

SUBJECT: Cannabis Business Tax Rate Adjustment Options

RECOMMENDATION: Review the current cannabis business tax structure and review options to change tax rates for newly allowed retail cannabis dispensaries within the unincorporated areas of the County.

BACKGROUND:

The Cannabis Business Tax Ordinance (Ordinance 2456) was adopted by the Board of Supervisors in 2019 to establish and impose a tax on the privilege of engaging in various cannabis-related commercial activities in the unincorporated areas of the County. These activities include cultivating, dispensing, producing, processing, preparing, storing, providing, donating, selling, distributing, transporting or any other business activity related to medical and nonmedical cannabis or cannabis products.

Ordinance 2456 specifies the types and rates of taxes to be levied as well as maximum rates that may be imposed. Initial tax rates were adopted to take effect January 1, 2019, through June 30, 2021, using the annual gross receipts methodology, with minimum tax amounts required to be paid annually. Beginning in July 2021 and continuing each subsequent year, the tax rates have been automatically adjusted based on the annual Consumer Price Index (CPI).

The following chart displays rates and methodologies, and annual minimum tax amounts per business activity type set under the original ordinance 2456:

Cannabis Business Activity Type:	Initial Base Rate 01/01/2019	Maximum Allowed Rate	Annual Minimum Tax
	% of Annual Gross Receipts	% of Annual Gross Receipts	*Per Grow Cycle
Cultivation	2.5%	10%	
2,500 sf or less			\$1,250*
2,500-5,000 sf			\$2,500*
5,000 sf or greater			\$5,000*
Retail Storefront (Dispensary)	2.5%	10%	\$2,500
Microbusiness (Retail Storefront and Non-Storefront Delivery)	2.5%	10%	\$2,500
Nursery (Retail)	2.5%	10%	\$2,500
Distributor/Distribution Facility	2.5%	10%	\$2,500
Transporter	2.5%	10%	\$2,500
Testing Laboratory	2.5%	10%	\$2,500
Manufacturing Facility	2.5%	10%	\$2,500

In May 2023, the Cannabis Tax Ordinance (Ordinance 2523) was amended for persons engaged in legally authorized cultivation. The amendment changed the tax methodology from the annual gross receipt’s method to a tiered, square-footage method for both indoor and outdoor cultivation and mixed lighting types. This change took effect July 1, 2023. Under the new methodology, the initial tax rates were set at \$0.16 per square foot for indoor or mixed light 2 cultivation and \$0.32 per square foot for outdoor or mixed light 1 cultivation, applied per grow cycle, per fiscal year, and the annual minimum tax requirement was eliminated. Base tax rates under this new methodology have been automatically adjusted based on the annual Consumer Price Index (CPI). This adjustment was made to provide greater stability for businesses by ensuring they can anticipate their tax liabilities before harvest. Additionally, it aims to enhance the long-term financial viability of the County’s program, ensuring more consistent revenue streams.

Below is the cannabis tax structure currently in place, including tax methodology and annual minimum tax amounts per business activity type:

Cannabis Business Activity Type:	Current Rate	Maximum Allowed Rate	Current Rate	Maximum Allowed Rate	Annual Minimum Tax
	Per Square Foot Per Cycle	Per Square Foot Per Cycle	% of Annual Gross Receipts	% of Annual Gross Receipts	
Cultivation					
Indoor or ML2	\$0.33	\$10.00			-
Outdoor or ML1	\$0.16	\$10.00			-
Microbusiness					
Indoor or ML2	\$0.33	\$10.00			-
Outdoor or ML1	\$0.16	\$10.00			-
Retail Storefront (Dispensary)			2.73%	10%	\$2,500
Microbusiness (Retail Storefront and Non-Storefront Delivery)			2.73%	10%	\$2,500
Nursery (Retail)			2.73%	10%	\$2,500
Distributor/Distribution Facility			2.73%	10%	\$2,500
Transporter			2.73%	10%	\$2,500
Testing Laboratory			2.73%	10%	\$2,500
Manufacturing Facility			2.73%	10%	\$2,500

Most recently, in November 2024, the Board adopted Ordinance 2538 which authorized the addition of two (2) retail storefront cannabis dispensaries in the unincorporated areas of Nevada County. Research conducted by our office shows that throughout the State, various tax rates and methodologies are used for cannabis retail storefront businesses and the annual gross receipts tax methodology is the primary method used as it considers ongoing changes in market prices and product quality.

