

[Assembly Bill 2243](#) (Wood)

Date: 08/01/16

Program: Medical Cannabis Tax

Sponsor: Author

Revenue and Taxation Code Part 13.5 (commencing with Section 31001) of Division 2

Effective immediately but operative date dependent on funding

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**Summary:** Requires every distributor to pay tax upon the distribution of medical cannabis flowers, immature medical cannabis plants, and medical cannabis products.

**Summary of Amendments:** Among other things, the amendments since the previous analysis revise definitions, add medical cannabis flower tax rates, clarify distributor record-keeping requirements for the medical cannabis product tax, and authorize the BOE to inspect medical cannabis-related businesses.

**Purpose:** To provide funding to address the impacts of illegal cannabis cultivation.

**Fiscal Impact Summary:** Annual revenues range from \$71.38 million to \$285.53 million, depending on compliance rate.

**Existing Law: Federal Law.** Existing federal law prohibits the manufacture, possession, sale, or distribution of marijuana.<sup>1</sup> Congress enacted the Controlled Substances Act (CSA)<sup>2</sup> as part of the Comprehensive Drug Abuse Prevention and Control Act of 1970. The CSA establishes five “schedules” of certain drugs and other substances designated “controlled substances.”<sup>3</sup> For a drug or other substance to be designated as a schedule I controlled substance, it must be found that the substance “has a high potential for abuse,” has “no currently accepted medical use in treatment in the United States,” and “lack accepted safety for use of the drug or other substance under medical supervision.”<sup>4</sup> Federal law lists marijuana as a schedule I controlled substance, deemed to have no accepted medical use.<sup>5</sup>

**California’s Medical Marijuana Program.** Under existing law, the California Uniform Controlled Substances Act<sup>6</sup> prohibits, except as authorized by law, the possession, cultivation, transportation, and sale of marijuana and derivatives of marijuana. Existing law authorizes, under The Compassionate Use Act of 1996 (Proposition 215 of 1996), a patient or the patient’s primary caregiver to cultivate or possess marijuana for the patient’s medical use when recommended by a physician, as specified.<sup>7</sup>

**Medical Cannabis Regulation and Safety Act (MCRSA).**<sup>8</sup> Under existing law, the MCRSA establishes the Bureau of Medical Cannabis Regulation (Bureau) within the Department of Consumer Affairs to oversee and enforce the state’s medical cannabis regulations, in collaboration with the California Department of Public Health (CDPH) and the California Department of Food and Agriculture (CDFA). Additionally, it establishes categories of licenses for various medical cannabis activities, such as cultivation, manufacturing, distribution, transportation, and sale.

**California’s Sales and Use Tax Law.**<sup>9</sup> Existing law imposes the sales tax on all retailers for the privilege of selling tangible personal property at retail in this state or the use tax on the storage, use or other consumption in this state of tangible personal property purchased from a retailer, except where the law specifies an exclusion or exemption. Nothing in the Sales and Use Tax Law exempts or excludes the sale

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<sup>1</sup> 21 U.S.C. § 841 et seq.

<sup>2</sup> 21 U.S.C. § 801 et seq.

<sup>3</sup> 21 U.S.C. §§802(6), 812(a).

<sup>4</sup> 21 U.S.C. § 812 (b)(1).

<sup>5</sup> 21 U.S.C. § 812:Schedule I(c)(10).

<sup>6</sup> Division 10 (commencing with Section 11000) of the Health and Safety Code (HSC).

<sup>7</sup> HSC Section 11362.5.

<sup>8</sup> Chapter 3.5 (commencing with Section 19300) of Division 8 of the Business and Professions Code.

<sup>9</sup> Part 1 of Division 2 of the Revenue and Taxation Code (RTC) (commencing with Section 6001).

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of illegal substances. Therefore, under the law, sales and use tax apply to retail sales of marijuana, including medical marijuana, to the same extent as any other retail sale of tangible personal property.

