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## CANNABIS

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### CANNABIS TAX REFORM

California's current cannabis tax framework is overly complex and burdensome for licensees and consumers. Current tax policies disproportionately burden cannabis farmers, create additional administrative costs and instability throughout the supply chain, and lack sufficient transparency for the state, businesses, and consumers. Taken together, these outcomes undermine the societal benefits of a taxed and regulated market.

The May Revision proposes statutory changes to reform cannabis taxes. These policy changes aim to greatly simplify the tax structure, remove unnecessary administrative burdens and costs, temporarily reduce the tax rate to support shifting consumers to the legal market, and stabilize the cannabis market with policies that are more transparent and can better adjust to market changes. Major changes include:

- Setting the cultivation tax rate at zero beginning July 1, 2022.
- Shifting the point of collection and remittance for excise tax from distribution to retail on January 1, 2023, maintaining a 15 percent excise tax rate.
- Setting Allocation 3 funding for youth education/intervention/treatment, environmental restoration, and state and local law enforcement programs at a baseline of \$670 million annually for three years. Up to \$150 million one-time General Fund is available as needed through 2025-26 to backfill Allocation 3 funding, along with the authority to increase the excise tax rate through 2024-25 if tax revenues fall below the baseline for Allocation 3.
- Strengthening tax enforcement policies to increase tax compliance and collection and reduce unfair competition.

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### UPDATED ALLOCATION OF THE CANNABIS TAX FUND

Proposition 64 specifies the allocation of cannabis tax revenue in the Cannabis Tax Fund, which are continuously appropriated. Pursuant to Proposition 64, expenditures are prioritized for regulatory and administrative workload necessary to implement, administer, and enforce the Cannabis Act, followed by research and activities related to the legalization of cannabis and the past effects of its criminalization. Once these

priorities have been met, the remaining funds are allocated to youth education, prevention, early intervention, and treatment; environmental protection; and public safety-related activities. The May Revision estimates \$670 million will be available for these purposes in 2022-23, and the structure of these allocations is unchanged from 2021-22:

- **Education, prevention, and treatment of youth substance use disorders and school retention**—60 percent (\$401.8 million)
- **Clean-up, remediation, and enforcement of environmental impacts created by illegal cannabis cultivation**—20 percent (\$133.9 million)
- **Public safety-related activities**—20 percent (\$133.9 million)

These figures reflect a total increase of \$74.7 million compared to the Governor's Budget estimate. These estimates also reflect the proposed statutory changes to restructure the cannabis tax framework and maintain a baseline level of funding for this allocation.

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### **CANNABIS LOCAL JURISDICTION RETAIL ACCESS GRANT PROGRAM**

To assist the cities and counties of California that do not currently license storefront or delivery-only cannabis retailers, the May Revision includes \$20.5 million one-time General Fund to establish a cannabis local jurisdiction retail access grant program. The goal of this grant program is to aid localities with the development and implementation of local retail licensing programs and to support consumers in gaining access to regulated and tested products through an expansion of California's legal marketplace. This grant program will:

- Award funding to eligible local jurisdictions proportionally based on the population size served to support the development and implementation of a local jurisdiction retail program.
- Award funding to eligible local jurisdictions based on the number of permits issued pursuant to the local jurisdiction retail licensing program.
- Award additional funding to eligible local jurisdictions that issue permits to equity applicants pursuant to the local jurisdiction retail licensing program.