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## SENATE COMMITTEE ON APPROPRIATIONS

Senator Anna Caballero, Chair  
2025 - 2026 Regular Session

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### **AB 564 (Haney) - Cannabis: excise tax: rate increase repeal**

**Version:** July 10, 2025

**Urgency:** No

**Hearing Date:** August 18, 2025

**Policy Vote:** REV. & TAX. 5 - 0

**Mandate:** No

**Consultant:** Robert Ingenito

**Bill Summary:** AB 564 would make specified changes to the Cannabis Excise Tax Rate.

**Fiscal Impact:** The California Department of Tax and Fee Administration (CDTFA) indicates that this bill would result in reduced cannabis excise revenues of \$135 million in 2025-26 (Cannabis Tax Fund, see Staff Comments). Additionally, the estimated sales and use tax revenue loss for 2025-26 would be \$11.7 million, \$5.2 million of which would come from the General Fund. The department would incur administrative costs of \$145,000 in 2025-26 and \$4,000 in 2026-27 to implement the provisions of the bill (Cannabis Tax Fund).

**Background:** Current law (AB 195, Assembly Budget Committee, 2022) suspended the cannabis cultivation tax and required CDTFA to adjust the cannabis excise tax to generate revenue that would have been collected pursuant to the cultivation tax. Starting July 1, 2025, AB 195 required the State to increase the excise tax rate, from 15 percent to an amount that CDTFA estimates will generate the same amount of revenue that would have been collected in the previous fiscal year had the weight-based cultivation tax not been suspended, capped at 19 percent. Earlier this year, CDTFA stated that AB 195's required adjustment triggers the full 4 percentage-point increase.

Revenues derived from cannabis taxation are deposited into the Cannabis Tax Fund and allocated according to a schedule specified in Proposition 64 that prioritizes reimbursement of costs incurred by implementing state agencies, including CDTFA and the Department of Cannabis Control (DCC). After these disbursements, Proposition 64 requires the revenues be allocated as follows, in descending order of priority: (1) \$10 million to public universities for research activities, (2) \$3 million to the California Highway Patrol for establishing protocols to determine cannabis impairment while operating a vehicle, (3) \$50 million to the Governor's Office of Business and Economic Development to establish a community reinvestments program, and (4) \$2 million to the University of California San Diego Center for Medicinal Cannabis Research to enhance the pharmacological applications and impact of cannabis.

Any remaining revenues are allocated such that 60 percent are deposited into the Youth Education, Prevention, Early Intervention and Treatment Account, 20 percent into the Environmental Restoration and Protection Account, and 20 percent into the State and Local Government Enforcement Account. The Legislature, beginning on July 1, 2028, has the authority to allocate funds for purposes other than those stipulated in the measure by a majority vote, but only if (1) the changes further the purpose of the measure, and (2) the amount of funds to each account are not reduced from their 2027-28 levels.

State law imposes the sales tax on every retailer “engaged in business in this state” that sells tangible personal property, and requires them (1) to register with the CDTFA, and (2) to remit taxes collected from purchasers to CDTFA. Sales tax applies whenever a retail sale occurs, which is generally any sale other than one for resale in the regular course of business. Prop. 64 specifically exempts retail sales of cannabis and cannabis products for medicinal use from the sales and use tax when a patient or primary caregiver provides their identification card and a valid government issued identification card. However, sales and use tax applies to all other retail sales of cannabis, which is collected by the retailer and remitted to CDTFA, and includes the cannabis excise tax in the tax base.

Local agencies do not apply their own separate taxes to other items subject to state excise taxes, such as alcohol, tobacco, and electronic cigarettes, among others. However, many local agencies that permit cannabis businesses in their jurisdictions impose local cannabis taxes, as permitted by Proposition. 64. These taxes vary, but can often be business license or retail taxes measured by gross receipts, in addition to other taxes based on per square foot of area used for cultivation. Local agencies have imposed license taxes measured by gross receipts at several points along the production chain, such as cultivation, distribution, and retail, which can cause a cascade effect as each point on the chain embeds the tax in the price paid at the next point. The Legislative Analyst’s Office (LAO) estimated in 2019 that local taxes in California are equivalent to a 14 percent tax on retail cannabis sales. Last year, the Legislature excluded the amount of any cannabis excise tax or sales and use tax from the definition of gross receipts for purposes of local cannabis taxes (SB 1059, Bradford).