There is no specific exemption or exclusion for marijuana or medical marijuana. For patient treatment, RTC Section 6369 exempts from the sales and use tax retail sales of medicines, as defined, when the medicines sold or furnished are:

- prescribed by an authorized person and dispensed on a prescription filled by a pharmacist,
- furnished by a licensed physician to his or her own patient, or
- furnished by a health facility for treatment pursuant to a licensed physician's order, or sold to a licensed physician.

The sale of medical marijuana, however, is generally not made under conditions that would satisfy the elements of RTC section 6369.

**Proposed Law:** This bill adds Part 13.5 (commencing with Section 31001) to Division 2 of the RTC, known as the Medical Cannabis Tax Law (MCTL). The MCTL imposes upon every distributor a tax on all distributions of medical cannabis flowers, medical cannabis products, and immature medical cannabis plants to a dispensary at the following rates:

**Medical Cannabis Flowers:**

- Four dollars and seventy-five cents (\$4.75) per ounce of medical cannabis flowers cultivated by a licensee with, or subject to, a Type 1, Type 1A, or Type 1B classification.
- Nine dollars and twenty-five cents (\$9.25) per ounce of medical cannabis flowers cultivated by a licensee with, or subject to, a Type 2, Type 2A, or Type 2B classification.
- Thirteen dollars and twenty-five cents (\$13.25) per ounce of medical cannabis flowers cultivated by a licensee with, or subject to, a Type 3, Type 3A, or Type 3B classification.

**Immature Medical Cannabis Plant:** One dollar and twenty five cents (\$1.25) per immature medical cannabis plant.

**Medical Cannabis Products:** At the rate equivalent to the combined rate of taxes on the privilege of selling tangible personal property at retail in this state that are imposed by the Sales and Use Tax Law and the California Constitution, upon the wholesale cost of any medical cannabis product manufactured by a licensee with a Type 6 or Type 7 classification.

The MCTL provides specific distributor record-keeping requirements for the medical cannabis product tax to document "wholesale cost."

The tax rates imposed apply proportionately to quantities of less than one ounce.

The MCTL shall not apply to the sale of medical cannabis flowers and immature medical cannabis plants by a cultivator to the distributor.

The MCTL authorizes the BOE to prescribe by regulation a method and manner for payment of the tax that utilizes tax stamps or state-issued product bags that indicate that all required tax has been paid, as described.

**Rate Adjustment.** The MCTL requires the Legislative Analyst's Office (LAO) to regularly review the established tax levels at least every other year, beginning in 2020. The LAO must make recommendations to the Legislature, as appropriate, regarding adjustments that would further the goal of addressing public safety and the environmental impacts caused by the proliferation of cannabis cultivation.

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**Administration.** This bill requires the BOE to administer and collect the tax pursuant to the Fee Collection Procedures Law (FCPL),<sup>10</sup> except that the provisions that require payments by electronic funds transfer do not apply.<sup>11</sup> For purposes of the MCTL, the bill clarifies the terms “fee” and “feepayer” as follows:

- “Fee” includes the medical cannabis tax; and
- “Feepayer” includes a person required to pay the medical cannabis tax.

The FCPL generally provides for the BOE’s administration of fee programs. Among other things, the FCPL provides for collection, reporting, return, refund, and appeals procedures, as well as the BOE’s authority to adopt regulations related to the FCPL’s administration and enforcement.

The MCTL specifically authorizes the BOE to prescribe and adopt tax administration and enforcement regulations including, but not limited to, collections, reporting, refunds, and appeals.

**Registration, Reporting, and Payment.** The MCTL requires every distributor required to pay the tax to register for a permit on a BOE-prescribed form. That form shall include: (1) the name under which the applicant transacts or intends to transact business, (2) the location of the distributor’s place or places of business, and (3) any other information that the BOE may require.

The BOE will grant and issue a separate permit for each business location within the state. The MCTL prohibits assigning the permit. A permit is valid only for the person to whom it is issued and at the designated location for business transactions. The MCTL requires the permit be conspicuously displayed at the location for which it is issued.

