California Harvests $60M in Tax Revenue from Recreational Cannabis, but Loses Billions Elsewhere

Advocates of legalized recreational and medical marijuana have long known they face staunch opposition, and therefore they need to identify benefits that everyone will reap, tokers and non-tokers alike. Proponents of California's adult recreational use law (in effect since January) have touted state tax revenue as the greenest side effect of the new legislation. But Governor Jerry Brown's recently released revised budget for the state doesn't necessarily paint the burgeoning recreational sector of the cannabis industry in the rosiest of health, and one means of comparison might seem surprising.

Nearly $61M in four months sounds good…but falls short of estimates

First of all, reported tax revenue on recreational cannabis for its first four months was nearly $61 million. That may seem like a number to make everyone happy, but projections had estimated that the state would collect $185 million in the first six months alone. With the new data in mind, that number now seems out of reach.

Still, legal pot is big business in the Golden State, and by all accounts, it continues to grow (this despite the fact that cannabis is sclassified as a Schedule I drug at the federal level). The Department of Finance expects California to earn $630 million in tax revenue in 2019, which is inarguably a lot of paper green generated by the leafy green.

However, when that number is juxtaposed with how much California is losing in non-marijuana-related tax revenue, it's easy to watch that figure (and the $60-plus million already collected for this year) deflate. Namely, Silicon Valley's "gig-economy" has a tendency to misclassify workers as independent contractors and avoid paying payroll taxes and the like. The California Labor Commissioner says that the state loses $7 billion each year due to that misclassification.

Marijuana News points out that that lost revenue would do a world of good when it comes to the state's overburdened public transit network, the housing crises in L.A. and the Bay Area, and California's public university system that has slid from pinnac to expensive and unequal.

Rideshare drivers and cannabis consumers have an impact on the state's economy

Two well-known examples of gig-economy workers are drivers contracted by Uber and Lyft and considered independent contractors. These companies' drivers earn a commission on each ride they complete, but the costs of fuel and vehicle maintenance come out of their own pockets; these associated costs mean that sometimes drivers end up earning less than their state's minimum wage.

Employers are not required to provide independent contractors with provisions stipulated by labor laws (for instance, a guaranteed minimum wage, overtime pay, periodic rest breaks). Additionally, employers are not forced to offer independent contractors benefits, nor do they need to shell out payroll taxes for them. It's no wonder this brand of worker appeals to companies looking to maximize profits.

Delivery drivers sue employer, claim they were full-time employees

Here at home, this worker misclassification may be heading for a change, which means that the state may be heading for a boost in payroll tax revenue. Last month a California superior court heard a case brought by two delivery drivers classified as independent contractors who said that their employer (Dynamex Operations West, Inc.) breached the state's Labor Code and Industrial Welfare Commission rules when it did not categorize them as employees.

Narrowing the definition of independent contractor, the court ruled that the hiring company must prove that workers are "free from control" from the employer in order to be considered independent contractors, and further, any such worker defined that way must take part in "work that is outside the usual course of the hiring entity's business."

Whether the ruling will have an impact on how companies classify their workforce is still up in the air. But if the state's substantial loss of tax revenue from misclassified workforce is staunched, the millions of dollars brought in by legal cannabis may start to be seen as a win-win boon indeed.

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