



August 26, 2020

The Honorable Holly Mitchell
Chair, Senate Budget & Fiscal Review
Committee
State Capitol, Room 5050
Sacramento, CA 95814

The Honorable Phil Ting
Chair, Assembly Budget Committee
State Capitol, Room 6026
Sacramento, CA 95814

RE: SB 827 (Budget & Fiscal Review) and AB 1872 (Assembly Budget Committee): Cannabis Trailer Bills

NOTICE OF SUPPORT

Dear Chair Mitchell and Chair Ting:

The California Cannabis Industry Association (CCIA) strongly supports SB 827 (Senate Budget & Fiscal Review Committee) and AB 1872 (Assembly Budget Committee), the budget trailer bills on cannabis. Among its provisions, this bill will provide much needed tax certainty for licensed cannabis businesses, beginning January 1, 2021.

SB 827 and AB 1872 freeze, for one year, the California Department of Tax and Fee Administration's (CDTFA) authority to increase the existing cannabis tax rates, including the wholesale mark-up rate used to calculate the excise tax. The bill also prohibits the CDTFA from increasing the cultivation tax rate for inflation unless the adjustment is for an inflation rate that is less than zero. To be clear, this bill neither increases or decreases taxes, but will freeze the existing rates, upon which state taxes on cannabis are calculated.

SB 827 and AB 1872 follow a surprise announcement by the CDTFA last November that, effective January 1, 2020, the cannabis mark-up rate for purposes of calculating the 15% excise tax on cannabis would increase from 60% to 80%. This was accompanied by an increase in cultivation tax rates of approximately 4%. These tax increases came at a particularly difficult time for the legal cannabis industry, which has faced considerable challenges since the regulatory framework took effect on January 1, 2018.

With the CDTFA currently mandated to annually adjust the cultivation tax rate for inflation, there is significant concern that it will increase once again beginning January 1, 2021. The CDTFA will also be contemplating an adjustment to the wholesale mark-up rate for purposes of collecting the excise tax.

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Facing already burdensome taxes and a more unpredictable market than ever, California's legal cannabis industry cannot sustain another increase in the mark-up rates in 2021.

By suspending the CDTFA's authority to increase State cannabis taxes for a year, these trailer bills provide much-needed certainty, while also allowing the legal industry to focus on broader reform efforts aimed at reducing state and local taxes, addressing ongoing regulatory hurdles that exacerbate cost pressures, expanding legal retail access, combatting a thriving unlicensed market and removing barriers to entry.

CCIA is pleased to have participated in this collaborative process and commends you and your staff for introducing this important measure which will provide immediate, short-term relief at a time when California's legal cannabis industry needs it the most.

Should you have any questions or wish to discuss CCIA's position please contact our legislative advocate, Amy Jenkins, at (707) 291-3270 or amy@precisionadvocacy.co.

Sincerely,

A handwritten signature in black ink that reads "Lindsay Robinson". The signature is written in a cursive, flowing style.

Lindsay Robinson
Executive Director

Cc: Members, California State Legislature