
THIRD READING

Bill No: AB 564
Author: Haney (D)
Amended: 9/5/25 in Senate
Vote: 21

SENATE REVENUE AND TAXATION COMMITTEE: 5-0, 7/9/25
AYES: McNerney, Valladares, Ashby, Grayson, Umberg

SENATE APPROPRIATIONS COMMITTEE: 7-0, 8/29/25
AYES: Caballero, Seyarto, Cabaldon, Dahle, Grayson, Richardson, Wahab

ASSEMBLY FLOOR: 74-0, 6/2/25 - See last page for vote

SUBJECT: Cannabis: excise tax: rate increase suspension: report

SOURCE: UFCW - Western States Council; Big Sur Farmers Association;
Hessel Farmers Grange; Humboldt County Growers Alliance;
Mendocino Cannabis Alliance; Origins Council; Sonoma County
Cannabis Alliance; Trinity County Agriculture Alliance

DIGEST: This bill delays the 4% increase in the Cannabis Excise Tax rate from the 2025-26 fiscal year to the 2028-29 fiscal year, effective October 1, 2025.

Senate Floor Amendments of 9/5/25 (1) make a grammatical change, and (3) add a principal co-author and a co-author.

ANALYSIS:

Existing law:

- 1) Enacts the Compassionate Use Act of 1996 (CUA). Under CUA, qualified patients with specified illnesses, and their primary caregivers, cannot be prosecuted for possessing or cultivating medical cannabis upon the written or oral recommendation or approval of an attending physician (Proposition 215, 1996).

- 2) Enacts the Control, Regulate and Tax Adult Use of Marijuana Act, which legalized commercial adult-use cannabis for adults age 21 and older (Proposition 64, 2016). Among other provisions, the Act:
- a) Allows for the licensure and regulation of both commercial adult-use and medicinal use cannabis activities by various state agencies.
 - b) Imposes on a customer who purchases cannabis or cannabis products in the state the cannabis excise tax, which is equal to 15% of the gross receipts of any cannabis or cannabis products retail sale.
 - c) Imposes the cultivation tax on cannabis cultivators, which applies to all harvested cannabis at the following rates for 2022:
 - i) \$10.08 per dry-weight ounce of cannabis flower.
 - ii) \$3 per dry-weight ounce of cannabis leaves.
 - iii) \$1.41 per ounce of fresh cannabis plant.
 - d) Requires the California Department of Tax and Fee Administration (CDTFA) to administer both taxes, and annually adjust the above cultivation tax rates for inflation.
 - e) Requires the cannabis excise tax be included in the sales and use tax base for retail sales of non-medicinal cannabis.
 - f) 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 his or her identification card and a valid government issued identification card.
 - g) Allocates revenues from these taxes to the Cannabis Tax Fund, with the highest priority to fund costs incurred by the state agencies implementing Proposition 64, including CDTFA, and the Department of Cannabis Control (DCC), among others.
 - h) Sets aside \$10 million annually from the Cannabis Tax Fund for public universities' various cannabis research efforts, and \$3 billion annually for the California Highway Patrol to establish protocols for determining if someone is operating a vehicle while impaired.
 - i) Allocates up to \$50 million from the Cannabis Tax Fund for the Governor's Office of Business and Economic Development and other agencies to

administer a community reinvestment grants program, and \$2 million to the University of California San Diego Center for medical cannabis research.

