



KAREN BASS
MAYOR

October 2, 2025

The Honorable City Council of the City of Los Angeles
Room 395, City Hall
200 North Spring Street
Los Angeles, CA 90012

RE: CANNABIS BUSINESS TAX AMNESTY PROGRAM

During the consideration of the 2025-26 Adopted Budget, the Council instructed the Office of Finance to report on the implementation of a business tax amnesty program for cannabis businesses. This report details what such a program could look like, lays out some options for Council to consider, and provides actionable recommendations to move forward should the Council choose to do so.

Background

The City currently has 738 licensed, registered cannabis business accounts. In compliance with the Los Angeles Municipal Code (LAMC), each of these businesses must be licensed by the Department of Cannabis Regulation (DCR) in order to be eligible for a Business Tax Registration Certificate (BTRC).

Business Tax on cannabis products and services is due on a monthly basis, with taxpayers filing and remitting their taxes at the end of each month based on the gross receipts generated in the month prior. Tax rates vary from 1 percent to 10 percent of gross receipts depending on the specific goods and services provided, with retail sales of cannabis for adult use, the largest category, taxed at the highest rate. Over time, many of these businesses have generated significant outstanding business tax liability due to non-payment or underpayment of taxes due.



In prior years, the Office of Finance has offered tax amnesty programs on a citywide basis in an effort to bring delinquent businesses into compliance with tax requirements. These programs were implemented with a primary goal of generating additional one-time business tax revenue, and involved significant outreach and communication with thousands of businesses.

Participating businesses were offered waiver of all accrued penalties in return for full reporting of all gross receipts and payment of all tax and interest due. Businesses that required additional time were allowed to enter into a 12-month installment agreement in order to resolve their liability. The last time Finance offered tax amnesty was in Fall of 2020, and generated approximately \$20.6 million revenue from 6,190 businesses.

Finance has not historically offered industry-specific amnesty. However, we recognize that the current business environment in the cannabis industry is extremely challenging. Due to widespread non-compliance with tax and permit regulations feeding a thriving black market, combined with a tax burden which vastly exceeds the rates paid by other industries, legally permitted cannabis businesses face a daunting task.

While forgiving a portion of outstanding tax liability will not address these challenges going forward, it could present an opportunity for some of these businesses to get themselves on the right side of the law and gain some financial stability and certainty. At the same time, to the extent that participating businesses are successful in paying off liability they would not otherwise have paid, this will generate additional business tax revenue to the City.

Currently, more than 500 businesses owe a total of \$400 million in outstanding taxes, which includes \$35 million in accrued interest and \$100 million in penalties. 329 of these businesses owe less than \$200,000, while 48 owe more than \$2 million. However, it should be noted that these amounts include liabilities which are more than three years old and are therefore past the statute of limitations and the City is not able to legally collect on them. They also include assessments relating to businesses which are no longer operating but never canceled their tax accounts. Filtering out this data for only currently licensed businesses and excluding out-of-statute liabilities, the total liability is around \$150 million.

Recommended Cannabis Business Tax Amnesty Program

Given this balance, the Office of Finance recommends offering a business tax amnesty program to registered cannabis businesses with outstanding tax liabilities. Under this program, all accrued penalties will be waived upon payment of the total tax due, including interest. In order to make these payments easier for businesses to afford while continuing to pay their monthly business taxes, the Office of Finance will offer installment agreements of up to 12 months as a way to resolve the liability.



In order to take advantage of this amnesty, each business will need to sign a tax amnesty agreement specifying the terms of the amnesty, providing any gross receipts information which is missing for the periods in question, and committing to make the required payments. Once this agreement is executed, the amount due is a legally enforceable liability.

While the Office of Finance hopes that this program helps many of these businesses, it is also critical that the businesses understand the requirements of the amnesty program and the installment agreement:

- Under the terms of this program, any missing tax filings must be completed along with disclosure of applicable gross receipts.
- Penalties will only be waived once the total balance due is paid in full.
- Any business requesting amnesty which has not been audited in the last two years will be audited. Any change to the tax liability identified in the audit may be combined with the liability covered by the amnesty program, including by increasing or decreasing the monthly payments as part of an installment agreement.
- Installment agreements include a down payment due immediately upon execution. While the amount is negotiable, the agreement is not effective until the agreed-upon down payment is made.
- During the period of the installment agreement, the business must make every monthly payment as required by the agreement, as well as filing and paying all monthly business taxes. Missing either a monthly installment agreement payment OR a monthly business tax payment is grounds for termination of the agreement. If the agreement is terminated, the amnesty will be canceled and all amounts due will become legally enforceable immediately.

Generating a realistic estimate of potential revenue from this program is challenging because of the inconsistent nature of the available data. Liabilities that are past their statute of limitations are likely not collectible, though if the business is audited and found to be delinquent the audit may be able to reach back to those periods. Similarly, if a business closed down (or at least lost their DCR permit) and did not inform Finance, the account may be open and accruing liability in LATAX that does not actually exist. A third variable is that many cannabis businesses have failed to file their taxes for certain periods, which results in estimated tax being assessed. To the extent that the actual tax measures were lower than the estimate, the liability may be decreased.

