

# Navigating California's Rising Cannabis Excise Tax: Catalyst Cannabis Company Leads the Charge

## Catalyst Cannabis Company Challenges CDTFA and OAL Over Rushed Regulation 3802

On December 28, 2023, Catalyst's parent company, HNHPC, Inc., took decisive action by filing a lawsuit against the California Department of Tax and Fee Administration (CDTFA) and the Office of Administrative Law (OAL). This legal challenge targets the expedited approval of Regulation 3802, a move that significantly altered excise tax regulations governing the state's cannabis industry. Alleging a breach of legal procedures outlined in California's Administrative Procedures Act, the lawsuit aims to invalidate Regulation 3802 and an accompanying amendment to the original excise tax Regulation 3700. Additionally, Catalyst seeks a judicial declaration affirming that cannabis accessories should not fall under excise tax purview as per Proposition 64.

The genesis of this legal battle traces back to October 2023 when the CDTFA introduced emergency regulations regarding Regulation 3802. Subsequently, the OAL swiftly approved this regulation, bypassing the required public participation and industry impact assessments mandated by the Administrative Procedures Act. Catalyst argues that this rushed approval process disregarded due diligence and violated procedural fairness by denying stakeholders adequate opportunity for input.

Regulation 3802 marks a departure from the previous excise tax framework governed by Regulation 3700. Under the latter, distributors bore the responsibility of excise tax collection. Catalyst and other industry players meticulously separated cannabis accessories from the primary product, only taxing the cannabis portion. However, Regulation 3802 introduces new provisions that significantly increase tax burdens for retailers and consumers, prompting Catalyst to challenge its validity.

CEO Elliot Lewis expressed confidence in Catalyst's legal stance, stating, "We're going to knock out 3802." He underscores the potential financial implications, asserting that overturning this regulation could save the cannabis industry and consumers hundreds of millions of dollars.

This lawsuit is emblematic of Catalyst's longstanding commitment to advocating for fair treatment of the cannabis industry. With a track record of challenging detrimental governmental policies, Catalyst continues to champion industry-wide reform to alleviate excessive taxation and foster a competitive, regulated marketplace.

Despite legal battles, California's cannabis sector remains besieged by challenges, including stiff competition from the illicit market and burdensome taxation. Catalyst's lawsuit reflects broader concerns within the industry and underscores the urgent need for legislative reform to ensure a level playing field and sustainably support the growth of the legal cannabis industry.

