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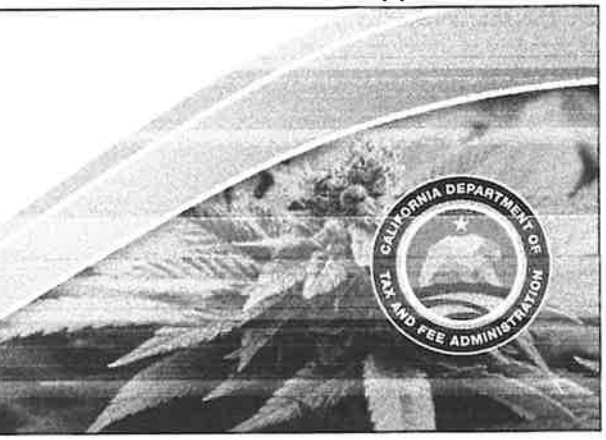
California Department of Tax and Fee Administration

CANNABIS
SPECIAL NOTICE



New Cannabis Excise Tax Rate Effective July 1, 2025

Effective July 1, 2025, the cannabis excise tax rate will increase from 15 percent to 19 percent of gross receipts from retail sales of cannabis or cannabis products.

Why is the tax rate changing?

The California Department of Tax and Fee Administration, in consultation with the Department of Finance, is required by law to adjust the cannabis excise tax rate for the 2025-26 fiscal year and every two years thereafter. The rate change reflects an additional percentage equivalent to the amount of cultivation tax that would have been collected if the cultivation tax had not ended.[1] For more information on the computation for the rate change, please see our *Tax Guide for Cannabis Businesses* at *https://www.cdtfa.ca.gov/industry/cannabis/retailers.htm#cannabis-excise-tax-rate-adjustment*.

How does the tax apply?

Cannabis retailers are responsible for collecting the cannabis excise tax from their customers who purchase cannabis or cannabis products based on the gross receipts from the retail sale. Gross receipts generally include any amount the purchaser is required to pay to purchase the cannabis or cannabis products. For more information on what is included in gross receipts, please see *Gross Receipts Subject to Tax* section at *https://cdtfa.ca.gov/indu/cannabis/retailers.htm#RetailGrossReceipts* in our *Tax Guide for Cannabis Businesses* under the *Retailers* page at *https://cdtfa.ca.gov/industry/cannabis/retailers.htm*.

When is the tax due?

The 19 percent cannabis excise tax rate applies to all cannabis and cannabis product purchases made by consumers on and after July 1, 2025. Cannabis retailers are responsible for reporting their sales to us on their online cannabis excise tax return. For monthly filers, the new rate applies starting with the July 2025 returns. For quarterly filers, the new rate applies starting with the third-quarter 2025 returns (covering July 1, 2025 – September 30, 2025). For current and prior cannabis tax rates, please see our *Tax Rates—Special Taxes and Fees* page at *https://www.cdtfa.ca.gov/taxes-and-fees/special-taxes-and-fees-tax-rates/#cannabis*.

Potential legislation that may impact the tax rate

We are aware of proposals to change our requirement to adjust the cannabis excise tax rate. If there are any changes that will affect the tax rate, you will receive another notification from us.

For more information

We encourage you to read our online guide for cannabis at *Tax Guide for Cannabis Businesses* at *https://cdtfa.ca.gov/industry/cannabis/*. You may also call our Customer Service Center at 1-800-400-7115 (TTY:711), and select the option for *Special Taxes and Fees*. Customer service representatives are available Monday through Friday from 7:30 a.m. to 5:00 p.m. (Pacific time), except state holidays.

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[1] Revenue and Taxation Code section 34011.2.

Calif. cannabis market posts biggest sales drop in legalization history

Lester Black

FILE: A cannabis plant grows outdoors in California.

Lester Black/SFGATE

California's struggling legal cannabis market is shrinking faster than ever, according to new tax data released Tuesday.

