

California Moves to Stop Planned 25% Cannabis Tax Hike

California Lawmaker Proposes Bill to Prevent a Major Marijuana Excise Tax Increase That Could Cripple the Cannabis Industry

California's legal cannabis market has faced numerous challenges since its inception, including high taxation, stringent regulations, and competition from the illicit market. Now, a new battle is brewing over an impending increase in the state's marijuana excise tax, which could rise by nearly 25% in July 2025.

In response, Assembly Member Matt Haney, a Democrat from San Francisco, has introduced Assembly Bill 564 (AB 564), a proposal to prevent the scheduled tax hike and keep the excise tax fixed at 15%. The bill is a lifeline for cannabis businesses already struggling under the weight of taxation, compliance costs, and declining revenue.

With California's Department of Cannabis Control (DCC) facing a budget deficit and tax revenues from cannabis sales showing signs of decline, the debate over taxation in the state's marijuana industry is intensifying. Let's explore the implications of this proposed legislation, the history of cannabis taxation in California, and the potential consequences of a tax hike for businesses, consumers, and the state's economy.

California's Current Marijuana Excise Tax and Why It's Set to Increase in 2025

Since the legalization of recreational marijuana in 2018, California has imposed various taxes on cannabis businesses, including excise taxes, sales taxes, and local levies. The excise tax, currently set at 15%, was designed to provide a steady revenue stream for the state while ensuring regulatory oversight of the industry.

However, when California eliminated the cultivation tax in 2022—a move intended to help struggling growers—the law included a provision allowing the state to adjust the excise tax to compensate for lost revenue. As a result, the excise tax could rise from 15% to as much as 19% in July 2025, according to Governor Gavin Newsom's annual budget summary.

This potential increase is driven by the need to recoup the estimated \$165 million annually that the cultivation tax once generated. While the intention behind the tax adjustment is to maintain state revenues, cannabis businesses argue that the financial burden will be devastating.

The Economic Struggles of California's Legal Cannabis Industry and Why a Tax Hike Could Worsen the Crisis

Despite being the largest legal marijuana market in the world, California's cannabis industry is facing significant financial hurdles:

Declining Sales Revenue: In 2023, the state collected over \$625 million in cannabis excise taxes. However, revenue has been declining, with only \$463 million collected through the first three quarters of 2024.

Illegal Market Competition: High taxes and strict regulations have made it difficult for legal cannabis businesses to compete with the illicit market, which does not face the same financial burdens.

Oversupply and Falling Prices: A glut of cannabis supply has led to a drop in wholesale prices, reducing profitability for licensed operators.

Costly Compliance Requirements: Legal cannabis businesses must navigate a maze of state and local regulations, adding significant operational costs.

With these challenges already straining the industry, an increase in the excise tax could push many businesses over the edge, leading to closures, layoffs, and further losses in state revenue.

Assembly Bill 564: A Proposal to Halt the Excise Tax Increase and Provide Stability for the Industry

Recognizing the industry's struggles, Assembly Member Matt Haney introduced AB 564, which seeks to:

Cap the excise tax at 15% indefinitely, preventing the planned increase to 19% or higher.

Provide financial stability for cannabis businesses by keeping tax rates predictable.

Encourage more consumers to buy from the legal market by preventing additional price increases.

Haney and other proponents argue that this measure is essential to ensuring the survival of California's legal cannabis industry. By capping the excise tax at 15%, they believe the state can strike a balance between generating revenue and keeping businesses afloat.

What Happens If the Excise Tax Increases? Potential Consequences for the Industry and Consumers

If the tax increase takes effect as scheduled, it could have several negative consequences:

Higher Prices for Consumers

An increase in the excise tax would likely be passed on to consumers, making legal cannabis even more expensive. This could drive more people to purchase from the illicit market, where prices are significantly lower due to the absence of taxes and regulatory costs.

Business Closures and Job Losses

A higher tax burden could force many small and medium-sized cannabis businesses to shut down. California has already seen an exodus of operators struggling to turn a profit, and further tax hikes could accelerate this trend, leading to job losses across the industry.

Reduced Tax Revenue for the State

While the goal of increasing the excise tax is to generate more revenue, it could backfire. If legal cannabis sales decline due to higher prices and business closures, the state may end up collecting less tax revenue overall.

Expansion of the Illicit Market

California's black market for cannabis is thriving, and an increase in legal cannabis prices due to higher taxes could further boost illegal sales. This would undermine the entire purpose of legalization: to create a regulated and controlled market that ensures product safety and generates tax revenue.

Governor Newsom's Stance on Cannabis Taxation and the Potential for Legislative Action

Despite mounting concerns from the cannabis industry, Governor Gavin Newsom has not prioritized tax relief in his previous budget proposals. In 2024, Newsom declined to include any cannabis tax cuts in the state's budget, despite industry leaders advocating for relief.

The future of AB 564 depends on whether lawmakers can rally enough support to pass the bill through the state Legislature. If successful, the bill could prevent the tax hike and provide much-needed stability for cannabis businesses.

However, with the state's budget facing a deficit, lawmakers may be hesitant to forgo potential revenue from an excise tax increase. This sets up a contentious battle between the cannabis industry, tax policy advocates, and government officials in the coming months.

The Future of California's Cannabis Excise Tax and the Industry's Survival

The proposed increase in California's marijuana excise tax comes at a time when the state's cannabis industry is already facing significant challenges. While the tax adjustment was originally intended to offset the loss of cultivation tax revenue, many business owners argue that it will only push more consumers toward the illicit market and drive legal operators out of business.

Assembly Bill 564, introduced by Matt Haney, aims to prevent this by capping the excise tax at 15%. If passed, this legislation could provide much-needed relief and stability to cannabis businesses. However, its success depends on whether lawmakers are willing to prioritize industry sustainability over short-term tax revenue.

As California's cannabis market evolves, finding a balance between taxation, regulation, and economic viability will be critical in ensuring the long-term success of the state's legal marijuana industry.

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