

Default Dilemma: California Cannabis Taxes Threaten 15% of Businesses

The Growing Tax Burden on California's Cannabis Businesses

The article highlights the growing issue of tax defaults among licensed cannabis businesses in California. As of December 31, 2023, nearly 15% of operators were in default of their sales-and-use tax obligations, amounting to \$189.3 million, while 15.4% defaulted on cannabis excise tax, totaling over \$54.2 million. The repercussions extend beyond financial strain, impacting industry trust and stability. Enforcement measures include penalties and asset seizures, with Los Angeles County particularly affected. The impending excise tax hike in 2025 exacerbates challenges. Addressing liquidity and trust issues is crucial for the long-term sustainability of California's legal cannabis market.

Tax Defaults on the Rise

As of December 31, 2023, a concerning trend has emerged among California's licensed cannabis businesses. Nearly 15% of the state's cannabis operators, including retailers, distributors, and other tax-obligated entities, found themselves in default of their sales-and-use tax obligations, amounting to a staggering \$189.3 million in default. Similarly, 15.4% of retail licensees defaulted on their cannabis excise tax, totaling over \$54.2 million, as reported by the California Department of Tax and Fee Administration (CDTFA).

The Ripple Effect

This default epidemic, resulting in a combined amount of \$243.5 million, extends beyond mere financial figures. The consequences reverberate throughout the industry, impacting not only the defaulting businesses but also their counterparts, including cannabis brands and other state-licensed operators. The situation paints a dire picture of financial instability within California's cannabis marketplace.

Enforcement Measures

The CDTFA, tasked with tax enforcement, has laid out various mechanisms to address nonpayment, including placing liens on property, seizing assets, and revoking licenses. Additionally, California's Cannabis Tax Law imposes a hefty 50% penalty for late or missed payments, exacerbating the financial burden on defaulting businesses.

Market wide Ramifications

While the defaulted amount represents a fraction of total tax revenue since the legalization of adult-use cannabis, it poses a significant threat to the survival of many operators. Distressed businesses face the specter of enforcement actions, potentially leading to closures and personal liability for unpaid taxes.

The Los Angeles Conundrum

Notably, Los Angeles County harbors a disproportionate number of distressed cannabis businesses, owing to its high population density and exorbitant tax rates. Despite efforts to promote equitable ownership through social equity programs, many businesses in default were once heralded as symbols of progress.

Policy Implications

The impending excise tax hike in 2025 further compounds the challenges faced by California's cannabis industry. While regulatory bodies like the California Department of Cannabis Control (DCC) acknowledge the issue, the responsibility for tax policy lies with the legislature.

Looking Ahead

As the cannabis tax default problem persists, it underscores broader issues of liquidity and trust within the industry. Without addressing these fundamental concerns, California risks undermining the viability of its legal cannabis market and perpetuating a cycle of financial instability.

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