Taxable sales at California's legal cannabis stores amounted to $1.088 billion in the first quarter of 2025, the lowest figure in five years and an 11% drop in sales compared to the same quarter a year earlier, according to an SFGATE analysis of tax data. That's the largest such drop in the history of legal cannabis sales in California.

Tamma Adamek, a spokesperson for the California Department of Tax and Fee Administration, did not dispute SFGATE's analysis of the drop. However, she said comparing the latest figures to earlier reported taxable sales is like comparing "apples to oranges" because the tax figures are constantly being updated as more cannabis stores file their tax reports.

"We know that the gap will shrink," Adamek said, without providing an estimate for how much the agency expects the reported sales to change.

Experts have been warning for years that California's legal market is in dire straits, as legal operators face extraordinarily high regulatory fees, taxes and competition from the unlicensed market. Legalization has also increased competition within the legal market, which has dropped wholesale prices, reduced profit margins and made it harder for businesses to survive.

Illegal cannabis stores are still rampant in California, where customers can purchase tax-free marijuana and operators can run their businesses without paying the state's expensive fees. The licensed market supplied only 38% of the cannabis consumed in California in 2024, according to an analysis published earlier this year by the Department of Cannabis Control.

FILE: A member of the Gorilla Rx staff rings up a customer in Los Angeles on April 23, 2025.

Jessie Alcheh/SFGATE

The DCC-commissioned report pushed back on the idea that "the licensed market is failing or shrinking," blaming the years of declining sales on falling prices and saying that the market itself "is continuing to grow" because the volume of retail sales and production is increasing.

Hirsh Jain, a cannabis consultant based in Los Angeles, said in a text message to SFGATE that the legal market "is getting worse" and that the DCC's argument that the market is expanding is "becoming more and more laughable."

"It's the train wreck that keeps getting worse, but those running the train refuse to admit it," Jain said.

Thousands of California cannabis companies have already gone out of business, but the market is set to get hit with another challenge on July 1 when the state excise tax rate increases from 15% to 19%, thanks to a law signed three years ago by Gov. Gavin Newsom.

