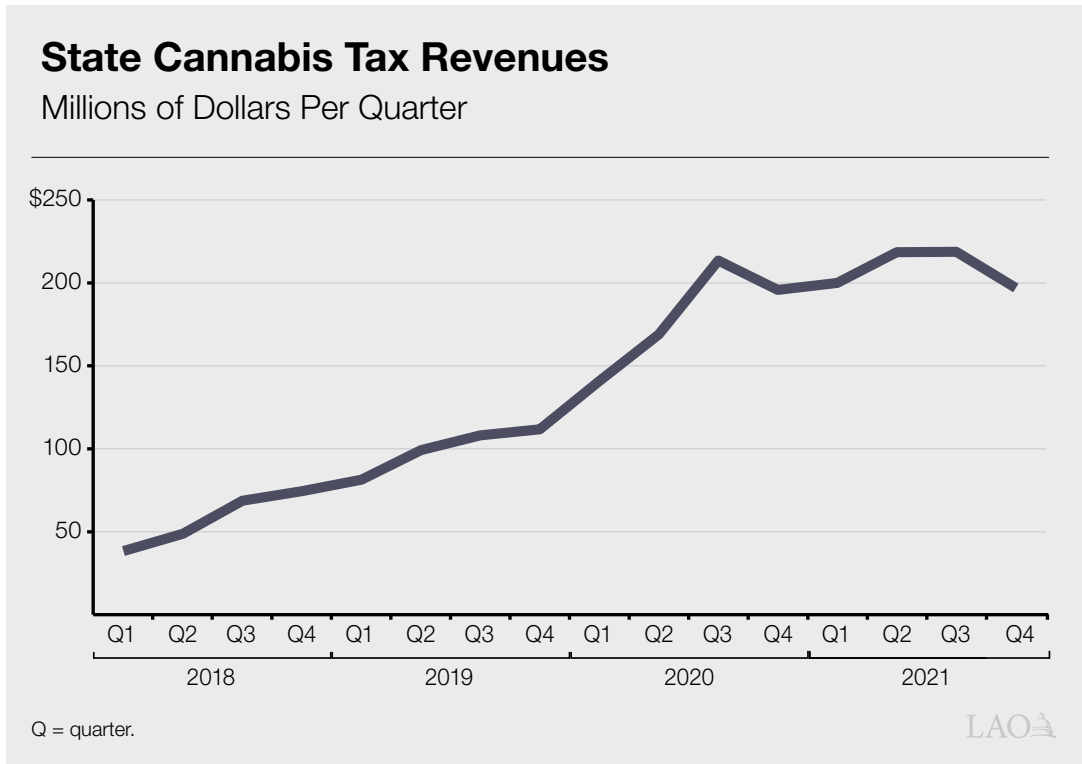
- Made distributors responsible for remitting statewide retail excise and cultivation taxes to the state.

January 2018: Licensing and Taxation Began

- Revenues initially weak, but then grew at 60 percent annual rate from 2018-19 to 2020-21.



