



Cannabis Tax

March 15, 2022

Board of Supervisors Meeting

Auditor-Controller-Treasurer-Tax Collector
County Counsel
County Administrator's Office

Recommendations

- A. Direct staff to amend Chapter 35 Cannabis Business Tax Ordinance to reduce the FY 2021/22 cultivation tax rates by 10%
- **Reduces Annual Baseline Tax Revenue Projection by ~\$362,000**
 - 1% = ~\$37,000 in Tax Revenue
 - **Steps to implement:**
 1. Extend Current Year Cultivation Tax Due Dates of 1/31 & 4/30 to May 31st
 2. Resolution Introducing Ordinance Change and Waiving 2nd Reading
 3. Adopt Ordinance Change
 4. Ordinance Changes take effect 30 days after Ordinance Change Adoption
- B. Direct staff to return by February 2023 with a review of the pros/cons of gross receipts vs. square footage tax assessment and recommendation to implement or not as of 7/1/2023
- ~\$200,000 outside review services, and ~\$130,000/year to, by Board Resolution, join the CSAC Finance | [California Cannabis Authority \(CCA\) Joint Powers Authority](#)



State Responses/Reactions

[Governor's January Budget Release \(01/13/2022\)](#)

“Administration supports cannabis tax reform and plans to work with the Legislature to make modifications to California’s cannabis tax policy to help stabilize the market; better support California’s small licensed operators; and strengthen compliance with state law.” (See pages 222-223)

[SB 1074 \(McGuire\). Cannabis Excise tax | Cultivation tax](#)

- Discontinue, beginning on July 1, 2022, the imposition of the cultivation tax. The bill would increase, from July 1, 2025, until July 1, 2026, the excise tax by an additional percentage that the Department of Finance estimates will generate half the amount of revenue that would have been collected pursuant to the cultivation tax, and would, beginning July 1, 2026, instead increase the excise tax by an additional percentage estimated by the department to generate the full amount of revenue that would have been collected pursuant to the cultivation tax.



Other Jurisdictions – Attachment C

- 8 → No Action (Yolo, Nevada, City of SR, and City of Cotati)
- 4 → Support State Action to Provide Relief (Mendocino, Santa Barbara, and Santa Cruz)
- 4 → Reducing tax rates or suspended annual inflators (incl. extending payment due dates)
- 1 → City-County of SF 2nd Postponement of Tax Implementation. County has not collected nor programmed tax revenue from inception.

Some jurisdictions are represented more than once in the bullets above.



Cannabis Tax Fund Balance

Not Including Local Jurisdiction \$1.15 million state grant and expenses.	FY 2021-22 Estimates	FY 2022-23 Projected	FY 2023-34 Projected
Beginning Balance	\$5,965,642	\$3,806,056	\$3,963,570
Plus: Tax Revenue <ul style="list-style-type: none"> <i>Permanent Rate Reduction</i> 	\$2,750,000 (\$362,340)	\$2,887,500 (\$362,340)	\$2,974,125 (\$362,340)
Minus: Base Program Expenses <ul style="list-style-type: none"> <i>Gross Receipts Review & CCA</i> 	\$1,946,375 \$32,000	\$2,035,806 \$331,840	\$2,091,870 \$335,795
Minus: Program Update/EIR (Set Aside)	\$2,568,871	\$0	\$0
Ending Balance	\$3,806,056	\$3,963,570	\$4,147,690



Cultivation Gross Receipts vs. Sq Ft Assessment

Direct staff to return by February 2023 with a review of the pros/cons of gross receipts vs. square footage tax assessment and recommendation to implement or not as of 7/1/2023

June 6, 2017 Board Report:

- Intended to set cultivation rates to be between 1% to 5% tax on gross receipts
- Transition to Gross Receipts once the state's Track & Trace proven to be an adequate verification source

Review and Design Development:

1. Engage Consultant Gross Receipts vs. Square Footage Analysis; ~\$200,000
2. Determine tax percentage rate to support the County's cannabis program
3. Join California Cannabis Authority; ~\$130,000 for the fiscal year



Recommendations / Discussion

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Tax Relief (one-time) Alternative Option

- Tax Relief Application – First Come First Considered
- Available only to cultivators that submit all records for audit.
- Audit must verify Sonoma County's annual tax liability caused cultivator's deficit from July 1, 2020 through June 30, 2021.
- Capped at 20% of annual budgeted taxes of \$500,000.
- Requires purchasing audit services at approximately \$100,000 for every 5-8 audits varying in business size and complexity.

\$600,000 Fiscal impact can be absorbed with available on-hand accumulated Cannabis Tax fund



Sonoma County Cannabis Tax Due Dates

	Indoor/Mixed-Light Cultivation or Operations	Original Tax Payment Due Date	Extended Tax Payment Due Date
Quarter 1	July 1 through Sept. 30	October 31	April 30, 2022
Quarter 2	Oct. 1 through Dec. 31	January 31	April 30, 2022
Quarter 3	Jan. 1 through March 31	April 30	N/A
Quarter 4	April 1 through June 30	July 31	N/A

- **Outdoor Cultivation** is taxed on an annual basis and due in two equal Installments on 01/31/2022 and 04/30/2022
- 10% penalty on 30 days delinquent, additional 10% penalty on 60 days delinquent
- 1.5% Interest per month for delinquent balance
- Fiscal Year 2021/22 collections remitted as of 2/18/22, \$477,423

