



November 22, 2019

The Honorable Gavin Newsom
Governor of California
1303 10th Street, Suite 1173
Sacramento, CA 95814

RE: Opposition to Increased Taxes on Commercial Cannabis Activity

Dear Governor Newsom:

The below coalition of cannabis industry leaders, businesses and professional associations, stands unified alongside the California Cannabis Industry Association strong opposition to the California Department of Tax and Fee Administration's (CDTFA) decision to increase taxes on commercial cannabis activity in the state.

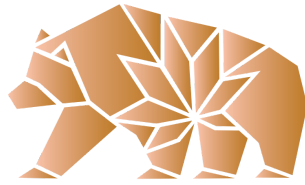
Beginning January 1, 2020, the CDTFA has announced the cannabis mark-up rate (for purposes of calculating the state's 15% excise tax) will increase to 80%, which is an abrupt and dramatic increase from the current 60% rate. This increase will be accompanied by higher cannabis cultivation taxes, with increased rates in each cannabis category averaging over four percent. While Proposition 64 authorizes the CDTFA to adjust the cannabis cultivation tax for inflation, we fail to see any justification for the CDTFA's action to raise the mark-up rate.

These tax increases come at a particularly difficult time for the legal cannabis industry. California's illicit cannabis market is stronger than ever, with illegal retail operations outnumbering legal shops 3-to-1. Illicit operations adhere to no state regulation, pay no taxes and do not follow labor or compliance laws. Conversely, legal cannabis businesses are permitted to operate in about one-third of California's jurisdictions, with only 1-in-4 cities allowing for retail stores. As such, compliant cannabis businesses are already at a severe economic disadvantage. Increasing burdensome tax rates that, in some cases, already amount to over half the retail price, will drive even more consumers toward illicit shops.

Equally concerning, current regulations make business operations in the cannabis space prohibitively expensive, as well as unreasonably onerous. Calculating, collecting and remitting cultivation taxes on cannabis products, particularly as they are manufactured and sold to distribution and retail, is a difficult process that leads to increased staff time and, ultimately, lower revenue collections for the state. Additionally, the nature of the "arms length" transaction model governing cannabis tax law means that the 80% markup will multiply as cannabis goods move through the supply chain, resulting in greater operational costs for businesses.

Bottom line, burdensome taxation, local bans, onerous regulations, slow growth and a thriving illicit market are spiraling California's regulated market towards collapse. The CDTFA's decision is counter to developing a safe and thriving industry, as it will only further drive consumers to the illicit market at a time when illicit products are demonstrably putting lives at risk.

EST. 2013



CALIFORNIA
CANNABIS
INDUSTRY
ASSOCIATION

We encourage the Administration and Legislature to reconsider this decision and instead, partner with the industry to develop comprehensive policies that increase legal participation and support a safe and robust cannabis market.

Thank you for your time and attention to this important matter.

Sincerely,

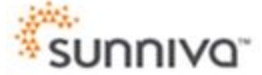


HASHMAN
INFUSED



Sunday
Goods



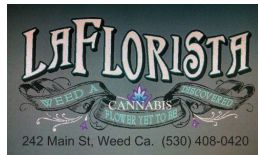


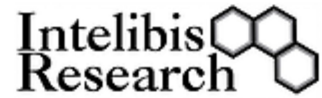


F/ELD

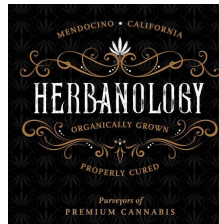


Biscotti





Margro Advisors



FLORA TERRA



CANNDESCENT™