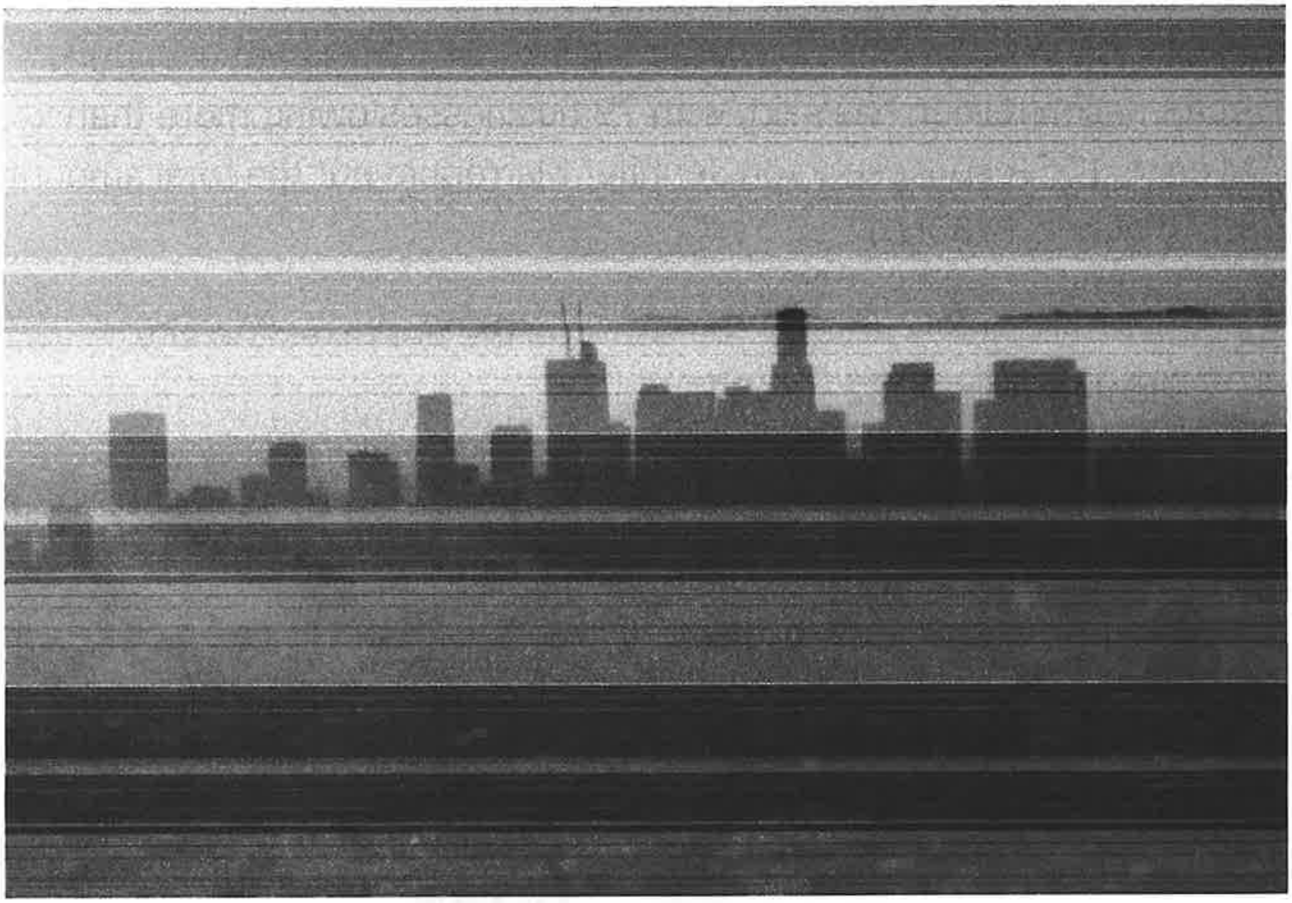
FILE: Cannabis plants pictured inside the largest indoor cultivation facility in the state.

Courtesy of C4 USA

Newsom's administration expects the increased tax rate will further contract the market, according to a March update from the California Legislative Analyst's Office. Seth Kerstein, an economist with the office, said in an email to SFGATE that the agency expects "the tax hike will reduce total statewide pre-tax sales of cannabis products in the licensed market by 6%."

San Francisco Assemblymember Matt Haney proposed a law this year that would block the tax increase. That bill passed the Assembly unanimously Monday, but it still needs to be passed by the Senate and signed into law by Newsom.

"A debt trap:" Los Angeles market crisis deepens



"This is not equity, this is exploitation!" Evelyn Brinson co-owner of Mid-City Los Angeles social equity dispensary The Green Paradise seethed to a city council committee in April. "It's a fucking fee trap."

Long simmering tensions between struggling businesses and LA's Department of Cannabis Regulation (DCR) are boiling over as operators plead for lower taxes and more enforcement against unlicensed shops. The latest flare up involves a proposed fee hike for operators which, would go in part to giving DCR staff a raise, their first since 2020.

Local operators like to call LA the world's largest cannabis market. But operators in the city have struggled since the legal market opened in

2018. It may be the toughest city in America to run a pot shop. According to DCR, approximately 700 businesses are behind in their taxes, representing well over half the licensees currently operating in the city.

In total, they owe the city more than $300M, DCR assistant executive director Jason Killeen has said, with 79 businesses owing more than $1M each. (DCR spokesperson Jennifer Marroquin put the total amount owed at above $280M.)

- The total owed is roughly the same as the pot taxes the city collected from 2022 – 2024.

"They want to balance their budget on our backs," said Kika Keith, owner of Gorilla RX Wellness, a social equity dispensary on Crenshaw Blvd.