- j) After the above priorities are met, allocates remaining funds from the Cannabis Tax Fund (also known as “Tier Three”) in the following way:
 - i) 60% of the remaining revenues are deposited into the Youth Education, Prevention, Early Intervention and Treatment Account.
 - ii) 20% are deposited in the Environmental Restoration and Protection Account.
 - iii) 20% going to the State and Local Government Law Enforcement Account.
 - iv) Allows the Governor to determine how the remaining funds are allocated within each share; however, beginning January 1, 2028, permits the Legislature by majority vote to allocate funds to purposes other than those listed above, but only to further its purposes, and only so long as the amount of funds to accounts in fiscal year 2027–2028 is not reduced.
- 3) Enacts reforms to cannabis taxation generally, including several changes to the Cannabis Tax Law AB 195 (Committee on Budget, Chapter 56, Statutes of 2022), including to:
 - a) Suspend the cultivation tax effective July 1, 2022.
 - b) Shift the point of collection of the excise tax from the distributor to the retailer.
 - c) Maintain the previous excise tax rate at 15% until July 1, 2025, at which point CDTFA must adjust the excise tax every two years by a rate, not to exceed 19%, that would generate an amount of revenue equivalent to what would have been collected from the cultivation tax.
 - d) Allow equity retailers who have received an equity fee waiver from the Department of Cannabis Control to retain 20% of the excise tax they collect, which is set to expire at the end of 2025.
 - e) Permit cannabis equity operators to claim tax credits of up to \$10,000 beginning in the 2023 taxable year, ending after the 2027 taxable year, for a program total of \$20 million.

- f) Allow qualified cannabis employers to claim tax credits of up to \$250,000 beginning in the 2023 taxable year, ending after the 2027 taxable year, for a program total of \$20 million.
- g) Set a baseline for Tier Three funding of \$670 million, backstopped with a General Fund appropriation of \$150 million in case revenues fall short of the baseline.
- 4) Applies the sales and use tax to retail sales of non-medicinal cannabis, which is collected by the retailer and remitted to CDTFA.
- 5) Allows local agencies that permit cannabis businesses in their jurisdictions to impose local cannabis taxes to generate local revenues.
- 6) Enacts the Medicinal and Adult-Use Cannabis Regulation and Safety Act (MAUCRSA) to provide for a comprehensive regulatory framework for the cultivation, distribution, transport, storage, manufacturing, processing, and sale of medicinal and adult-use cannabis.
- 7) Establishes the Department of Cannabis Control (DCC) within the Business, Consumer Services, and Housing Agency for purposes of administering and enforcing MAUCRSA.

This bill:

- 1) Changes from the 2025-26 fiscal year to the 2028-29 fiscal year AB 195's mechanism to increase the Cannabis Excise Tax rate by a rate that will generate an amount of revenue equivalent to the amount that would have been collected in the previous fiscal year, had the now suspended cultivation tax been effective.
- 2) Provides that the above change is effective commencing October 1, 2025.
- 3) Makes conforming changes.
- 4) Makes legislative findings and declarations to comply with Section 41 of the Revenue and Taxation Code, including:
 - a) States that its specific goal in reducing the cannabis excise tax rate is to provide immediate tax relief to the cannabis industry.
 - b) States that its performance indicator is the amount of gain or loss in cannabis excise tax revenues resulting from the bill's excise tax rate reduction.

- c) Directs CDTFA to submit a report to the Legislature detailing the amount of gain or loss in cannabis excise tax revenues resulting from the cannabis excise tax rate reduction on or before December 1, 2026, and annually thereafter.
- 5) Directs DCC, in consultation with the CDTFA and the Legislative Analyst's Office (LAO), to submit a report to the Legislature, that:
- a) Analyzes the current and future effect of the Cannabis Tax Law on the regulated cannabis market and its competitive position against the illicit cannabis market.
 - b) Assesses the capacity for the Cannabis Tax Law to generate revenue to restore the environment, fund youth treatment and prevention, and support community investment and law enforcement, consistent with Section 3 of the Control, Regulate and Tax Adult Use of Marijuana Act.
 - c) Recommends options for changes to the Cannabis Tax Law to accomplish the intent of the Control, Regulate and Tax Adult Use of Marijuana Act, including revenue effects, administrative feasibility, consistency with the purposes of the Act, and impact on the regulated and illicit cannabis markets.
 - d) Directs CDTFA to share information and data as necessary for DCC to complete the report.
 - e) Repeals the reporting requirement on January 1, 2029.
- 6) Takes effect immediately as a tax levy.

