

FEBRUARY 23, 2022

# California's Cannabis Taxes

---

PRESENTED TO:

Senate Budget and Fiscal Review Subcommittee #4 on  
State Administration and General Government  
Hon. Sydney Kamlager, 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**

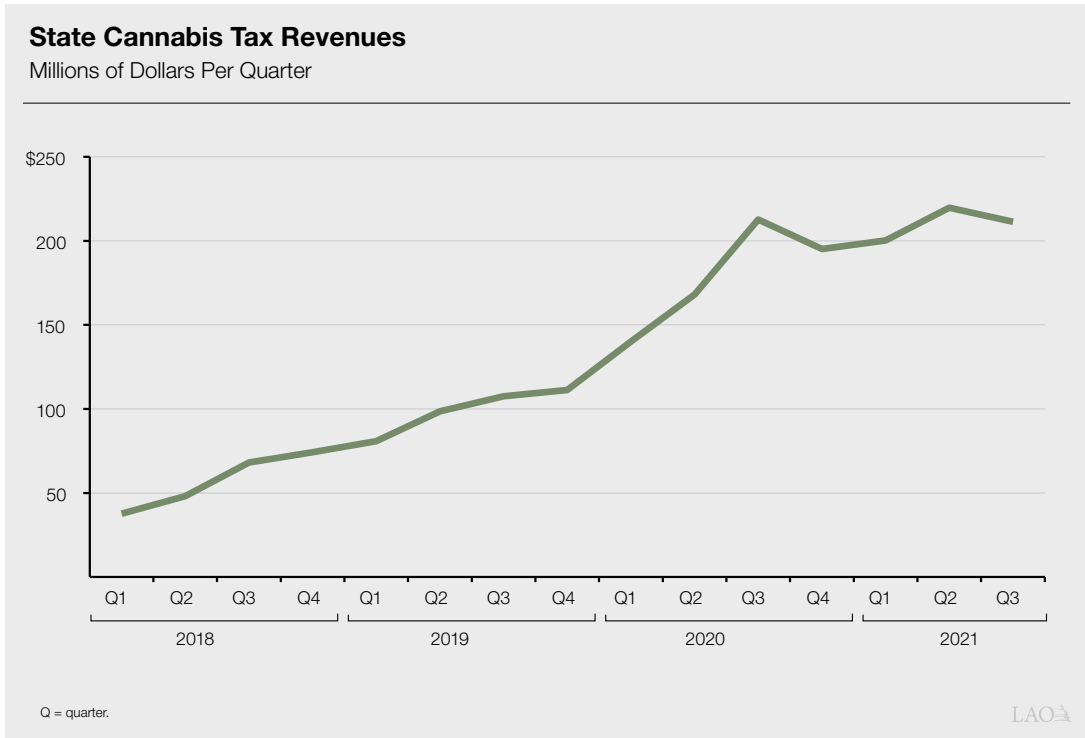
- Made distributors responsible for remitting statewide retail excise and cultivation taxes to the state.

## **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

---

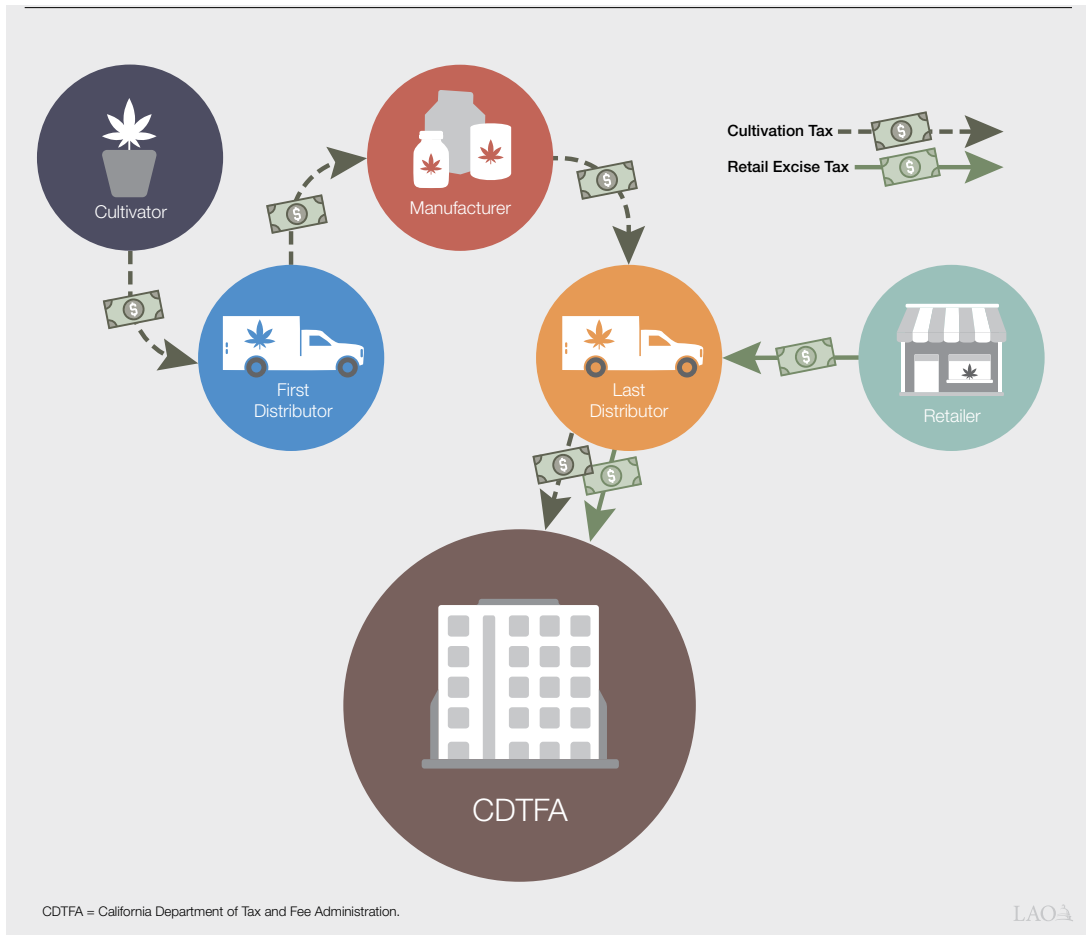
Tax	Type	Rates
<b>State retail excise tax</b>	Ad valorem tax primarily on wholesale sales.	Nominally 15 percent of retail price. In practice: <ul style="list-style-type: none"> <li>• For most sales, administratively determined percentage of wholesale price (currently 27 percent).</li> <li>• For some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

<sup>a</sup> Proposition 64 (2016) requires the state to adjust these rates annually for inflation.

<sup>b</sup> 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.