The below chart shows current cannabis retail tax rates for various Counties and incorporated Cities throughout California and the State of Nevada:

County	Retail Storefront Tax Rate % of Gross Receipts	City	Retail Storefront Tax Rate % of Gross Receipts
Humboldt	0% - currently frozen, was 6%	Eureka	0%
Trinity	2.5%	-	-
Nevada	2.73%	City of Colfax	4%
Nevada	2.73%	City of Grass Valley	4%
Nevada	2.73%	City of Nevada City	4%
Sonoma	3%	City of Santa Rosa	3%
El Dorado	4%	City of Placerville	4%
Fresno	4%	City of Fresno	4%
Lake	4%	Clearlake	15%
Merced	4%	City of Merced	7%
Monterey	4%	City of Monterey	4%
Calaveras	5%	Angels Camp	8.75%
Mendocino	5%	Fort Bragg	5%
Del Norte	6%	Crescent City	6%
Santa Cruz	7%	City of Santa Cruz	7%
Washoe	3%	Incline Village	3%

The Board has the discretion to implement annual rate changes including a change to the current cannabis retail storefront dispensary tax rate. As of July 1, 2021, per Ordinance 2523, because the Board did not increase the base tax rate for a period of three years or longer, there is no limit on percentage of discretionary increase that may be imposed, not to exceed maximum rates set forth per category. The Board may implement a lower tax rate or establish different tax rates for differing categories of commercial cannabis businesses, subject to maximum tax rates.

The Board may consider changing the retail rates to align with rates charged by surrounding jurisdictions. Additionally, the Board may also implement rate changes or change methodologies for other cannabis-business types.

Revenue estimates are unknown at this time for potential dispensaries in unincorporated Nevada County, however, we do have a small amount of data based on the newly licensed microbusinesses in the County whereby tax revenue projections based on the current tax structure for microbusiness storefront retail may be \$50-\$75K annually. The goal is to set a tax rate that covers the costs associated with regulating the industry and incentivizes compliance, rather than acting as a barrier.

Below is a chart of cannabis tax revenues and programmatic expenditures since January 2019:

Cannabis Business Activity	19/20	20/21	21/22	22/23	23/24
Cannabis Tax Revenues:					
Gross Receipts Tax Revenue	\$205,455	\$444,024	\$326,358	\$417,077	\$ 19,779
Square Footage Tax Revenue	-	-	-	-	\$261,906
Total Cannabis Tax Revenues	\$205,455	\$444,024	\$326,358	\$417,077	\$282,699
Treasurer-Tax Collector Expenditures	(\$24,985)	(\$47,559)	(\$64,818)	(\$48,354)	(\$53,361)
Total Treasurer-Tax Collector Expenditures	(\$24,985)	(\$47,559)	(\$64,818)	(\$48,354)	(\$53,361)
CDA Revenues:					
<i>20711 Revenues:</i>					
Cannabis Permits	\$72,355	\$120,473	\$153,078	\$139,989	\$140,729
Fines and Penalties	\$97,568	\$422,500	\$337,499	\$311,554	\$260,357
<i>General Fund</i>	\$320,519	\$449,408	\$493,966	\$761,732	\$816,918
<i>Other</i>	\$0	\$1,302	\$127	\$0	\$0
Total 20711 Revenue	\$490,443	\$993,683	\$984,670	\$1,223,275	\$1,218,004
CDA Expenditures:					
<i>20711 Expenditures:</i>					
Salaries and Benefits	\$216,887	\$244,338	\$425,556	\$549,604	\$585,653
Supplies and Services	\$33,131	\$34,138	\$47,077	\$96,018	\$42,912
Interfund Charges	\$211,383	\$280,380	\$324,368	\$162,386	\$270,561
<i>Capital Equipment</i>	\$0	\$0	\$0	\$0	\$0
Transfers Out	\$31,001	\$0	\$30,610	\$0	\$0
Interfund Reimburse	\$0	\$0	(\$7,866)	(\$26,420)	(\$18,293)
Total 20711 Expense	\$492,402	\$558,856	\$819,745	\$781,588	\$880,833

Meetings have been held with key members of the Nevada County Cannabis Alliance to discuss viability of a tax increase and to gather input on what the Alliance believes to be in the best interest of its members.

The Board has several options available when considering adjusting cannabis tax rates including, but not limited to:

- No change to current tax rate for retail categories, continue with annual CPI adjustments
- Adjust current tax rate to align with neighboring jurisdictions for retail storefront (dispensaries) only, continue with annual CPI adjustments
- Adjust current tax rate to align with neighboring jurisdictions for all retail categories including: Retail Storefront (Dispensary), Microbusiness (Retail Storefront & Non-Storefront Delivery), and Nursery (Retail). Continue with annual CPI adjustments

Item Initiated and Approved by: Michelle Bodley

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