Background

Cannabis Taxation. For many years, cannabis industry representatives have argued that combined state and local taxes on cannabis has placed it at a competitive disadvantage to the unregulated illicit market. The representatives added that the cultivation tax specifically pushes cannabis farmers into the unregulated market.

In response, the Legislature comprehensively reformed cannabis taxation with AB 195. As noted above, AB 195 maintained the previous excise tax rate at 15% until July 1, 2025, at which point CDTFA must adjust the excise tax every two years by a rate, not to exceed 19%, that would generate an amount of revenue equivalent to what would have been collected from the cultivation tax. Earlier this year, CDTFA

stated that AB 195's required adjustment triggers the full 4% increase to 19%, which took effect on July 1, 2025. Retailers will complete returns reflecting the higher rate, which are due the last day of the month following the third quarter.

In recent years, cannabis tax revenues have been prone to large swings from one quarter to the next, making them much harder to forecast than the state's other major revenue sources. Starting in the middle of 2021, excise tax revenues peaked at \$177 million in the third quarter of 2021, then began the first of six straight quarters of decline, with a low of \$128 million in the fourth quarter of 2022. Revenues rebounded in 2023, exceeding \$160 million in three of four quarters, before sharply falling again to \$140 million in the first quarter of 2025.

AB 195 also set a baseline for Tier Three funding of \$670 million annually, backstopped with a General Fund appropriation of \$150 million in case revenues fell short of the baseline. However, the entire backstop was exhausted in the 2023-24 fiscal year, and no further backfill provided, so Tier Three funding fell well below the amount set in AB 195. The LAO projects cannabis tax revenue of \$594 million in 2024-25, and projects this will increase to \$732 million in 2025-26 due to AB 195's 4% excise tax rate increase.

AB 195 would reset the Cannabis Excise Tax Rate from 19% to 15%, effective October 1, 2025. Supporters and opponents disagree regarding whether AB 195's rate reduction would generate more or less revenue for the Cannabis Tax Fund.

Governor's Proposed 2025-26 Budget. In response to the insolvency of the Cannabis Control Fund, the Governor's Proposed Budget for 2025-26 included a proposal to shift \$71 million in Cannabis Tax Funds to fund enforcement of the illicit cannabis market. As a result, current license fees won't need to be increased to cover the insolvency, but some of the programs funded by the Cannabis Tax Fund will likely receive less revenue. The Legislature enacted the Governor's Proposal.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: No

According to the Senate Appropriations Committee:

- 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, and \$180 million in 2027-28 (Cannabis Tax Fund). 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. Furthermore, the estimated sales and use tax revenue loss for 2027-28 would

be \$13.3 million, \$6.6 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).

SUPPORT: (Verified 9/5/25)

UFCW - Western States Council (Source)
Big Sur Farmers Association (Co-Source)
Hessel Farmers Grange (Co-Source)
Humboldt County Growers Alliance (Co-Source)
Mendocino Cannabis Alliance (Co-Source)
Origins Council (Co-Source)
Sonoma County Cannabis Alliance (Co-Source)
Trinity County Agriculture Alliance (Co-Source)
Orange County Board of Supervisors - Supervisor Vicente Sarmiento
Americans for Safe Access
ASHE
Bud Technology
California Cannabis Industry Association
California Cannabis Operators Association
California Minority Alliance
California NORML
California Statewide Law Enforcement Association
Cannabis Distribution Association
Cannabiz Consulting Group
Cannacraft, Inc.
Catalyst Cannabis Co.
City of Long Beach
City of Nevada City
City of Placerville
City of Sacramento
Coachella Valley Cannabis Alliance Network
Cornbread Hemp
County of Alameda
County of Humboldt
County of Mendocino County
County of Nevada
County of Santa Barbara
County of Sonoma
Dope Sugar La Cienega
Embarc