Kika Keith, owner of Gorilla RX Wellness (Courtesy Gorilla RX Wellness)

"A debt trap"

Any discussion of the LA market is also inevitably a discussion about cannabis equity, the idea that entrepreneurs from the largely low-income minority communities who got the worst of the war on drugs, would be able to profit from the legal cannabis industry.

Dozens of states and cities have tried to implement equity programs. In practice, they have largely run aground when faced with the industry's many challenges and their inability to help equity businesses access capital. This can have devastating consequences for the entrepreneurs, encouraged by local officials, who joined the industry hoping to build "generational wealth." In California, for example, the Department of Tax and Fee Administration (CDTFA) has the ability to hold license owners personally liable for taxes owed by their business. (The extent to which CDTFA is currently pursuing that option is not clear.)

Nowhere bet bigger on equity than LA. In Spring 2022, incoming DCR executive director Michelle Garakian boasted that the city had licensed more social equity businesses than any other jurisdiction.

The challenges were already evident. Notoriously, in 2019, a software glitch in a first-come, first served application submission system, led to an audit and litigation. Applicants who needed to secure properties to be eligible, bled out on rent, some for more than two years, before they opened, if they were able to.

- Additionally, the initial land grab to secure property stuck LA equity operators paying above market rents.

According to DCR's latest annual report, 132 of the cities 290 storefront retail licenses are equity and all of its 100+ delivery licenses. Many of the storefronts realized their only plausible path to open was to partner with a larger company. Equity operators say some of them signed lopsided deals without consulting lawyers.

- In 2022, WeedWeek reported on the draft of a deal in Oakland, where Stiiizy's equity partner had essentially no chance of seeing a profit, despite owning 51% of the business. "We believe the financial terms we provide to our social equity applicants are equal to, if not better than, any of our competitors," a Stiiizy spokesman wrote. (LA considers these deal terms exempt from public records requests.)

Madison Shockley, who owns south LA pot shop Cadre, previously had a partnership with larger retailer Off The Charts but it has ended. He estimates he owes $350,000 in taxes to the city and about twice that to the state. With the store open, his debt continues to grow, but if he closes Cadre he has no realistic way to pay it off.

"I'm in a debt trap that I don't know how to get out of," he said. And of course as a cannabis business he can't go bankrupt. "It's extraordinarily stressful. I have moments where I have to stop everything I'm doing and sit in my car and cry."

Whose failure?

The city's high taxes and lack of enforcement affect major operators as well. Elliot Lewis, the bombastic CEO of 30-store retailer — including at least five in LA — Catalyst Cannabis calling for a tax strike against the city. The city DCR, who he calls, in a representative social media post, "incompetent" and "thieving grifters" has been a target of much of operators' ire.

However, the problems LA operators face are not all the DCR's doing. In particular, the agency has no purview over the city's cannabis tax or the lack of enforcement against unlicensed shops, especially in South LA where social equity shops are concentrated.

While areas from Sonoma County to San Francisco to Desert Hot Springs have moved to reduce the tax burden on the cannabis industry, LA has maintained a local sales tax of 10%, among the highest in the state.

LA operators also face a concentrated version of another statewide problem: Competition with the illegal market. Whitney Beattie co-owner of Josephine and Billie's, a social equity dispensary in south LA, says there are six unlicensed dispensaries within a mile.

The trap shops, which of course don't pay taxes or follow regulations, can sell products for $8 that Josephine and Billies has to sell for $14, (including tax.) Buyers committed to buying licensed products can drive to neighboring cities where taxes are lower or order from delivery services based out side LA.

A group of frustrated equity licensees has started the Black Los Angeles Cannabis Council (BLACC), to advocate for a significant overhaul of the city's regulatory structure.

A paper BLACC put together with Catalyst argues that cutting taxes and stepping up enforcement on illegal shops will strengthen the legal market and increase tax revenue. For example, it says a 2023 crackdown in Oxnard led to Catalyst's shop seeing a daily sales bump from $8,000 to $13,000 within six months.

