

How High? Adjusting California's Cannabis Taxes

Summary of LAO's Report

Why We Wrote This Report

Proposition 64 (2016) directed our office to submit a report to the Legislature with recommendations for adjustments to the state's cannabis tax rate to achieve three goals: (1) undercutting illicit market prices, (2) ensuring sufficient revenues are generated to fund the types of programs designated by the measure, and (3) discouraging use by persons younger than 21 years of age. Our report responds to this statutory requirement and discusses other potential changes to the state's cannabis taxes.

State Currently Levies Two Cannabis Taxes

- **15 percent** ad valorem retail excise tax, which effectively is a wholesale tax under current law.
- **\$9.65 per ounce** tax on dried cannabis flowers, often called a cultivation tax. (There are other rates on dried cannabis leaves and fresh cannabis.)

Steps We Recommend

- Set cannabis tax rates in three steps:
1. Choose the **type of tax**.
 2. Choose **how to collect the tax** (taxed event and point of collection).
 3. Set the **tax rate**.

Type of Tax	Recommended?	Best Taxed Event and Point of Collection	Recommended Rate
Tiered Ad Valorem  Based on price of product with different rates depending on potency or product type	 Recommended	 Retail sale, collected from retailer	 Consult with scientific experts informed by track-and-trace data
Potency-Based  Based on potency (for example, THC content)	 Recommended	 Retail sale, collected from retailer ; or wholesale sale, collected from last distributor	 Consult with scientific experts informed by track-and-trace data Potentially \$0.006 to \$0.009 per milligram of THC
Basic Ad Valorem  Based on price	Worth considering	 Retail sale, collected from retailer	15% - 20% Specific rate depends on policy priorities
Weight-Based  Based on weight of harvested plants	 Not recommended	 Sale or transfer to first distributor, collected from cultivator or first distributor	 Not recommended