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## **Fitch: Illicit Sales Will Limit California Cannabis Revenues.**

Fitch Ratings-New York-25 September 2017: California's high cannabis taxes will encourage black market sales and limit potential local government revenues from this new market, Fitch Ratings says.

Effective tax rates on nonmedical cannabis will be as high as 45% when accounting for both state and local levies. Taxes include a 15% state excise tax, state cultivation taxes of \$9.25 per ounce for cannabis flowers (\$2.75 per ounce for leaves), and state and local sales taxes ranging from 7.75% to 9.75%. By comparison, Oregon taxes nonmedical cannabis at approximately 20% and Alaskan taxes range from 10% to 20%.

California's high taxes are likely to keep black market prices competitive into the long term. The state's black market will also benefit from its long history as a supplier to states where nonmedical cannabis remains illegal. Retail sale of nonmedical cannabis is set to begin on Jan. 1, 2018 following California voters' approval of the Control, Regulate and Tax Adult Use of Marijuana Act (Proposition 64) in November 2016.

California will become only the latest of the states to contend with black market staying power. Colorado, Washington and Oregon each lowered their cannabis taxes following legalization to address black market competition. Proposition 64 and most local tax measures included provisions that could permit reductions in tax rates over time. However, future tax cuts may be politically challenging to implement.

Federal restrictions pose an additional and ongoing risk to revenues in states that have legalized medical and nonmedical cannabis. The risk of intervention has risen under the current presidential administration following the US attorney general's call for increased enforcement of drug laws that continue to classify cannabis alongside heroin and LSD. Rising popular support for cannabis legalization nationally may mitigate such risks over the longer term.

Fitch Ratings will publish a report titled "Local Taxes May Challenge Cannabis Legalization in California" in the coming weeks. It will be available for download on [www.fitchratings.com](http://www.fitchratings.com).

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The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article can be accessed at [www.fitchratings.com](http://www.fitchratings.com). All opinions expressed are those of Fitch Ratings.

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