



May 6, 2022

The Honorable Steven Bradford
Senator, 35th District
1021 O Street, Suite 7210
Sacramento, CA 95814

RE: SB 1281 (Bradford) Cannabis Taxes, as amended April 18, 2022
NOTICE OF SUPPORT

Dear Senator Bradford:

The California Cannabis Industry Association (CCIA) is pleased to support your Senate Bill (SB) 1281, which offers meaningful tax reform for California's regulated cannabis industry by addressing many of the systemic challenges that are forcing legal operators and consumers back into the illicit market.

Specifically, SB 1281 eliminates the cultivation tax and moves the responsibility of tax remittance to the retailer level or point of sale. The bill also makes changes to the way taxes are calculated. Currently cannabis tax calculations include an estimated markup rate calculated by the California Department of Tax and Fee Administration (CDTFA). The bill would also reduce the excise tax rate from 15% to 5%. Lastly, the bill backfills any lost revenues from the tax elimination and reduction using state General Fund revenues to assure that the beneficiaries of cannabis tax revenue are held harmless.

When voters approved Prop. 64 in 2016, their expectations were to take cannabis production and sales out of the hands of the illegal market and to tax the growth and sale of cannabis in a way that drives out the illicit market. Today, the illicit market in California is estimated to be twice as large as the licensed cannabis market and, while cannabis tax collections have grown over time, the Administration has been forced to revise downward forecasts of cannabis-related tax revenue in successive fiscal years.

A recent [study](#) conducted by the Reason Foundation, examines consumer purchasing habits and found a clear correlation between California's cannabis tax rates and consumer participation in the legal market. Analyzing the taxation of legal cannabis, the study found that the combination of California's cultivation and excise tax, coupled with local cannabis taxes, can be as high as \$90 per

ounce, which is equivalent to \$1,441 per pound. For comparison, legal cannabis taxes average \$340 a pound in Oregon and \$526 a pound in Colorado.

The study's findings also validate previous reports that California's legal cannabis industry represents approximately one-third the size it should be. This is based on the state's population and estimated adult-usage rates and shows that nearly two-thirds of all cannabis sales conducted in California still take place in the illicit market.

Lastly, the study concludes that California could increase legal cannabis sales and bring in 123% more in total monthly cannabis-related tax revenue by 2024 if it eliminated its cultivation tax.

As previously stated, the intent of Prop. 64 was to take cannabis out of the hands of the illicit market. To fulfill the will of California's voters, legal cannabis products must be competitively priced to undermine the illicit market. SB 1281 offers genuine tax reform by eliminating the cultivation tax, moving tax remittance responsibilities to the retail level, and reducing the excise tax to allow licensed cannabis companies to effectively compete with the illicit market, incentivizing consumers to buy legal cannabis.

For these reasons, the California Cannabis Industry Association enthusiastically supports SB 1281 and thanks you for your leadership on this important issue.

Should you have any questions or require further information, please contact CCIA's legislative advocate, Amy O'Gorman Jenkins, at 707-291-3270 or amy@precisionadvocacy.co.

Sincerely,

A handwritten signature in cursive script that reads "Lindsay Robinson".

LINDSAY ROBINSON
Executive Director