

# 2022-23 Cannabis Tax Rates

Board of Supervisors

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Woodland, CA



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# Cannabis Tax Background

- Measure K (2018) authorized a tax on cannabis businesses of 1% - 15%
- Initial tax rates set at 4% for cultivation and 5% for all other businesses for 2 fiscal years
- After 2 years cultivation tax automatically increase to 5% unless Board acted otherwise
- Tax rates may not be changed more than once every 12 months and by no more than 2%

# Tax Rate Actions

- Per ordinance, cultivation tax would increase to 5% beginning July 1, 2020
- In April 2020, Board took action to maintain cultivation rate at 4% due to ongoing development of CLUO
- In March 2021, Board again took action to maintain the cultivation rate at 4% for 2021-22

# Cannabis Tax Revenues

- Steady stream of revenues has allowed county to make substantial investments
- However, tax revenues have fallen sharply in current year

<b>2018-19 Actual</b>	<b>2019-20 Actual</b>	<b>2020-21 Actual</b>	<b>2021-22 Projected</b>
\$ 782,998	\$ 2,207,126	\$ 2,073,167	\$ 1,043,031

# Industry Challenges

- Illegal product continuing to enter market
  - Estimated that up to 80% of market remains illicit
- Declining wholesale prices
  - Price per pound decline ~60% from mid-2021
- Limited retail opportunities
  - Cannabis sales still prohibited in majority of cities
- Excessive taxation, particularly at state level

# State and Local Cannabis Taxes

<b>Yolo County</b>	<b>Basis</b>	<b>Rate</b>
Cultivation	Gross Receipts	4%
Other Businesses	Gross Receipts	5%

<b>State</b>	<b>Basis</b>	<b>Rate</b>
Cultivation - Flower	Per ounce	\$10.08
Cultivation - Dry Leaf/Trim	Per ounce	\$3.00
Excise	Average market price	15%
Sales & Use	Retail sale price	7.25%

- Governor's May Revise proposes to eliminate the state cultivation tax

# State and Local Cannabis Taxes

- Total burden of local taxes significantly less than of state taxes

	<b>Example 1</b>	<b>Example 2</b>
Wholesale price (per/lb)	400.00	800.00
Yolo County Tax	16.00	32.00
State Cultivation Tax	161.28	161.28
State Excise Tax	108.00	216.00
State Sales & Use Tax	36.83	73.66
<b>Total County Taxes</b>	<b>16.00</b>	<b>32.00</b>
<b>Total State Taxes</b>	<b>306.11</b>	<b>450.94</b>

# Recommended Actions

- Set 2022-23 cannabis tax rates 4% for cultivation and 5% for all other businesses (unchanged)
  - Preserves flexibility to change rates later if conditions warrant
- Direct staff to send letter in support of the Governor's proposal to eliminate the state cultivation tax