Based on our understanding of the data, and a blanket assumption that roughly half of the eligible active businesses take advantage of this offer, we anticipate waiving approximately \$20 million in accumulated penalties. In return for that waiver, the City could receive as much as around \$30 million in additional cannabis business tax from installment agreement payments over the next twelve months.



Possible Enhancements

The program recommended by the Office of Finance herein aligns with previous versions of tax amnesty offered to the City's entire business community. This has advantages in that Finance has experience applying these terms and knows how the program will work, as well as an aspect of fairness in that these businesses are being treated the same as other businesses. However, in conversations with various offices and industry representatives, we have heard interest in enhancing the amnesty program offered.

Two potential changes have been suggested, and the Office of Finance is willing and able to implement them if the Mayor and Council so desire:

- Interest waiver: In addition to waiving penalties, the interest that has accumulated on these balances could be waived. While the interest rates charged are not high, the amount due from interest can be significant when the principal amount is large, making this a potentially helpful addition for the taxpayer. Note that the Office of Finance is opposed to extending any waivers beyond penalties and interest, since this would provide a clear financial incentive for businesses to avoid paying their taxes in the hope that the City would waive them in the future, as well as being unfair to businesses that paid their taxes when they were due.
- Extended installment agreements: While the Office of Finance has historically been limited to 12-month installment agreements, it is understood that some of the tax liabilities for cannabis are very high and payment over 12 months may not be possible. With this in mind, this amnesty program could include authority for Finance to execute cannabis business tax installment agreements up to 36 months. It is our opinion that any business which cannot commit to paying their liability within 36 months is unlikely to be able to meet the terms of any installment agreement, so we would not support extending the term beyond that length.

If interest is waived, it is anticipated that an additional \$5 million in tax liability would be waived, and current year additional revenue would be reduced by that amount. If the installment agreements are extended to three years, the anticipated revenue would be reduced by \$10 million. With both of these options taken, we would hope for additional revenue of \$10 million over the next twelve months. Given the uncertainty around participation, the accuracy of the estimates, and the ability of the businesses to make the required payments, Finance recommends against increasing current year revenue estimates until the program's application period has closed. At that time, participation and total liability will be known and reasonable estimates can be provided for use in budgeting.

Timing

Preparing, publicizing, and implementing this program would require effort and time from the Office of Finance which will take resources away from other workflows. The required level of effort all makes it impossible to do this during Finance's busiest season, January through March.



These limitations indicate two possible windows for offering a cannabis business tax amnesty program:

- Announce the program and do outreach in November and accept applications and execute agreements in December. This will be somewhat challenging for Finance's Customer Support Division, which will be processing permit renewals at the same time for the Department of Cannabis Regulation as well as the Police Department, the Fire Department, and the City Attorney's Tobacco Unit. It would also provide a relatively small window for the businesses to respond, consider their options, and complete the process at the same time as they are going through their permit renewal process with DCR. However, if the program is approved and announced soon enough, implementation of the program on this timeline would be possible.
- Announce the program and do outreach in March and accept applications and execute agreements in May and June. This would be much easier for Finance from a resource allocation standpoint, as the busiest season would be over and there would be no overlap with permit renewals. It would also allow for a more relaxed timeline for businesses. The tradeoff here is that no relief would be available to businesses until Summer of 2026, and no significant additional tax revenue would be generated until fiscal year 2026-27.

Given the various considerations, Finance recommends offering the program during the earlier window. However, should program approval take longer than anticipated, the timeframe to complete the program before the beginning of the business tax renewal season may no longer be available and we may be forced to move the program to the Spring.

Resource Requirements

This program as proposed can be implemented by Finance within existing position authorities. However, in order to quickly respond to inquiries and applications, request and receive all the necessary financial information from the taxpayers, and process the installment agreements, Finance does require additional funding in the Overtime General and Salaries As-Needed accounts. Both of these accounts are currently underfunded compared to normal usage, so there is no ability to move funding from other functions at this time.

While the exact need cannot be known without having a better estimate of participation, we estimate that we will need the following additional appropriations:

- \$200,000 for Overtime General, which will provide for overtime for our Customer Support and Citywide Collections and Revenue Management Divisions. This will provide for Customer Support Specialists to process amnesty applications, calculate taxes due, send initial documents, and process initial payments

- \$100,000 for Salaries As-Needed, which will provide for four Tax Renewal Assistants at no more than 1,000 hours each, to assist with document processing and process installment agreement payments through the end of the current fiscal year.

Recommendations

That the City Council:

1. Instruct the Office of Finance to implement a business tax amnesty program for registered cannabis businesses as described in this report, with full waiver of penalties and installment agreements for up to 12 months;
2. Appropriate \$200,000 to the Office of Finance General Fund No. 100/39 Overtime General Account No. 001090, and appropriate \$100,000 to the Office of Finance General Fund No. 100/39 Salaries, As Needed Account 001070 to provide for staffing resources to enact this program, and to be funded by increased Cannabis business tax revenues;
3. Instruct the Office of Finance to report back to the Council, within 45 days of the deadline for businesses to apply for amnesty, with the number of businesses applying, the number of businesses provided amnesty, the total amount of liability waived, and the amount of additional revenue anticipated based on participation in the program; and,
4. Request the City Attorney to prepare and present a draft ordinance authorizing the business tax amnesty program for registered cannabis businesses.

Sincerely,



Diana Mangioglu
City Treasurer / Director of Finance