The medical cannabis tax is due and payable to the BOE quarterly on or before the last day of the month following each calendar quarter. In addition, a return for the preceding calendar quarter must be filed with the BOE using electronic media. (The BOE may, however, require tax payments and the filing of returns for periods other than the period or periods specified in the tax and fee laws administered under the FCPL.)<sup>12</sup>

An electronic tax return would be authenticated in a form or pursuant to a method as the BOE may prescribe.

The bill authorizes a licensing authority to enter into a memorandum of understanding with the BOE to share data necessary for MCT administration and collection purposes.

**Enforcement.** Any peace officer or BOE employee granted limited peace officer status is authorized to conduct an inspection at any place at which medical cannabis or medical cannabis products are sold, produced, or stored or at any site where there is evidence of MCT evasion. The amendments require the BOE to forward to the appropriate licensing authority the name, license number, and any other information for any person that refuses an inspection. Refusing an inspection subjects the person to disciplinary action pursuant to the MCRSA.

A licensing authority must tag or make an appropriate marking upon untaxed medical cannabis flower, immature medical cannabis plants, or medical cannabis products discovered by the BOE, and take appropriate action as provided in MCRSA.

**Non-Compliance.** The bill authorizes the BOE to suspend or revoke a distributor’s permit whenever any distributor fails to comply with the MCTL or any BOE-prescribed regulation. The MCTL requires the BOE to give the distributor at least 10 days’ written notice that specifies the hearing time and place for the distributor to show cause why the permit should not be suspended or revoked.

The MCTL requires the BOE to give the distributor written notice of suspension or revocation. The notice may be served personally or by mail in the manner prescribed for service of notice of a deficiency

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<sup>10</sup> Part 30 (commencing with Section 55001) of Division 2 of the RTC.

<sup>11</sup> Article 1.1 (commencing with Section 55050) of Chapter 3.

<sup>12</sup> RTC Section 55041.1.

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determination. The MCTL prohibits the BOE from issuing a new permit after the revocation unless it is satisfied that the former holder of the permit will comply with the MCTL and BOE-prescribed regulations.

**Definitions.** The MCTL requires the MCRSA definitions to govern the MCTL, unless the context otherwise requires. The bill defines the following terms:

- “Immature medical cannabis plant” means a live cannabis plant with no observable flowers or buds, that is intended to be sold for use by medical cannabis patients in California pursuant to the Compassionate Use Act of 1996.
- “Medical cannabis flower” means “dry flower” as defined in the MCRSA, that is intended to be sold for use by medical cannabis patients in California, as provided.
- “Wholesale cost” means the manufacturer licensee’s or distributor’s sales price of medical cannabis products to the dispensary licensee.

**Deposit of Revenues.** The BOE must deposit all revenues, less refunds and BOE reimbursement for expenses incurred in the administration of the medical cannabis tax, into the Cannabis Production and Environment Mitigation Fund, which this bill creates in the State Treasury. All moneys deposited into the fund are continuously appropriated as follows:

- 30% to the Board of State and Community Corrections for disbursement to local law enforcement-related activities pertaining to illegal cannabis cultivation.
- 2% to the Department of Justice (DOJ) to fund and create Regional Marijuana Enforcement Officers who shall coordinate enforcement efforts, related to illegal cannabis cultivation, between the Department of Fish and Wildlife’s Marijuana Enforcement Team, the DOJ’s Bureau of Narcotic Enforcement, the United States Drug Enforcement Administration, and local law enforcement.
- 30% to the Natural Resources Agency for environmental cleanup restoration and protection of public and private lands that have been damaged from illegal cannabis cultivation.
- 8% to the Open Space Subvention Payment Account of the California Land Conservation Act of 1965.
- 30% to the multiagency task force, the Department of Fish and Wildlife, and the State Water Resources Control Board, to address the environmental impacts of cannabis cultivation on public and private lands in California and other state enforcement-related activities from illegal cannabis cultivation.

