



Marijuana Revenue Hopes Could Go Up in Smoke

By George Runner

For the third time in state history, California voters will be faced with the question of legalizing marijuana for recreational use.

The official ballot summary for Proposition 64 says the measure could generate up to \$1 billion in new tax revenue annually for state and local governments. Only time will tell if this is true, but voters – regardless of how they plan to vote – would be wise to take these revenue projections with a grain of salt.

First, the facts: Prop. 64 would legalize marijuana – under state, not federal, law – while creating a \$9.25 per ounce cultivation tax on dried flowers, a \$2.75 per ounce cultivation tax on dried marijuana leaves, and a 15 percent excise tax on the retail sale of medical and non-medical marijuana products. In addition, non-medical products would be subject to California sales tax, which currently ranges from 7.5 to 10 percent.

Under Prop. 64, medical marijuana will not be subject to state sales tax. Furthermore, it will be exempt from cultivation taxes when grown by a qualified patient or primary caregiver. Under the new law, local governments could add even more taxes to marijuana purchases. Some local governments are already contemplating additional taxes to fund youth programs or fight homelessness.

Marijuana users who are desperate to save money could return to the black market or pick up a “Prop. 215 card,” skipping the state sales tax on marijuana – and likely other taxes as well. Thanks to the Compassionate Use Act of 1996, anyone with a spare hour to visit a “doctor” can claim they have back pain and immediately begin cultivating up to 100 square feet of pot plants, tax free.

Under Prop. 64, primary caregivers would also be exempt from cultivation taxes, taking much-needed revenue from local law enforcement agencies that use the funds to respond to complaints relating to cannabis grown and sold in their communities.

As an elected member of the State Board of Equalization, it’s my job to ensure the accurate collection of taxes owed to the state. Under current federal law, it’s nearly impossible for

medical marijuana growers, distributors, co-ops and dispensaries to have bank accounts. Cash-based transactions are hard for the BOE to track. Not having access to bank records makes it nearly impossible for BOE to audit cannabis-related businesses.

The experience of other states like Colorado and Washington suggests that when medical sales are tax free, nearly every marijuana user suddenly becomes a patient, even if they are not. The significant loopholes in Prop. 64 means revenue projections could fall far short of expectations.

Just last year the Legislature, with my strong support, enacted a robust regulatory scheme for medical marijuana. But the new rules won't be fully operational until 2018, and Prop. 64 would relax some of them before they even take effect.

Some Californians won't care about higher taxes on weed. That may be true of well-to-do hipsters, but I suspect that isn't the case for many Californians, who will become permanent "patients" just to save money.

These questions need to be carefully considered as Californians head to the ballot box on Nov. 8. Voters deserve the facts, and our democracy works better when they have them.

George Runner represents more than nine million Californians as a taxpayer advocate and elected member of the State Board of Equalization.