

# Taxation of Cannabis Operations: Additional Options and Operational Issues

Santa Barbara County  
Board of Supervisors  
January 9, 2018



# Direction from December

- Further discuss tax rates and return on January 9<sup>th</sup>
- Hear from Treasurer Tax Collector on collection of cannabis taxes, including frequency of collections

## Possible Direction today on . . .

- Tax rates for inclusion in a ballot measure
- Development of a General or Special tax measure for the June 2018 ballot

Presented in December 2017

# Tax Measure Options Worksheet

June 2018 or  
November 2018?

## Tax Basis & Rate

- Square Foot?
- Ounce?
- % Gross Receipts?

## Tax Terms & Conditions

- “Not to Exceed?”
- CPI for area or weight tax \$?
- Establish rates by license type?
- Sunset?
- Frequency of collection?
- Direct Auditor preparation of fiscal analysis?

## Tax Type

- Medical & Nonmedical the same or different?
- County wide or Unincorporated?
- General?
- Special?
- Special options?

Condition  
License/Permits only  
with approval of tax?

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# Conceptual Consensus on Measure

From Board deliberations on December 14, 2017:

- Measure should be on the June 2018 ballot
- Licensing and permitting of cannabis operations would be contingent on voter approval of the cannabis operations tax
- Tax on gross receipts for all operator types;
- No “not to exceed” rate
- No “Sunset” date
- Tax would apply to medical and non-medical cannabis operations
- Tax would only apply to operations in the unincorporated area
- Hear from the Treasurer-Tax-Collector about any issues or concerns related to tax collection, and
- Direction to the Auditor-Controller to prepare a fiscal impact statement for the ballot pamphlet

# Further Board Discussion

On December 14<sup>th</sup>, the Board also discussed without reaching conceptual consensus the following:

- Could be developed as a General tax measure
- Development of a vertical integration tax rate cap
- Tax rates that do not exceed 30% when added to state taxes

Presented in December 2017

# County Taxation Options

- Taxation Option 1:
  - Excise tax would be based on the gross receipts of each of the cannabis businesses, as follows:
    - Distributors and Nurseries - 2% on gross receipt
    - Outdoor, Indoor cultivators & Mixed Light cultivators - 4% on gross receipts
    - Manufacturers and Retailers - 6% on gross receipt
- Taxation Option 2:
  - Adjust any of the recommended tax rates with a total rate across the supply chain of around 10%
- Taxation Option 3:
  - Opt to start at lower rates, such as Option 1, which the Board could increase at its discretion to a “not to exceed” rate of 8%.
- Other Options:
  - Consider other tax structures, such as per unit taxes



# Cannabis Tax Rate Options

## Option 1 – Industry

- Phase in taxes over three years
- If a “not to exceed rate, then a maximum gross receipts tax rates cap at 8% for any license type
- Nurseries tax at 1% of gross receipts
- Cultivation tax at 3% of gross receipts
- Manufacturing at 2% of gross receipts
- Distributor tax at 0-1% of gross receipts depending on transport only licenses
- Vertical integration cap of 4%

## Option 2 – Revised\*

- 1% gross receipts tax on nursery and distributor (*non-transporter*) license types
- 4% gross receipts tax on cultivator *and manufacturer* license types
- 6% gross receipts tax on a retailer
- *Vertical integration cap of 8%*

\* Revised version of staff’s recommendation from December 14<sup>th</sup> after discussion with industry representatives. Revisions in *italics*.

Staff recommends tax rates in Option 2

# General or Special Tax

- General tax allows the revenue generated to be used for general purposes
- General tax requires 4/5 vote from Board to place it on the ballot and a majority voter support
- Special tax specifies the spending priorities of the revenue
- Special tax requires a majority vote from the Board to place it on the ballot and 2/3 voter support
- If the Board chooses to proceed with a special tax, the Board will need to identify:
  - Specific uses of any tax revenue
  - Allocation method
  - Consider a mechanism to confirm annual spending

Staff recommends a general tax measure



# Banking, Treasury & Accounting

- Uncertainty of federal policies and prosecutorial priorities
- No commitment yet from a bank to accept fee or tax revenue
- Plan is to segregate cannabis-sourced fee and tax revenue from other County revenues
- Segregation causes concerns about disbursements that would require significant changes or duplication of accounting processes
- Staff is evaluating ways to minimize these impacts
- State Treasurer staff is unaware of any other local or state jurisdiction segregating cannabis revenues

# Future Public Hearings

- January 10, 2018 - County Planning Commission hearing
- January 30, 2018 – Ballot Measure/Tax Ordinance for Board consideration for June 2018 election or later for November 2018
- February 6, 2018: Board of Supervisors hearing on permitting and licensing ordinances
- March 2018 -June 2019: Coastal Commission certification and Board hearing

# Recommended Actions Today

That the Board:

- Consider options for taxation rates and provide direction to staff for inclusion in a June 2018 ballot measure
- Provide direction to staff for:
  - Development of a measure for General revenue purposes; OR
  - Development of a measure for Specific revenue purposes; and conceptual direction on the specific uses and conditions for the revenue;
- Direct staff to return on January 30, 2018 with a taxation ordinance and ballot measure on cannabis-related operations
- Receive a presentation on additional cannabis revenue banking, treasury and accounting issues;
- Provide any other conceptual direction to staff; and
- CEQA findings