**Report.** The BOE must submit a report to the Legislature on the total amount of revenue collected over the two-year time period from the operative date of the medical cannabis tax. The report is due on or before the last day of the month commencing 180 days after the two-year period from the tax operative date.

**Miscellaneous.** The MCTL becomes inoperative on January 1, 2018, if voters approve Proposition 64<sup>13</sup> at the November 8, 2016 statewide general election.

However, the MCTL provisions relating to the collection of the tax, refunds, allowance for credits, disposition of moneys deposited into the CPEM Fund, and the commencement of an action or proceeding shall remain operative with respect to taxes for which the liability accrued before January 1, 2018.

The MCTL also provides that the tax shall be in addition to, and shall not limit, any taxes or fees imposed by a county or city and county.

**Repeal Date:** The MCTL remains in effect only until January 1, 2025, and as of that date is repealed.

**Tax Operative Date and Funding.** The tax becomes operative on or after the first day of the first calendar quarter commencing more than 270 days after adequate funding has been received by the BOE to implement and administer the MCTL. The MCTL requires the BOE to post a notice on its Internet Website when this condition has been satisfied.

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<sup>13</sup> [Secretary of State Initiative Number 1762](#).

The MCTL requires a General Fund or special fund loan to fund the BOE's MCTL regulatory activity establishment and support. The loan would be repaid by the BOE from the initial proceeds from taxes collected pursuant to this part or any rule or regulation adopted pursuant to this part, no later than six months after the MCTL's operative date.

This bill becomes effective immediately as an urgency statute; however, the tax becomes operative on or after the first day of the first calendar quarter commencing more than 270 days after the BOE's receipt of adequate funding.

**Background: Medical Marijuana Sellers – Sales Tax.** In 1996, California voters passed Proposition 215, also known as the Compassionate Use Act of 1996, which allows patients and their primary caregivers to cultivate or possess marijuana for personal medical treatment with the recommendation of a physician, as specified.

In 2003, [Senate Bill 420](#) (Ch. 875, Stats. 2003, Vasconcellos) established statewide guidelines for Proposition 215 enforcement. In particular, SB 420 allows nonprofit distribution in certain cases for patient cultivation cooperatives, small-scale caregiver gardens, and dispensing collectives. However, despite the fact that numerous medical marijuana dispensaries currently do business in California, the sale of medical cannabis is illegal under federal law.

On August 29, 2013, the U.S. Department of Justice issued guidance to federal prosecutors regarding cannabis enforcement under the CSA (referred to as the [Cole Memo](#)).<sup>14</sup> The Cole Memo reiterated the Department's commitment to enforcing the CSA consistent with Congress' determination that cannabis is a dangerous drug that serves as a significant source of revenue to large-scale criminal enterprises, gangs, and cartels. In furtherance of those objectives, the Cole Memo instructed the Department attorneys and law enforcement to focus on the following eight priorities in enforcing the CSA against cannabis-related conduct:

- Preventing the distribution of marijuana to minors;
- Preventing revenue from the sale of marijuana from going to criminal enterprises, gangs, and cartels;
- Preventing the diversion of marijuana from states where it is legal under state law in some form to other states;
- Preventing state-authorized marijuana activity from being used as a cover or pretext for the trafficking of other illegal drugs or other illegal activity;
- Preventing violence and the use of firearms in the cultivation and distribution of marijuana;
- Preventing drugged driving and the exacerbation of other adverse public health consequences associated with marijuana use;
- Preventing the growing of marijuana on public lands and the attendant public safety and environmental dangers posed by marijuana production on public lands; and
- Preventing marijuana possession or use on federal property.

Under the Cole Memo, marijuana-related conduct that implicates one or more of these enforcement priorities should be the primary question when considering CSA prosecution. Although the guidance was issued in response to recent marijuana legalization initiatives in certain states, it applies to all Department marijuana enforcement nationwide.