Emerald Sky
Equity Trade, Inc.
Excelbis Lab
Four Star Distribution & Delivery, LLC
Four Star Manufacturing, LLC
FundCanna
Gold Process, LLC
Good Farmers Great Neighbors
Gorilla Rx Wellness
Green Mart Dispensary
Highlands Dispensary
Highstar Distribution, LLC
Highstar Manufacturing, LLC
Highstar, LLC
JP Squared Consulting, LLC
JWC Deliveries
Kiva Confections
LeafLink
Long Beach Collective Association
Monarch Technologies, Inc.
My Green Network
Nevada County Cannabis Alliance
NorCal Phoenix, Inc.
Normal Consulting Group
North Country Pharms
Nug, Inc.
Pacific Stone
Pax Labs, Inc.
Phire
Proof Operations, Inc.
Sacramento Metro Chamber of Commerce
San Diego Regional Chamber of Commerce
San Francisco Cannabis Retailers Alliance
Social Equity Los Angeles
Solful
Sonoma County Democratic Party
South Coast Safe Access
Southwest California Legislative Council
SPARC
Stiiizy
Strong Agronomy Management, Inc.
Syndicate Lancaster; the

The Hill SF
Three Trees
Three Trees Delivery
Tree Talk
Tri County Chamber Alliance
Trojan Cannabis Network
UFCW Local 1167
United Cannabis Business Association
Verde Plus
Veterans Alliance of Orange County
Weedmaps
West Coast Cure
Two Individuals

OPPOSITION: (Verified 9/5/25)

4th Second
Alliance for Boys & Men of Color
Arts for Healing and Justice Network
Asian Refugees United
Back to the Start
Baduwa't Watershed Council
Big Valley Band of Pomo Indians
Breakthrough Sacramento
CactusToCloud Institute
Calexico Wellness Center
California Alliance for Youth and Community Justice
California Alliance of Child and Family Services
California Health Collaborative
California Native Plant Society
California Primary Care Association Advocates
California School-Based Health Alliance
California State Parks Foundation
California Trout
CalPride
Cambodian Family; the
Cannabis for Conservation
Center for Empowering Refugees and Immigrants
Centro Del Pueblo Movimiento Indigena Migrante
Child Action, Inc.
City Ministry Network
Club Stride, Inc.

Coastal Defenders
Communities United for Restorative Youth Justice
Community Agency for Resources, Advocacy and Services
Concrete Development, Inc.
Connected to Lead
Core 6
Crop Project; the
Early Edge California
East Bay Asian Youth Center
El Sol Neighborhood Educational Center
Endangered Habitats League
Environmental Protection Information Center
Expanded Learning Alliance
Freedom 4 Youth
Fresh Lifelines for Youth
Friends of Harbors, Beaches and Parks
Friends of the Eel River
Friends of the Inyo
Future Leaders of America
Gateway Mountain Center
Getting It Right From the Start
Girls Club of Los Angeles
Grace Institute - End Child Poverty in California
Healthy Vallejo Community Support Services, Inc.
Helpline Youth Counseling, Inc.
Hermosa Coalition for Drug-free Kids
Hills for Everyone
Hmong Innovating Politics
Humboldt Waterkeeper
Indigenous Justice
Institute for Public Strategies
Klamath Forest Alliance
Kno'Qoti Native Wellness, Inc.
Latino Coalition for a Healthy California
Latino Health Access
Legacy LA
LGBTQ Center Orange County
Lily of the Valley Emmanuel Church of Jesus Christ
Los Angeles County Rethinking Access to Marijuana
Los Angeles Neighborhood Land Trust
Los Angeles Trust for Children's Health; the
Marin Residents for Public Health Cannabis Policies

