

# California Lawmakers Unanimously Vote to Repeal Tax Hike

## California Lawmakers Unanimously Approve Bill to Block Upcoming Cannabis Excise Tax Hike Set for July 1

California's legal cannabis industry took a critical step toward financial relief as the state's Assembly Business and Professions Committee voted unanimously, 15-0, to advance Assembly Bill 564, legislation aimed at preventing a significant cannabis excise tax increase scheduled to take effect on July 1, 2025.

Filed by Assembly member *Matt Haney (D-San Francisco)*, the bill seeks to freeze the state's cannabis excise tax rate at its current 15% level. Without this legislative intervention, the excise tax rate is set to increase to 19% under a 2022 provision signed into law by Gov. Gavin Newsom. That 27% rate hike would further burden an industry already grappling with high operating costs, inflation, shrinking retail access, and the dominance of an unlicensed marketplace.

### Bill Seeks to Stabilize Industry Revenue Without Reducing Taxes

Supporters of A.B. 564 clarified during the April 22 committee hearing that the proposal does not cut taxes—it simply halts the planned increase. Despite this, some opponents argued that halting the tax hike could reduce funds earmarked for youth programs, environmental initiatives, and other state services funded through excise tax revenues.

The intent of the bill, Haney explained, is to give legal operators a chance to survive by preventing additional financial strain. If passed, A.B. 564 could safeguard thousands of small cannabis businesses that contribute to local economies and public safety through state-regulated, tested, and taxed product offerings.

### Rising Costs and Dwindling Market Share Undermine Legal Retailers

California's licensed cannabis retailers already face multiple layers of taxation—up to 10.75% in state sales tax and up to 10% in local taxes, depending on the jurisdiction. These combined costs are driving price-sensitive consumers to the unregulated market, where untaxed and often untested products are widely available.

A March 2025 report commissioned by the Department of Cannabis Control (DCC) found that only 38% of cannabis consumed in California last year was sourced from legal channels. This data confirms a long-standing concern: the illicit market continues to thrive while the legal sector struggles to stay competitive.

The state's retail footprint remains stagnant at approximately 1,225 active dispensaries, with nearly 60% of cities and counties still opting out of permitting cannabis storefronts.

## **Widespread Industry Layoffs and Business Closures Amplify Urgency**

California's legal cannabis industry is not only losing market share but also hemorrhaging jobs. The state lost 12,600 cannabis jobs in 2023 and an additional 5,000 in 2024, according to employment platform Vangst. Prominent operators like MedMen, Herbl, and Grassdoor have downsized or shuttered altogether in recent months, with many others following suit under the weight of tax and regulatory burdens.

Industry leaders argue that the excise tax increase could be a tipping point, especially for small and social equity operators. Caren Woodson, a board member of the California Cannabis Industry Association, warned that even well-capitalized firms are facing multiple rounds of layoffs and financial stress—making survival unlikely for under-resourced businesses.

## **Legal Market Revenue Drops to Lowest Levels in Nearly Five Years**

The California Department of Tax and Fee Administration (CDTFA) reported just \$219 million in total cannabis tax revenue in Q4 2024—the lowest since early 2020. The state's licensed retailers posted \$1.08 billion in Q1 2025 sales, marking a 23% decline from the industry's peak in Q2 2021.

These numbers highlight a troubling trend: as tax pressure increases and retail access stagnates, overall legal sales and tax revenue continue to fall.

Supporters of A.B. 564 argue that raising the excise tax would further drive consumers toward unlicensed sellers, cutting into revenue streams even more and undermining public health goals.

## **Opposition Groups Voice Concern Over Impact on Public Programs**

Not everyone supports the freeze. Representatives from youth advocacy and environmental groups testified against A.B. 564, arguing that the tax revenues at stake fund essential public services. Organizations like Youth Forward and Child Action Inc. rely on excise tax funding to support child care programs, environmental cleanup, and drug prevention services.

Tona M. Pena of Youth Forward highlighted the long-standing harm tribal communities have experienced from unlicensed cannabis cultivation and expressed concern that reducing available tax revenues could stall efforts to support affected youth.

Critics of the bill say the state should prioritize funding for public services over bolstering a volatile industry. However, the legislation's supporters counter that if the legal market collapses under added tax burdens, there will be no tax base left to support these programs in the long run.

## **Tier 3 Funding Mechanism Complicates Revenue Debate**

Under a 2022 law, if cannabis tax revenue falls below \$680 million annually for three consecutive years, the state is required to trigger an excise tax increase. The goal was to sustain funding for "Tier 3" recipients, which include youth programs, environmental protections, and justice-related initiatives. However, that mechanism is now being viewed as a blunt tool that threatens to destabilize the industry instead of supporting community goals.

Assemblymember Marc Berman, committee chair, acknowledged the difficulty of the current system. He expressed concern about tying essential community funding to volatile cannabis sales and indicated support for identifying more stable, diversified funding sources.

## **Will A.B. 564 Pass in Time to Avert the Tax Spike?**

While the April 22 committee vote moves A.B. 564 forward, it still must clear additional legislative hurdles before the July 1 deadline. Industry stakeholders are watching closely, hopeful that state leaders will act swiftly to preserve what remains of the legal cannabis marketplace.

If the legislation stalls, California's legal cannabis operators may face a July tax hike they cannot afford. The ripple effects could include more closures, further job losses, and an even greater reliance on illicit cannabis products—negating years of effort to build a transparent and regulated system.

## **Cannabis Industry Awaits Critical Decision as July Deadline Nears**

California's cannabis industry stands at a pivotal moment. With sales down, jobs disappearing, and regulatory costs climbing, state lawmakers face a choice: stabilize the market to encourage compliance and growth, or impose additional financial pressure and risk further erosion of the legal sector.

Assembly Bill 564 offers a path toward market recovery without slashing state revenue, by simply halting a scheduled excise tax hike. The bill now moves forward with strong bipartisan support and mounting urgency, as the state weighs the future of its once-promising cannabis economy.

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