Operative December 16, 2014, Public Law 113-235<sup>15</sup> prohibits the United States Department of Justice from using funds to prevent specified states, including California, from implementing laws that authorize the use, distribution, possession, or cultivation of medical marijuana.

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<sup>14</sup> <http://medicalmarijuana.procon.org/sourcefiles/cole-DOJ-memo-aug-2013.pdf>

<sup>15</sup> [H.R. 83](#) / Public Law 113-235, Consolidated and Further Continuing Appropriations Act, 2015, (Dec. 16, 2014; 128 Stat. 2130; 701 pages).

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Because the sale of medical marijuana<sup>16</sup> is taxable, the BOE issues seller's permits to those medical marijuana sellers and will issue seller's permits to any other sellers making unlawful sales.

In 2007, the BOE mailed a special notice to California sellers of medical marijuana to clarify the application of tax to medical marijuana sales and the requirement that they must hold a seller's permit.

**Medical Cannabis Regulation and Safety Act.** In 2015, the Legislature enacted the Medical Marijuana Regulation and Safety Act (MMRSA), a package of legislation that establishes a comprehensive licensing and regulatory framework for medical marijuana, including cultivation, manufacturing, transportation, distribution, sale, and product. The MMRSA consists of three bills: [SB 643](#) (Ch. 719, McGuire), [AB 243](#) (Ch. 688, Wood), and [AB 266](#) (Ch. 689, Bonta).

Among its provisions, the MMRSA establishes the Bureau of Medical Marijuana Regulation (Bureau) within the Department of Consumer Affairs to oversee and enforce the state's medical marijuana regulations, in collaboration with the California Department of Public Health and the CDFA. Additionally, it establishes categories of licenses for various medical marijuana activities, such as cultivation, manufacturing, distribution, transportation, and sale.

This year, [SB 837](#) (Ch. 32, Stats. 2016, Budget and Fiscal Review) revised the Act's name from the Medical Marijuana Regulation and Safety Act to the Medical Cannabis Regulation and Safety Act and clarified the medical cannabis distribution chain. Specifically, SB 837 requires medical cannabis and medical cannabis products, which includes dry flowers, extracts and manufactured medical cannabis products, to be sent to a distributor for presale inspection and batch testing. That bill also repealed RTC Section 31020, which required the BOE, in consultation with the CDFA, to adopt a system to report commercial cannabis and cannabis product movement throughout the distribution chain (track and trace).

## Commentary:

1. **Summary of amendments. The August 1, 2016 amendments** (1) revise definitions, (2) clarify that the tax applies to distributions to a dispensary, (3) add medical cannabis flower tax rates, (4) clarify distributor record-keeping requirements for the medical cannabis product tax, (5) authorize the BOE to inspect medical cannabis-related businesses, and (6) allow a licensing authority to enter into a memorandum of understanding with the BOE for data sharing purposes.

**The June 29, 2016 amendments** made technical, non-substantive corrections. **The June 15, 2016 amendments** revised definitions, established a tiered per-ounce tax on medical cannabis flowers, and imposed a wholesale cost tax on medical cannabis products. **The June 2, 2016 amendments** added a January 1, 2025 repeal date and revised how monies are appropriated from the Cannabis Production and Environmental Mitigation Fund. **The May 31, 2016 amendments** added an urgency clause. **The May 3, 2016 amendments** made several changes based on suggestions included in the BOE's previous analysis. Among other things, the amendments (1) revised the tax imposition from the cultivator's sale to the distributor's distribution of medical cannabis flowers, medical cannabis leaves, and immature medical cannabis plants, (2) updated definitions for key terms, (3) allowed the BOE to collect the medical cannabis tax through the use of stamps or state-issued bags, (4) removed the EFT requirement, (5) required electronic return filing, (6) added registration requirements, (7) authorized the BOE to suspend or revoke a permit for not complying with the MCTL, and (8) made the MCTL inoperative if voters approve Secretary of State Initiative Number 1762.

