

Newsom Signs California Cannabis Excise Tax Cut Into Law

California's legal cannabis industry secured a long-sought victory Monday when Governor Gavin Newsom signed Assembly Bill 564, rolling back the state's cannabis excise tax to 15%. The new rate takes effect October 1 and will remain in place until at least 2028.

Rolling Back a Controversial Increase

The tax cut, authored by Assemblymember Matt Haney of San Francisco, cancels a nearly 25% increase that raised the excise tax from 15% to 19% on July 1. The rollback comes as California's regulated cannabis market continues to struggle under pressure from illicit competitors, oversupply, and high tax burdens.

Industry stakeholders welcomed the move, describing it as essential relief for retailers and producers fighting to remain competitive.

Industry Struggles Persist

While the rollback is expected to provide some breathing room, many operators argue that California's total tax burden remains unsustainable. When combined with state sales taxes and local levies, cannabis consumers still pay more than 30% in many jurisdictions.

That reality, industry leaders say, is fueling the persistence of the illicit market, where products are cheaper and widely available.

Legal cannabis sales in California reached \$1.94 billion in the first half of 2025, down from \$2.14 billion during the same period in 2024—a clear sign that high costs and competition are eroding the regulated market.

Pushback From Public Health Advocates

Not everyone applauded the tax cut. Public health organizations argued that the rollback undermines critical state programs funded by cannabis revenues.

Dr. Lynn Silver, director of the Public Health Institute, called industry claims of financial hardship “a false narrative” and criticized the governor for approving what she described as a “massive tax giveaway to Big Cannabis.”

Silver warned that the reduction permanently lowers the guaranteed baseline of funding for child care, youth substance use prevention, environmental restoration, and law enforcement.

Balancing Revenue and Market Stability

The excise tax increase to 19% was originally scheduled as part of a 2022 compromise that eliminated the state's cultivation tax. Lawmakers at the time sought to balance industry relief with stable state revenues by shifting the burden toward retail transactions.

But as legal sales declined, policymakers faced growing pressure to revisit the tax structure. Proponents of AB 564 argued that the 19% excise rate placed too heavy a burden on consumers and encouraged purchases in the unregulated market.

With the rollback, California cannabis businesses now have clarity on excise taxes for the next three years. Advocates say the stability will help operators plan for the future, but many warn that without broader reforms including adjustments to local tax rates and stricter enforcement against illicit sellers the challenges facing the state's cannabis market will persist.

Looking Ahead

California still maintains some of the highest cannabis tax rates in the country, even after the rollback. For legal operators, the law provides a lifeline, but for policymakers, it reignites debates over how to balance industry health, consumer access, and public funding.

Whether the excise tax cut proves to be the turning point for California's cannabis market or simply a temporary reprieve will likely depend on how the industry adapts and whether the state takes further steps to level the playing field between legal and illicit operators.

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