A motion BLACC is circulating to stabilize the market calls for reforms including:

- Disband DCR and have the social equity program transferred to the Department of Economic Development.
- Develop a "Social Equity Tax Reconciliation and Remediation" program

- Implement a "tiered" taxation structure, similar to one in Oakland, which taxes small equity businesses at a lower rate
- Prioritize enforcement against unlicensed operators, and reaffirm support for a city code provision which allows fines of $20,000 per day against landlords who rent to unlicensed operators

BLACC has asked City Councilmember Curren D. Price Jr. to introduce it, though it's not clear whether he will.

Asked about the situation Mayor Karen Bass's (D) office did not respond to a request for comment. The office of City Council President Marqueece Harris-Dawson (D), a longtime advocate for cannabis equity, did not respond to requests for comment.

"The people in the city know this is their failure," Cadre owner Shockley said.

"To promote equitable ownership"

The current controversy dividing DCR and license holders involves a bureaucratic dispute between DCR and the state Department of Cannabis Control (DCC). California's 2021 budget allocated $100M dollars to help local jurisdictions convert provisional license holders to annual (permanent) licensure. Of the total, $22.3M went to the city of LA.

A scathing August 2024 report from the state auditor found significant shortcomings with how the DCC had administered the grant, including that it was "understaffed" with people "unqualified to manage a program of this complexity" and has not responded in a timely way to jurisdictions' amendment requests about how the money can be spent.

LA DCR official Killeen says the grant enabled the agency to go this long without a fee hike for operators. He now claims the DCC is trying to claw back grant funds and "retroactively disallow" some of the ways DCR spent money, leaving a $10.5M hole.

After the state's audit began, Killeen told City Council members, "their grant coordinator admitted that she had not read the grant agreements in advance of signing and executing them, and they basically disallowed all of the grant agreements." The city has seen federal and state grants clawed back across multiple departments, Killeen said.

DCC spokesperson David Hafner said the agency "has not requested that the funding be recaptured," and is working with LA to ensure spending aligns with the grant program.

These technicalities are cold comfort to operators facing DCR fee hikes as well as other fees associated with transitioning from a provisional to annual license.

Several days after the city council committee meeting, Killeen gave a presentation to the city Cannabis Regulation Commission, followed by a discussion of the market that was as nuanced and sophisticated as I've ever heard from public officials. They understood the dire situation faced by LA operators, and that there are no easy fixes.

At one point Killeen reminded the commission that social equity is not "a restorative justice reparations economic Development program. It is a regulatory program," where social equity entrepreneurs receive some favorable treatment.

But that's not how it was sold to them. In 2019, when then DCR executive director Cat Packer appointed the head of the agency's equity program, she described its mission "to promote equitable ownership and employment opportunities in the cannabis industry in order to decrease disparities in life outcomes for marginalized communities, and to address the disproportionate impacts of the failed War on Drugs."