2. **Medical cannabis product tax.** This bill prescribes the tax on medical cannabis products at a rate equivalent to the rate of taxes imposed by the Sales and Use Tax Law and California Constitution. Currently, the combined rate of taxes on the privilege of selling tangible personal property at retail in this state imposed by the Sales and Use Tax Law and the California Constitution is 6.25%, which does not include the Uniform Local Sales and Use Taxes<sup>17</sup> or Transactions and Use Taxes<sup>18</sup> and the

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<sup>16</sup> All retail sales, including illegal sales, are subject to tax unless otherwise exempt.

<sup>17</sup> Part 1.5 of Division 2 of the RTC, commencing with Section 7200.

<sup>18</sup> Part 1.6 of Division 2 of the RTC, commencing with Section 7251.

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statutes imposing additional local taxes<sup>19</sup>. BOE staff recommends specifying the tax rate in statute to avoid any confusion about the equivalent tax rate and components of that rate.

The bill requires the calculated tax rate to apply to the wholesale cost of medical cannabis products. “Wholesale cost” means the manufacturer or distributor licensee’s **sales price** of medical cannabis products to a dispensary. However, the bill does not define “sales price” for purposes of the “wholesale cost” definition. Accordingly, the BOE will likely adopt a regulation to provide guidance to distributors with respect to that term.

3. **Proposed tax is subject to sales tax.** The total retail sales price of tangible personal property is subject to the sales or use tax, with no deduction for the costs and expenses of the retailer, unless specifically exempted or excluded by law.

To be reimbursed for the proposed new tax, a distributor would likely incorporate the additional tax into the sales price of the medical cannabis, and that expense would likely be carried forward in the price at each subsequent sale. The sales tax applies to the entire retail sales price of medical cannabis, including the portion of the price corresponding to this expense.

4. **Suggested technical amendments.** Since the bill adds a January 1, 2025 repeal date, language should be added to preserve administrative provisions that are applicable for the collection of the tax and any liability that accrues prior to the repeal date, similar to the language contained in RTC Section 31032(b). BOE staff also suggests amendments to repeal a distributor’s requirement to file a return or make payment to the BOE if a tax stamp process is adopted and authorize the BOE to revoke a MCT permit if the distributor has any permit or license revoked under the Revenue and Taxation Code or MCRSA.
5. **Related legislation.** [SB 987](#) (McGuire) imposes a 10% fee on medical marijuana purchased from a retailer of medical marijuana, beginning January 1, 2018. That bill failed passage in the Assembly Revenue and Taxation Committee.

**Costs:** BOE administrative costs related to this bill are major. These costs include: taxpayer identification, notification, and registration; regulation development; manual and publication revisions; tax return design; computer programming; return, payment, and refund claim processing; audit and collection tasks; staff training; and public inquiry responses. Assuming an April 1, 2018 start date, these costs are estimated to be \$25,000 in Fiscal Year (FY) 2016-17; \$747,000 in FY 2017-18; \$1.35 million in FY 2018-19, and \$1.554 million in FY 2019-20 and ongoing. The bill provides BOE reimbursement for these costs from Medical Cannabis Tax revenues, pursuant to RTC Section 31013.

## Revenue Impact:

**Background, Methodology, and Assumptions.** Given the infancy of this market, identifying reliable data is challenging. BOE staff developed detailed assumptions, sources, and calculations that are discussed below. Furthermore, staff assumes the tax on medical cannabis plants will be passed on to consumers, and medical cannabis dispensaries will comply with California’s tax laws. Revenue estimates relate to the three kinds of taxes that would be imposed by this bill, as noted previously.

1. Staff obtained estimates of current production for each of the three license types from an industry source. According to this industry source, 3.2 million ounces are produced and regulated in California by Type 1 licensees, 6.4 million ounces are produced and regulated in California by Type 2 licensees, and 6.4 million ounces are produced and regulated in California by Type 3 licensees. With 100% compliance, revenues are estimated to be about \$159.2 million.

<sup>19</sup> Part 1.7 of Division 2 of the RTC, commencing with Section 7280.

