

California Governor Signs into Law Cannabis Tax Relief Bill

Article By:

Justin J. Hepworth

Help for California's fledgling cannabis industry finally appears to be on the way. For years, the industry has shouldered heavy taxes – a 15% state-wide excise tax, sales and use taxes up to 10.75%, and local business licenses taxes up to 15% in some jurisdictions. And, to top it off, California imposed a cultivation tax on cannabis flowers of \$161.28 per dry-weight pound. While growers could sustain this tax burden when business was good, wholesale prices plummeted in the fall of 2021 and left growers unable to turn a profit.

Enter [Assembly Bill 195](#), a budget “trailer bill” signed into law by Governor Newsom on June 30, 2022. Among other things, AB 195 amends the California Revenue and Taxation Code to eliminate the cultivation tax on harvested cannabis. Specifically, harvested cannabis that enters the commercial market on or after July 1, 2022 is not subject to the cultivation tax, even if the distributor or manufacturer received the cannabis from a cultivator prior to July 1, 2022. AB 195 also shifts the point of collection and remittance of the 15% state wide-excise tax from distributors to retailers effective January 1, 2023, and sales or transfers of harvested cannabis that has entered the commercial market by cultivators to distributors or manufacturers after July 1, 2022 are exempt from cultivation tax if the cannabis is ultimately subject to this 15% excise tax on retail sales. AB 195 tracks Governor Newsom's proposed budget,^[1] which suggested slashing the cultivation tax rate to zero. For growers and the cannabis industry alike, this is a welcome sign of relief.

Beginning July 1, 2025, the California Department of Tax and Fee Administration must adjust the excise tax rate every two years to a rate that would generate an amount of revenue equivalent to what would have been collected from the cultivation tax (such rate not to exceed 19%). AB 195 includes other provisions, including updated allocations of the Cannabis Tax Fund and tax credits to commercial cannabis businesses.

ENDNOTES

[1] Discussed in a prior article [here](#).

Copyright © 2025, Sheppard Mullin Richter & Hampton LLP.

Source URL: <https://natlawreview.com/article/california-governor-signs-law-cannabis-tax-relief-bill>