

CA Poised to Collect Adult-Use Tax Revenue from Cannabis Operators

Medical cannabis has been legal in the Golden State for more than 20 years, and its sales have been taxed all along. But that doesn't mean the state is actually receiving all the tax revenue it has expected to earn.

Low compliance rate among medical cannabis operators

According to a study conducted by California's Board of Equalization, in 2015 there were around 3,100 medical marijuana dispensaries in the state. And, according to the same study, only around 34% of them were fully complying with state tax laws. As a result of violations or delinquencies, the state loses somewhere in the ballpark of \$105 million per year in the form of sales tax it should be collecting on medical marijuana.

Legal marijuana regulations are in a state of flux at the moment. The Adult Use Act goes into effect on January 1st and, for the first time, recreational cannabis will stand alongside the medical variety as permitted by law in the state.

The in-progress state of cannabis business licensure is in part evidenced by the fact that the state can only issue temporary licenses to cannapreneurs at first (those conditional cannabis business licenses will be valid for four months and will be subject to extension); the Bureau of Cannabis Control (BCC) will ultimately issue permanent licenses, but the agency knows those won't be ready at the outset.

CA will earn an estimated \$1B annually in legal cannabis taxes and fees

California's overall economy is huge to begin with, but the revenue the state stands to earn from the exploding cannabis market (expected to be the country's largest) is substantial as well. Experts estimate the legal cannabis industry could drive \$1 billion to the state treasury in the form of fees and taxes. (Legal cannabis retailers will owe the state a 15% excise tax on the product they sell. In addition, they will need to pay local taxes levied by their city and/or county.)

At the nexus of the swirl of regulatory change impacting California's legal cannabis industry and the taxes levied by the state is a recent addition to the tax roll: cannabis distributors.

Cannabis distributors will now be issued state tax permits. It's expected that around 250 cannabis distributors will take part in the legal adult-use market, cannapreneurs that quite literally bridge the path between cultivators and retailers. They will also be tasked with collecting canna-taxes from cultivators (\$2.75/dry-weight ounce of leaves and \$9.25/dry-weight of flowers).

Gov. vetoed amnesty program for delinquent payers; new seller's permit requires paying outstanding taxes

The question of what to do about existing medical marijuana dispensaries that are non-compliant with state taxes come January is a topic of conversation at the moment. And the present discussion is markedly different from talk of amnesty arrangements that have been floated in the past (including the six-month program that would permit businesses to temporarily escape 25% to 50% penalties by paying on delinquent tax bills, an amnesty initiative proposed by state lawmakers but vetoed by Governor Jerry Brown).

CA Dept. of Tax & Fee Admin.: “We’re ready to enforce the law.”

Paul Cambra is a spokesperson for the California Department of Tax and Fee Administration. “While we encourage maximum voluntary compliance, for those who seek to operate outside the lawful tax structure, we have the personnel and resources to go after them,” he told the *Los Angeles Times*. “As with all areas of tax collection, enforcement is a primary method of deterring tax avoidance and we’re ready to enforce the law.”

“Generally, a taxpayer that owes back taxes will need to pay the taxes due or make arrangements to pay the taxes due to obtain a new seller’s permit,” Cambra added.

“An adult-use permit is the golden ticket.”

The desire to avoid tax requirements might convince some individuals selling marijuana on the black market to forego legal sales and remain in the shadows. However, industry experts say those people would also be foregoing the opportunity for substantial profits that would come with holding a license to operate a legal cannabis business in California.

“This is about making money, and in all honesty an adult-use permit is the golden ticket,” Nate Bradley, a legislative advocate for the California Cannabis Industry Association, told the *Times*. “So if they are not going to be willing to pay their taxes, there are going to be other people with capital investment ready to jump in.

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