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## Senate Bill 512: Definition of Taxable Gross Receipts

Prepared for: Chair Anna Caballero  
California Senate Governance and Finance Committee

Prepared by: Geoff Lawrence, Director

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### Senate Bill 512 Would Prevent Double-Taxation of Cannabis Licensees

Dear Chair Caballero and members of the committee:

On behalf of Reason Foundation, I thank you for accepting these comments and making them part of the public record. Among other things, Reason Foundation is committed to ensuring that state-regulated cannabis markets are designed in such a way that they remain dynamic and offer genuine economic opportunity to individuals from a range of backgrounds.

Senate Bill 512 would prevent local and state cannabis taxes from compounding on each other. Currently, California's Cannabis Tax Law states that special tax levies assessed against cannabis licensees are in addition to any other tax imposed by cities and counties and that cannabis licensees are to be charged excise taxes based on their gross receipts. Under the current legal construction, "gross receipts" may include sales and excise tax assessments by local governments that are passed on to consumers at the point of retail. As a result, cannabis retailers may be required to pay cannabis excise taxes, in part, based on the receipt of locally assessed tax obligations.

For example, if a local government imposes a 10% excise tax on cannabis sales, a sale of \$100 worth of cannabis products would result in a \$110 retail transaction prior to the collection of state excise taxes. This transaction would again be marked up at the current 15% rate of state excise taxation, resulting in a transaction total of \$126.50.

By contrast, when the local tax is excluded from the definition of "gross receipts" for the purpose of state excise taxation, the same transaction would amount to \$100 in products plus \$10 in local tax ( $\$100 * 0.1$ ), plus \$15 in state excise tax ( $\$100 * .15$ ), or \$125 in total. The \$1.50 difference in this example is the result of tax compounding.

Likewise, Senate Bill 512 would prohibit local governments from considering the collection of state excise taxes within their respective definitions of gross receipts in the calculation of local excise taxation.

These clarifications are warranted because the current construction requires cannabis consumers and licensees to pay taxes on taxes. California's legal cannabis industry already struggles to attract consumers away from illicit competitors who face no tax liabilities. A 2022 Reason Foundation study found the tax-

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induced price disparity between legal and illicit cannabis products in California was substantial and varied by local jurisdiction, ranging from \$656 per pound in Desert Hot Springs to \$1,440 per pound in Solano County.<sup>1</sup> These taxes, along with a lack of legal retailers across much of the state, dissuade consumers from participating in the legal market. We used public and proprietary data to estimate that about two-thirds of consumer demand was being met by illicit suppliers. Since the time of that estimate, California has reduced the tax-induced price disparity between legal and unlicensed goods by following Reason Foundation’s recommendation to eliminate the wholesale cultivation tax. However, we believe the proposal embodied in Senate Bill 512 will further reduce the cost disadvantages facing legal retailers and attract more consumers to the legal and regulated market.

Thank you,

Geoff Lawrence  
Director of Drug Policy, Reason Foundation

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<sup>1</sup> Geoffrey Lawrence, “The Impact of California Cannabis Taxes on Participation Within the Legal Market,” Reason Foundation policy study, May 2022, <https://reason.org/wp-content/uploads/impact-of-california-cannabis-taxes-on-legal-market.pdf>.

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