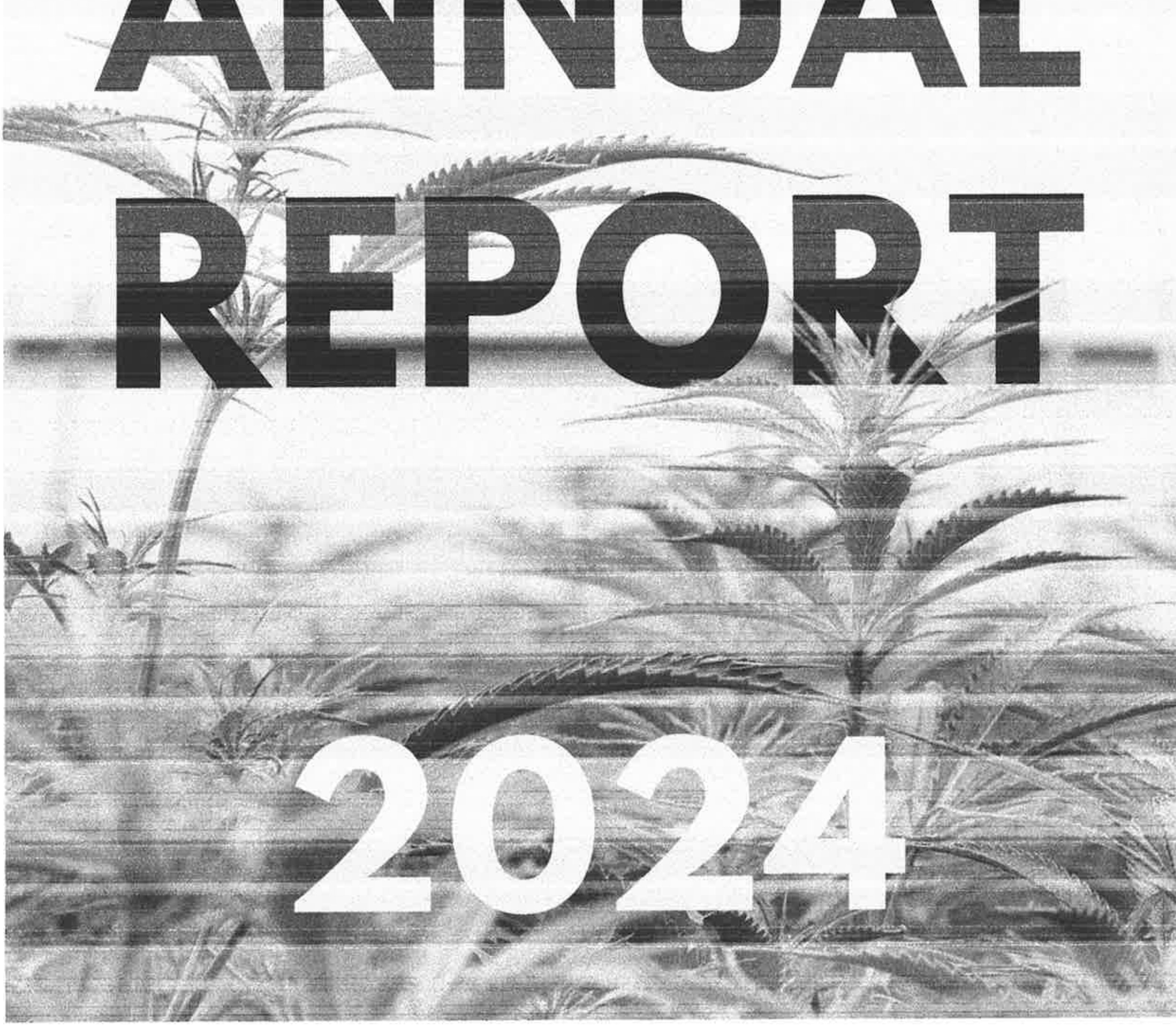
DCR is now planning to hold another lottery, at the end of the year, for equity operators to enter the market, a move many current equity operators oppose.

Commission president Thryeris Mason asked, "Why are we allowing more people to come into an industry where really we're sending them down the road to slaughter?"

CITY OF LOS ANGELES DEPARTMENT OF

CANNABIS REGULATION

ANNUAL REPORT



2024

Los Angeles Tax Revenue Analysis

Year	# of Licensees	Gross Receipt Tax Revenues		Taxes per Licensee	
2018	169	$19,900,472.51		$117,754.28	
2019	311	$67,765,634.71		$217,895.93	
2020	425	$103,100,631.89		$242,589.72	
2021	1067	$123,453,887.18		$115,701.86	
2022	1347	$109,521,547.74		$81,307.76	
2023	1506	$104,408,778.31		$69,328.54	
2024	1373	$90,550,363.23		$65,950.74	