California’s Cannabis Taxes

PRESENTED TO: Assembly Budget Subcommittee No. 4
On State Administration
Hon. Wendy Carrillo, Chair
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 Cannabis Tax Revenues
Millions of Dollars Per Quarter

Q = quarter.

Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q2 Q4 Q2
2018 2019 2020 2021
## State and Local Cannabis Taxes

<table>
<thead>
<tr>
<th>Tax</th>
<th>Type</th>
<th>Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>State retail excise tax</strong></td>
<td>Ad valorem tax primarily on wholesale sales.</td>
<td>Nominally 15 percent of retail price. In practice:</td>
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<tr>
<td></td>
<td></td>
<td>• For most sales, administratively determined percentage of wholesale price (currently 27 percent).</td>
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<td></td>
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<td>• For some sales, 15 percent of retail price.</td>
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<tr>
<td><strong>State cultivation tax</strong></td>
<td>Weight-based tax on harvested cannabis.</td>
<td>• $10.08 per ounce of dried cannabis flowers. a</td>
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<td></td>
<td>• $3.00 per ounce of dried cannabis leaves. a</td>
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<td></td>
<td>• $1.41 per ounce of fresh cannabis plant. a</td>
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<tr>
<td><strong>Local taxes</strong></td>
<td>Varies; most commonly ad valorem or based on square footage.</td>
<td>Varies—on average, roughly equivalent to a 14 percent tax on retail sales. b</td>
</tr>
</tbody>
</table>

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

CDTFA = California Department of Tax and Fee Administration.
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.