**Proposed Law:** This bill would do the following:

- For the period July 1, 2025, to September 30, 2025, retain the existing cannabis excise tax rate of 19 percent.
- For the period from October 1, 2025, to June 30, 2030, decrease the excise tax rate to 15 percent.
- Beginning in the 2030–31 and every two years thereafter, require CDTFA to adjust the cannabis excise tax rate by a percentage that will generate an amount of revenue that would have been collected pursuant to the cultivation tax imposed prior to its discontinuation, as specified, not to exceed 19 percent.

**Related Legislation:**

- AB 195 (Committee on Budget, Chapter 56, Statutes of 2022), discontinued the imposition of the cultivation tax as of July 1, 2022, and on January 1, 2023, imposed the cannabis excise tax on purchasers of cannabis or cannabis products sold in this state at the rate of 15 percent of the gross receipts of any retail sale by a cannabis retailer. For the 2025–26 fiscal year and every two years thereafter, AB 195 required CDTFA, on or before May 1 of the immediately preceding fiscal year, to adjust the cannabis excise tax rate by a percentage that will generate an amount of revenue that would have been collected in the previous fiscal year from the cultivation tax had that tax not been discontinued.

The bill also prohibited the adjusted cannabis excise tax rate from exceeding 19 percent of the gross receipts of the retail sale by a cannabis retailer.

- AB 1872 (Committee on Budget, Chapter 93, Statutes of 2020) prohibited CDTFA from increasing the mark-up amount for purposes of the cannabis excise tax beginning on and after the operative date of the bill and before July 1, 2021, and prohibited an inflation adjustment to the cultivation tax rates that were imposed in the 2021 calendar year unless the inflation rate was less than zero.
- SB 94 (Committee on Budget and Fiscal Review, Chapter 27, Statutes of 2017), among other things, required: (1) the cannabis excise tax to be measured by the average market price, as defined, of the retail sale, instead of by the gross receipts of the retail sale; (2) distributors to collect and remit the taxes, as specified; and (3) distributors, instead of retailers and cultivators, to obtain permits from CDTFA. Additionally, this bill defined “enters the commercial market” and other terms for the purposes of the cannabis cultivation and excise taxes.
- AB 3248 (Essayli, 2024) would have reduced the cannabis excise tax rate from 15 percent to 5 percent. This bill died in the Assembly Business and Professions Committee.
- SB 1281 (Bradford, 2022), among other things, would have decreased the cannabis excise tax rate from 15 percent to 5 percent. The bill died in the Assembly Revenue and Taxation Committee.
- Proposition 64 (2016), approved by the voters as an initiative measure at the November 8, 2016, statewide general election, legalized marijuana use by adults 21 and older, regulated nonmedical marijuana, and imposed an excise tax amounting to 15 percent of the gross receipts of any retail sale of marijuana and marijuana products on and after January 1, 2018, and a marijuana cultivation tax on all harvested marijuana that enters the commercial market on and after January 1, 2018, at the rates of \$9.25 per dry-weight ounce of flowers and \$2.75 per dry-weight ounce of leaves.

**Staff Comments:** Using internal data, an October 1, 2025 start date, and the Department of Finance’s current economic forecast, CDTFA has estimated that a 4.6 percentage-point increase in the cannabis excise tax rate would generate similar revenue in 2025-26 to what would have been collected from the cultivation tax program. However, as noted above, the adjusted cannabis tax rate may not exceed 19 percent. Thus, CDTFA (1) assumes a current-law excise tax rate of 19 percent for 2025-26, and (2) estimates the resulting Cannabis Tax Fund revenue loss from this bill for that particular fiscal year would be \$135 million (plus the aforementioned decline in sales and use tax revenue). CDTFA’s 2025-26 estimate suggests that the Cannabis Tax Fund revenue loss on annualized basis would be \$180 million. Thus, compared to current law and assuming key market variables such as price and demand stay unchanged, CDTFA’s methodology would result in reduced Cannabis Tax Fund revenues of \$720 million for the period 2026-27 through 2030-31 (plus commensurate declines in sales and use tax revenue).

To the extent that this bill's lowering of the excise tax rate to 15 percent induces individuals to make their near-term cannabis purchases within the State's regulated market (instead of the underground economy), the revenue losses resulting from the bill would be lower than the department's estimate.

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