State Cannabis Tax Revenues



State and Local Cannabis Taxes

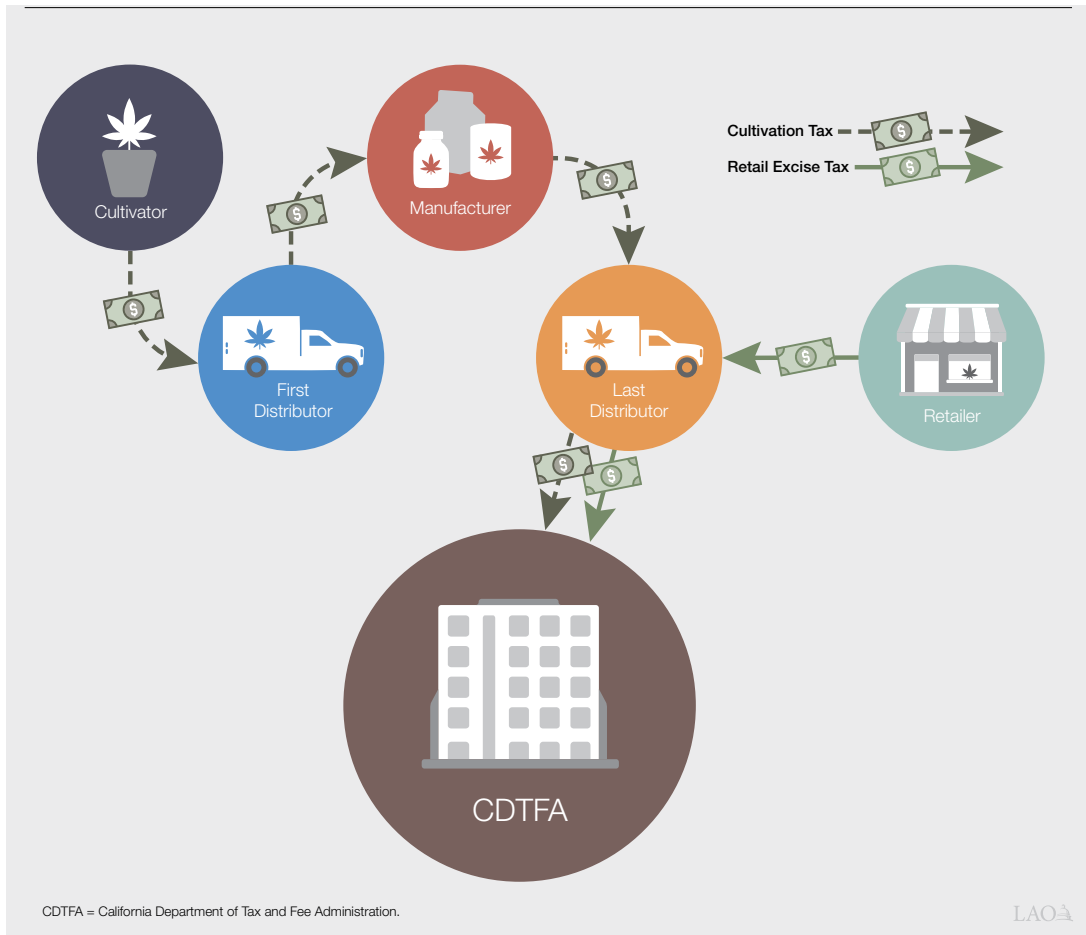
Tax	Type	Rates
State retail excise tax	Ad valorem tax primarily on wholesale sales.	Nominally 15 percent of retail price. In practice: <ul style="list-style-type: none"> • For most sales, administratively determined percentage of wholesale price (currently 27 percent). • For some sales, 15 percent of retail price.
State cultivation tax	Weight-based tax on harvested cannabis.	<ul style="list-style-type: none"> • \$10.08 per ounce of dried cannabis flowers.^a • \$3.00 per ounce of dried cannabis leaves.^a • \$1.41 per ounce of fresh cannabis plant.^a
Local taxes	Varies; most commonly ad valorem or based on square footage.	Varies—on average, roughly equivalent to a 14 percent tax on retail sales. ^b

^a Proposition 64 (2016) requires the state to adjust these rates annually for inflation.

^b 2019 LAO estimate of the average cumulative tax rate, including taxes on cultivation, manufacturing, distribution, testing, and retail.



Example of State Tax Remittance Under Current Law



2019 LAO Report

Findings Included:

- Administration and compliance more difficult for cultivation tax than for retail excise tax. Potency-based tax best for reducing harmful use, but benefit might be limited while illicit market remains widespread.
- Tax administration and compliance work best when state collects money from a business that participates directly in the taxed activity.
- Cannabis tax cuts would expand the legal market. Short-term (a couple years), this effect likely would be far too small to yield a net revenue gain. Long-term effects unclear.

Recommendations Included:

- Ideally, replace current taxes with potency-based or tiered ad valorem tax. Alternatively, if ease of administration/compliance is top priority, could keep retail excise tax. Either way, eliminate cultivation tax.
- Collect tax from business that participates directly in the taxed activity. For example, collect retail excise tax from retailers.
- Depending on priorities, could consider wide range of rates. Goals that favor low rates: competing with illicit market and increasing medicinal access. Goals that favor high rates: reducing harmful use and raising revenue.

