



# Cannabis Tax Research City of South San Francisco

Prepared by Cohere Insights LLC, June 2019



# Executive Summary

- Tax Revenue
  - Challenges
    - Illegal Market
      - Lack of Historical Data



# Brief History of Legalization

- 2016: AUMA approved by voters, legalizes recreational cannabis
  - 2018: California begins issuing licenses



# California State & Local Tax Structure

## Retail

- State Excise Tax: 15%
- SUT - varies, 7-10%
- Local Tax ~1-10%



## Distrib + Manuf

- SUT - varies, 7-10%
- Local Tax ~1-10%



## Testing

- Local Tax ~1-10%

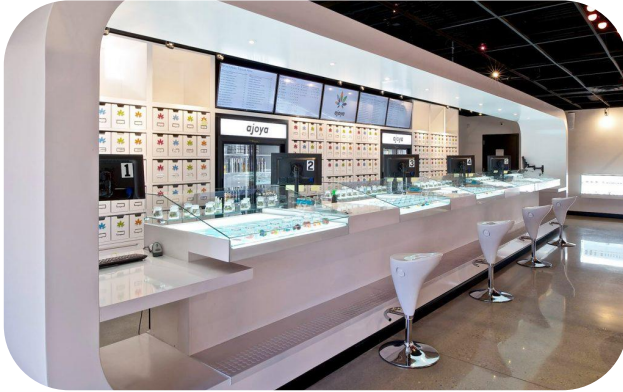


## Cultivation

- SUT - varies, 7-10%
- Cultivation Tax (weight based)
- Local Tax ~1-10%



# Licensed/Regulated vs. Unlicensed/Illegal



Tested - Safe - Legal



Untested - Potentially Unsafe -  
Illegal



# Lessons Learned from Other States

Legalization for more years

Example

- Colorado
- Washington



# Cannabis Tax Rates - Bay Area

## Wide Swing in Rates

- Lowest: San Francisco
- Highest: San Jose
- Tax Rate Reduction in effect: Oakland & Berkeley



# Tax Rate Recommendations - Long Term Strategy

Cannabis Legal Market Development Phases







# Tax Rate Recommendations

Indoor Cultivation: 2%

Testing: 1%

Distribution: 2%

Manufacturing: 3%

Delivery: 4%

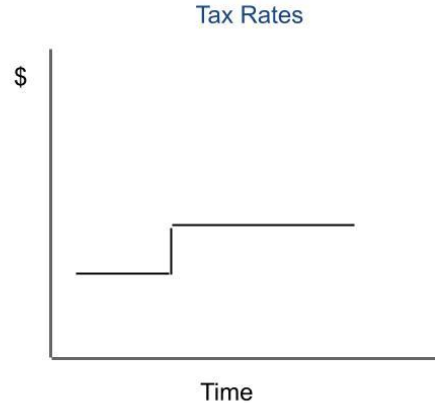
## Other Considerations

- Double Taxation
- Deferred Taxes
- Raising Rates Later On

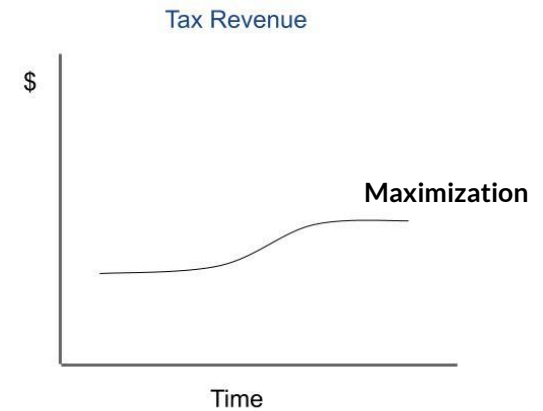
# Tax Revenue Factors



Wholesale prices decrease over time



Initial low rates, then raise



Wholesale prices + tax rate structure + supply chain & market stabilization produce revenue maximization over time

## Conclusion - Tax Strategy

Low initial rates

Raise later after market stabilizes



Industry + Consumer + Government WINS!