
Fitch: Complex of State & Local Cannabis Taxes Could Scuttle Legal Markets In California.

Fitch Ratings-San Francisco-30 October 2017: California's high cannabis taxes may undermine the fledgling legalization initiative and complicate efforts to establish legal markets, according to Fitch Ratings.

With California's legal markets set to open in January 2018, Fitch estimates that effective state and local tax rates could be as high as 45%.

"High taxes increase prices in legal markets, and have the effect of reinforcing price advantages to long established black market cannabis," said Stephen Walsh, Director. "Taken together, state and local tax burdens put California at the high end of the tax range for states that have legalized nonmedical cannabis."

Taxes applicable to nonmedical cannabis include a 15% state excise tax, state cultivation taxes of $9.25 per ounce for cannabis flowers and $2.75 per ounce for leaves, state and local sales taxes currently ranging from 7.75% to 9.75%, and local business taxes up to 20% of gross receipts.

Local governments in the state hope to reap substantial revenues from legal cannabis sales. However, over the long term, price declines and black market sales may limit tax growth.

Fitch's special report titled "Local Taxes May Challenge Cannabis Legalization in California" is available at www.fitchratings.com or by clicking on the link.

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