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TO: HONORABLE BOARD OF SUPERVISORS

FROM: SHARI L. SCHAPMIRE, TREASURER-TAX COLLECTOR

**SUBJECT: CANNABIS PROGRAM UPDATE
CANNABIS BUSINESS TAX – CHAPTER 6.32**

The Cannabis Business Tax imposed in Chapter 6.32 is separated into three distinct business types as indicated below:

Business Type:	Tax Imposed:
Commercial Cannabis Cultivation (Excluding Nurseries)	Gross Receipts Tax – 2-1/2% Annual True-up with Minimum Tax Due
Commercial Cannabis Dispensary (Retail)	Gross Receipts Tax – 5%
Other Commercial Cannabis Businesses – Distributor, Manufacturer, Processor, Nursery, Testing Lab, & Microbusiness	Flat Annual Tax - \$2,500

This staff report serves primarily to provide information to the Board of Supervisors on the first annual process for the collection of the minimum tax due amount. The collection of taxes for commercial cannabis dispensaries, as well as other commercial cannabis businesses, has one tax element to consider throughout the taxing process. Whereas, the collection of taxes for commercial cannabis cultivation has two elements to consider; first and foremost, there is a gross receipts tax of 2-1/2% of gross sales that must be reported and remitted to the tax collector on a calendar quarterly basis. Once the calendar year is complete, a calculation is performed on each account to determine if an annual “true-up” amount is due and, if so, an invoice will be mailed.

History of Minimum Tax Due Requirements for Cultivation

At the time of inception, Chapter 6.32 mandated minimum tax due requirements on all “growing cycles,” beginning with fiscal year 2017-18. This requirement, as well as others, was reviewed by the Board in June and July of 2018. This review was requested by the tax collector after further Board direction was essential to fully implement Chapter 6.32.

The devastating fires of October 2017 had negatively impacted the new Cannabis Program at every level; many questions were raised concerning how to apply the minimum tax due requirement to properties outside the fire zone that had experienced damage due to ash, smoke,

fire retardant, and/or lack of water. A working group was also formed to provide suggestions to the Board on this topic.

On July 10, 2018, the Board provided final direction on amendments to Chapter 6.32. The items that directly impacted the minimum tax due requirement are as follows:

- All references to “growing cycle” were eliminated; and
- The minimum tax due requirement transitioned from fiscal year to calendar year, with a new initial start date of January 1, 2018.

As indicated above, the amendment delayed the initial start date of the minimum tax due period from July 1, 2017 to January 1, 2018, thereby eliminating six months of minimum tax due requirements for cultivators. This amendment severely impacted the revenues derived from the Cannabis Business Tax by drastically reducing collections from cultivators. That being said, in light of all factors considered, the decision by the Board was universally supported by all stakeholders.

Minimum Tax Due Calculations

After processing the 2018 4th Quarter returns, it was determined that 40 cultivators met or exceeded the minimum tax due amount for their respective cultivation permit type; this equates to four percent of all cultivators in the cannabis tax program.

For the vast majority where the minimum tax due amount was not met, invoices will be mailed in April, with a payment delinquent date of May 31, 2019; the amounts to be billed are indicated below:

Calendar Year - 2018

Cultivation Permit Type:	Cultivation Sites:	Minimum Tax Due:
Cottage	133	\$ 143,570.81
Type 1	134	\$ 294,698.02
Type 2	<u>686</u>	<u>\$3,127,721.60</u>
Total Due	953	\$3,565,990.43

Cannabis Business Tax Paid Recap

Calendar Year - 2018

Business Type:	Amount Paid:	Percentage of Total:
Cultivation	\$ 594,020.38	43.35%
Dispensary (Retail)	\$ 662,040.54	48.31%
Flat Tax	<u>\$ 114,375.00</u>	<u>8.34%</u>
Total Paid	\$1,370,435.92	100.00%

(Not including taxes collected applicable to the 2017 Calendar Year)