

GOVERNMENT OPERATIONS and BUDGET AND FINANCE COMMITTEES REPORT
relative to the impacts of Cannabis taxation.

Recommendations for Council action, as initiated by Motion (Padilla – Yaroslavsky):

1. INSTRUCT the City Administrative Officer (CAO) to report with an analysis relative to the revenue impacts of the 19% California cannabis excise tax that will come to effect on July 1, 2025.
2. INSTRUCT the CAO to identify funds and issue a solicitation seeking an outside economic analysis of the potential economic impacts of lowering the City's cannabis tax rate to 1.5%, 3%, 5%, and 8%.
3. INSTRUCT the CAO and REQUEST the City Attorney to report on the feasibility of instituting a cannabis tax policy that is structured like that of the City of Oakland.
4. DIRECT that the July 18, 2025 (CRC) report be transferred to a new Council File.

Fiscal Impact Statement: None submitted by the Cannabis Regulation Commission. Neither the CAO or the Chief Legislative Analyst has completed a financial analysis of this report.

Community Impact Statement: None submitted.

Summary:

On August 5, 2025, the Government Operations (GO) Committee considered a Motion (Padilla – Yaroslavsky) and July 18, 2025 CRC report relative to the impacts of Cannabis taxation. According to the Motion, licensed cannabis businesses in the City of Los Angeles have long been burdened with multiple high taxes on prices of their cannabis products, which includes State excise tax at 15%, Los Angeles City cannabis business tax at 10%, and City Sales Tax at 9.75%. Fundamentally, cannabis businesses are expected to properly itemize the calculation of a 34.75% on their sales

This high tax rate can be disheartening to cannabis business owners who find themselves competing with the illicit market who sell similar products at a 30% discount. An illicit market that sees little to no enforcement. Nevertheless, in this year's Budget, the City has allocated some funding to Los Angeles Police Department and the City Attorney to begin efforts to close down illegal shops and, as a result, decrease illicit competition.

Additionally, legal markets outside of the City present additional alternatives for consumers and contest the potential sales for Los Angeles businesses. Neighboring cities that allow the sale of cannabis have city cannabis tax rates that position them to compete with the City of Los Angeles: 8% in Long Beach, 5% in Hawthorne, 4% in Pasadena, and 5% in Commerce, to name a few.

The City of Los Angeles generates close to \$100 million in revenue from cannabis sales with the current 10% city tax on cannabis. If the city tax were to be decreased, would that equate to more sales, and hence more revenue for the city in the long run? The City should study what the projected cannabis tax revenue and sales tax outlook would be for the next 5 years if the City were to consider lowering the cannabis tax. Finally, the City should consider studying the City of Oakland's tiered cannabis business tax structure that is based on a business's annual gross receipts, as well as their tax rebate program. The purpose of Oakland's approach is to help lower the overall tax burden for compliant businesses while promoting the city's equity goals.

After consideration and having provided an opportunity for public comment, the GO Committee moved to recommend approval of the Motion. Also, the GO Committee moved to recommend moving the CRC report to a separate Council File. Subsequently, on August 19, 2025, the Budget and Finance Committee also considered this matter and after consideration and having provided an opportunity for public comment, moved to concur with the GO Committee. This matter is now submitted to Council for its consideration.

Respectfully Submitted,

Government Operations Committee

COUNCILMEMBER VOTE

PADILLA: YES
LEE: YES
JURADO: YES

Budget and Finance Committee

COUNCILMEMBER VOTE

YAROSLAVSKY: YES
BLUMENFIELD: YES
HUTT: YES
McOSKER: YES
HERNANDEZ: YES

ARL
8/19/25

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