McKinleyville Family Resource Center
Mental Health California
Merced Lao Family Community, Inc.
Mid-City Community Action Network
Mojave Desert Land Trust
National Council on Alcoholism and Drug Dependence of East San Gabriel and
Pomona Valleys
Native Dad's Network
Native Sisters Circle
Nature Conservancy; the
Oracles of Truth
Pacific Forest Trust
Parent Voices California
People Reaching Out Youth & Families
Planning and Conservation League
Prevention Institute
Project Optimism
Raizes Collective
Resilience Orange County
Resources Legacy Fund
River Partners
RYSE Youth Center
Sacramento Area Congregations Together
Sacramento LGBT Community Center
Sacramento Youth Center
Safe Passages
Safe Place for Youth
Showing Up for Racial Justice Santa Cruz County
Social Advocates for Youth, San Diego
Somos Mayfair
Sonoma Land Trust
Source LGBT+ Center; the
Tahoe Youth and Family Services
Tarzana Treatment Centers, Inc.
Thriving Families California
Trout Unlimited
True North Organizing Network
Underground GRIT
Urban Peace Movement
Urban Strategies Council
Wall Las Memorias Project; the
Watershed Research & Training Center

Waymakers
Youth Alliance
Youth Forward
Youth Leadership Institute
Youth Transforming Justice
Youth Will
One Individual

ARGUMENTS IN SUPPORT: According to the author, “AB 564 provides tax relief to California’s struggling cannabis industry and will help California maintain its position as the heart of America’s cannabis economy and culture. The legal cannabis industry in California is being crushed by taxes, fees, and other regulation compliance costs, driving licensed cannabis businesses out of the market. Fully licensed, legal businesses in California capture just 40% of the state’s entire market, while the underground illicit market accounts for 60% of the overall market. That means California is missing out on millions in lost potential revenue from illicit, untaxed sales. Starting July 1, 2025, California increased the excise tax rate from 15% to 19%, an overall 25% tax hike for an already-struggling and overtaxed industry. AB 564 will reestablish the 15% excise tax, allowing the legal cannabis industry to regain its foothold.”

ARGUMENTS IN OPPOSITION: According to a coalition of several groups, “When voters approved Proposition 64, they dedicated significant cannabis excise tax and cultivation tax revenues for the Tier 3 programs. These revenues are a significant funding source for childcare for low-income families, youth substance use prevention programs, environmental remediation including restoration of watersheds damaged by cannabis cultivation, and law enforcement programs. Many of our groups worked on the Proposition 64 Tier 3 language and want to ensure the provisions of law and promises made to date are upheld. If the promise made in AB 195 is not kept, according to CDTFA, California will lose at least \$180 million per year for childcare, youth, and environmental programs. This directly translates into thousands fewer childcare slots for low-income children, fewer youth benefitting from substance abuse prevention programs, continuing environmental degradation of our watersheds, and other less action by law enforcement against the illegal industry.”

ASSEMBLY FLOOR: 74-0, 6/2/25

AYES: Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Arambula, Ávila Farías, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Castillo, Chen, Connolly, Davies, DeMaio, Dixon, Elhawary, Ellis, Flora, Fong, Gabriel, Gallagher, Garcia, Gipson, Jeff Gonzalez, Mark González,

Haney, Harabedian, Hart, Hoover, Jackson, Kalra, Krell, Lackey, Lee,
Lowenthal, Macedo, McKinnor, Muratsuchi, Nguyen, Ortega, Pacheco, Papan,
Patel, Patterson, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Ransom, Michelle
Rodriguez, Rogers, Blanca Rubio, Sanchez, Schiavo, Schultz, Sharp-Collins,
Solache, Soria, Stefani, Tangipa, Valencia, Wallis, Ward, Wicks, Wilson, Zbur,
Rivas

NO VOTE RECORDED: Bains, Hadwick, Irwin, Celeste Rodriguez, Ta

Prepared by: Colin Grinnell / REV. & TAX. / (916) 651-4117
9/8/25 21:16:21

**** END ****