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authorities seek to revamp a system that ...

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Gregory Yee, The Los Angeles Times (via TNS).

Tax cuts and other reforms are coming to the California cannabis industry as authorities seek to revamp a system that businesses, growers and others say has been stymied by over-regulation.

A bill signed by Gov. Gavin Newsom last week cuts a cultivation tax placed on

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In Los Angeles a program targeted entrepreneurs with marijuana arrest records, those with low incomes and people who lived in areas disproportionately affected by cannabis arrests.

But [growth in the legal market was hampered](#) by complex and confusing regulations, high taxes and decisions by some communities to ban cannabis shops. Industry experts and lobbyists have been fighting for reforms ever since.

The new law, [AB 195](#), is being touted as a step in the right direction.

“CCIA has been lobbying for the elimination of the cultivation tax since it went into effect four years ago,” read the cannabis association’s statement. “Zeroing out the cultivation tax indefinitely and shifting excise tax collection from distribution to retail are big wins for our industry! We also achieved tax relief for at least three years, successfully pushed back on an automatic tax increase, which would have taken effect in 2024, bolstered enforcement against unlicensed operators, and provided additional relief for social equity operators.”

Other reforms put in place by the new bill include capping the excise tax rate at 15% for three fiscal years, though it may be increased after July 1, 2025; allowing social equity licensees to keep 20% of the excise taxes they collect to reinvest in their businesses; making equity licensees eligible for a \$10,000 tax credit; \$40 million in tax credits, including \$20 million for certain storefront retail and microbusinesses, and \$20 million for cannabis equity operators; and adding enforcement tools to fight against the illicit cannabis market.

In their statement, the industry group said the work is far from over and that the survival of the regulated cannabis industry requires providing stable tax revenues to the state as well as advancing public health and safety.

Robert Raich, an Oakland-based attorney and California cannabis law expert, told

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unregulated "legacy market" is likely to pay 50% less than if they buy from a licensed dispensary, he said.

The system in place before the passage of AB 195 was also making it difficult for small-scale cultivators to earn a living, Raich said.

"If you want to promote small businesses rather than huge industrial-size facilities, then eliminating this cultivation tax is an important element to achieve this goal," he said.

Although businesses and cultivators will see some relief from the cultivation tax, the excise tax is still too high and will continue driving businesses and consumers toward the underground market, Raich said.

"Frankly, the excise tax should also be eliminated or at least greatly reduced," he said.

Nevertheless, the industry is celebrating this victory, Raich said.

"It is universally applauded for what it does do, even though we didn't get everything we sought," he said. "If you are a cannabis consumer, it makes a huge difference. You can buy more safe cannabis that's been tested. You're saving yourself money."

And those who do not consume cannabis should also be pleased at the passage of the bill, Raich said.

"It's estimated that just 20% of the overall market is the legal market, meaning that roughly 80% of the market is the underground, legacy, unregulated market," he said. "That's a very visible failure. If we want to keep people operating legally rather than keeping them as criminals, then we need to have a system that actually works."

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