



February 25th, 2022

The Honorable Mike McGuire
California State Senate
State Capitol Building, Room 5061
Sacramento, CA 95814

RE: SB 1074 (McGuire) Cannabis: excise tax: cultivation tax - SUPPORT

Dear Senator McGuire,

On behalf of Origins Council, representing nearly 900 licensed small and independent cannabis businesses in six legacy producing counties throughout California, we are pleased to support SB 1074 (McGuire), which would eliminate the state cannabis cultivation tax and provide overall tax relief for the cannabis industry.

Hundreds of small and independent cannabis farmers currently face a significant risk of being forced out of the licensed market due in large part to a collapse in wholesale market prices for cannabis flower, compounded by a flat weight-based cultivation tax which remains the same regardless of market conditions. These challenges are particularly severe for outdoor cannabis farmers, who typically have lower yields and sell products for lower prices than cultivators who utilize more intensive cultivation methods.

Since summer of 2021, wholesale prices for outdoor cannabis have dropped from approximately \$1,000/pound to approximately \$300-\$400/pound. During the same time period, the weight based cultivation tax on cannabis flower has increased from \$154/pound to \$161/pound. As a result, state cultivation taxes alone can now account for 50% or more of wholesale prices for flower. Similarly, cannabis leaves, or “trim,” are currently selling at \$20-\$40/pound off the farm. Cannabis leaves are currently taxed by the state at \$48/pound, meaning substantially more is paid to the state as taxation than the farmer receives as revenue.

While current market conditions have highlighted the inequity of the cultivation tax, many of the cultivation tax’s limitations are inherent to a farm-based tax on an agricultural product. A single weight-based tax on “cannabis flower” cannot account for widely varying grades of flower, which can vary based on cultivation method, but also even on the cannabis produced by a single plant. Additionally, cultivation taxes are subject to complex calculation and recordkeeping requirements which impact the entire supply chain, increasing overhead costs and administrative complexity for both licensees and regulators.

In addition to eliminating the state cultivation tax, SB 1074 would provide overall tax relief to the cannabis industry until January 1, 2026. This tax relief will provide significant benefit to licensed cannabis operators who continue to compete against an unlicensed market that is not required to bear costs for licensing, taxation, environmental compliance, and final product safety testing. State tax policy should encourage, not discourage, businesses from choosing to enter the licensed market.

Many of the small legacy farmers we represent are homestead farmers, and cannabis is not just a business to them: it is their livelihoods, their homes, and their way of life. A “business as usual” approach to cannabis policy and cannabis taxation risks severe socioeconomic impacts to these farmers and their communities more broadly. SB 1074 would establish a more sensible tax structure for licensed cannabis and would provide an essential lifeline for craft legacy producers who have chosen to step forward into the legal and regulated cannabis market.

Thank you for your consideration,



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Executive Director
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