Communication from Public

Name: Luis Rivera

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Council File No: 25-0720

Comments for Public Posting: See Attachment

SOCIAL EQUITY LA
ACCESS, INCLUSION AND DIVERSITY

07/02/2025

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

RE: Support for Cannabis Business Tax Reform – Council File 25-0720

Dear Honorable Council Members,

On behalf of Social Equity LA and the community of licensed cannabis operators we represent—particularly social equity applicants and small businesses—I want to thank you for your thoughtful and proactive work around Council File 25-0720. Your willingness to evaluate reforms to the City's cannabis tax policy reflects the leadership we need to stabilize this critical sector and ensure that it continues to serve Los Angeles communities equitably and sustainably.

We respectfully recommend that the Council adopt a **tiered local cannabis business tax structure**, reducing the tax rate based on business type and size, and especially prioritizing **equity applicants** and small operators. A flat 10% rate has proven burdensome and unworkable, particularly for those the City's equity program was designed to empower.

Our Proposed Tiered Structure:

Operator Type	Recommended City Tax Rate
Tier 1 – Social Equity Operators	2%
Tier 2 – Small Independent Operators	4%
Tier 3 – Standard Non-Equity Retailers	6%

| **Tier 4 – Large Vertically Integrated** | 8% |

This structure honors the Council's commitment to equity while providing a realistic and scalable path for licensed operators of all sizes to remain viable. It also ensures that **larger businesses contribute proportionally** more to the City's revenue base, while allowing smaller operators to grow and thrive.

Why It's Urgent:

- **Legal sales are shrinking.** Many small businesses are closing their doors under the weight of high taxes and limited margins.
- **Consumers are priced out.** Combined local and state taxes push legal product prices up to 40% higher than illicit sources.
- **The illicit market is growing.** LA's legal businesses are being undercut—and the City loses revenue when consumers go elsewhere.
- **Other cities are adjusting.** Oakland and San Francisco have already adopted equity-based tiered tax structures to protect small businesses and improve compliance.

What the Data Shows:

Our recent analysis (attached) shows that a tiered tax system—especially if paired with modest increases in legal market participation—can generate **equal or greater total revenue** for the City of Los Angeles, compared to the current flat 10% structure. For example, at a 25–50% increase in legal sales (a realistic outcome if the tax burden is eased), the City could see **$100M–$120M annually**, even at lower average tax rates.

More importantly, this approach will **help keep doors open** for equity licensees, bring consumers back into the legal system, and ensure cannabis taxes continue to support the City's most critical public programs.

The Bottom Line:

Now is the time to act. A thoughtful tax reform that embraces a **tiered, equity-first structure** will keep Los Angeles competitive, protect its legal operators, and secure long-term revenue. We are committed to supporting your efforts and would be honored to meet with your office to present our analysis and hear your feedback.

Thank you again for your leadership and for standing with equity entrepreneurs and small businesses across our city.

Sincerely,
Luis Rivera
On behalf of Social Equity LA
info@socialequityla.org
www.socialequityla.org

Social Equity LA is a 501(c)(3) nonprofit organization focused on advancing social equity and economic development through access and education. Social Equity LA is dedicated to fostering fairness, justice, opportunity, and equity in the development and implementation of economic, workforce, and public policy initiatives across key industries in underserved communities throughout Greater Los Angeles.