2. Arcview Market Research estimates 2016 California medical marijuana sales to be about \$2.7 billion.<sup>20</sup> Staff obtained dispensary recent dispensary prices and “street prices” for 34 selected California cities.<sup>21</sup> Staff assumes that the average street price percentage of the dispensary prices for these cities is a reasonable estimate of the wholesale percentage of retail sales. This average is about 75%. At a 6.25%tax rate, staff estimates revenues to be about \$126.2 million with 100% compliance.
3. Staff has already estimated revenues for immature plants in a previous amended version of this bill.<sup>22</sup>

All of these taxes are subject to sales and use tax. The average state and local 2017-18 sales and use tax rate is estimated to be 8.21%.

**Revenue Summary.** Annual tax MCT revenues are broken out based on various compliance rates.

| Compliance Assumption   | Revenues (Millions of Dollars) |                 |                 |                |
|---|--------------------------------|-----------------|-----------------|----------------|
|   | 100%                           | 75%             | 50%             | 25%            |
| California-Grown and Regulated Medical Flowers, All Three License Types | \$159.20                       | \$119.40        | \$79.60         | \$39.80        |
| Wholesale Sales Tax (6.25%)   | 126.23                         | 94.67           | 63.12           | 31.56          |
| Immature plants distributed (Million Plants)                            | 0.10                           | 0.07            | 0.05            | 0.02           |
| <b>Total</b>  | <b>\$285.53</b>                | <b>\$214.15</b> | <b>\$142.76</b> | <b>\$71.38</b> |

Related sales tax impacts are broken out as follows:

| Compliance Assumption         | Rates        | Revenue (Millions of Dollars) |               |               |              |
|-------------------------------|--------------|-------------------------------|---------------|---------------|--------------|
|                               |              | 100%                          | 75%           | 50%           | 25%          |
| State General Fund            | 3.94%        | \$11.2                        | \$8.4         | \$5.6         | \$2.8        |
| Local Revenue Fund 2011       | 1.06%        | \$3.0                         | \$2.3         | \$1.5         | \$0.8        |
| Local Revenue Fund 1991       | 0.50%        | \$1.4                         | \$1.1         | \$0.7         | \$0.4        |
| Public Safety Fund            | 0.50%        | \$1.4                         | \$1.1         | \$0.7         | \$0.4        |
| Local Cities and Counties     | 1.25%        | \$3.6                         | \$2.7         | \$1.8         | \$0.9        |
| Special District Taxes        | 0.96%        | \$2.7                         | \$2.1         | \$1.4         | \$0.7        |
| <b>Statewide Average Rate</b> | <b>8.21%</b> | <b>\$23.4</b>                 | <b>\$17.6</b> | <b>\$11.7</b> | <b>\$5.9</b> |

**Qualifying Remarks.** Extrapolating Colorado’s data based on a 2014 Congressional Research Service report implies that a 60% compliance rate would be a reasonable expectation.<sup>23</sup> If compliance were 60%, total revenues would be \$171.3 million, and related sales and use tax revenues would be \$14.1 million. Using Washington State’s compliance rate of 30%, total revenues would be \$85.7 million, and related sales and use tax revenues would be \$7 million.

<sup>20</sup> <http://www.cnbc.com/2016/06/30/theres-a-new-gold-rush-in-california-as-investors-prep-for-pot-legalization-vote.html>

<sup>21</sup> <http://priceonomics.com/the-most-expensive-and-cheapest-cities-to-buy/>

<sup>22</sup> <http://www.boe.ca.gov/legdiv/pdf/2243ab060216cw.pdf>

<sup>23</sup> *Federal Proposals to Tax Marijuana: An Economic Analysis*, Congressional Research Service, 2014.

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These estimates are highly uncertain and vary greatly depending on the assumptions staff makes. Furthermore, staff continues to research the medical marijuana industry in California, and these estimates are subject to change to the extent that more accurate data is obtained.

This revenue estimate does not account for any changes in economic activity that may or may not result from enactment of the proposed law.