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SACRAMENTO (CN) –To stabilize the legal marijuana market and boost the state’s coffers, a new report issued Tuesday recommends that California consider major changes to its tax framework, including scrapping a cultivation tax for a potency-based scheme.

The state’s Legislative Analyst’s Office says the state should shift to a tiered system that would tax based on the strength and type of pot products. The nonpartisan advisor claims a series of reforms could bring uniformity to and simplify a system that hasn’t slowed the underground market or met tax revenue expectations since voters legalized recreational use in 2016.

“We view reducing harmful use as the most compelling reason to levy an excise tax,” the 30-page report states. “Accordingly, we recommend that the Legislature replace the existing retail excise tax and cultivation tax with a potency-based or tiered ad valorem tax, as these taxes could reduce harmful use more effectively.”

California’s rollout of legal pot has been rocky to say the least, as the industry claims it’s being overtaxed, overregulated and kept out of some counties and cities that have refused to issue business permits. In addition, critics say the state’s tax scheme is too complex and that startup costs associated with opening a legal marijuana business have given the black market a decided edge.

Instead of lowering taxes as other states have done, the state has decided to go the other direction.

Last month state regulators incensed growers and retailers by [announcing](https://www.cdtfa.ca.gov/news/19-01-Media-Alert.htm) tax hikes on legal marijuana. As of January, the wholesaler markup rate will increase from 60% to 80%, along with 4% increases per ounce on flowers, leaves and fresh marijuana plant material.

The legal marijuana industry blasted the decision and said it would force Californians to further flee retailers for the black market.

Meanwhile tax revenues from legal pot have fallen well short of the state’s lofty initial expectations. The state had once hoped for an additional windfall of a billion or more per year from pot, but it only collected $345 million during the first year of sales in 2018.

The legal industry and others are hoping that [the report](https://lao.ca.gov/Publications/Report/4125?utm_source=t.co&utm_medium=referral&utm_campaign=4125) titled “How High? Adjusting California’s Cannabis Taxes” will lead to action during the upcoming 2020 legislative session. The California Cannabis Industry Association said Tuesday’s report falls in line with reforms it has been calling for over the last three years and thanked the authors.

“This report comes at a particularly difficult period of growth for the state’s legal cannabis businesses,” the association said in a statement. “As California’s regulated market struggles against a thriving illicit industry, we believe that comprehensive tax reform will incentivize consumers to purchase regulated cannabis products, ease administration and compliance and increase and stabilize revenues for the state.”

Oakland Assemblyman Rob Bonta, who has [previously tried](https://www.courthousenews.com/california-looks-at-tax-cut-to-boost-sluggish-pot-sales/) to lower the voter-approved state excise tax from 15% to 11%, said in a statement that the report shows the “status quo is not working” and that he is prepared to again push for tax relief.

“I am committed to reintroducing legislation to temporarily reduce and simplify the tax burden on licensed cannabis businesses. In states with more supportive regulatory conditions, we’ve seen the illicit market make up less than 30% of all sales, unlike in California, where about 75% of cannabis sales occur in the illicit market,” the Democratic lawmaker said. “We must take action to not only promote California’s fledging industry but also combat the illicit market with its unlicensed, untested and unsafe products.”

The long awaited report is intended to guide potential changes to cannabis taxes in 2020 and lays out four types of methods lawmakers should consider: a basic retail excise tax, a potency-based method based on the amount tetrahydrocannabinol or THC in the products, a tiered system based on potency and or product type and a weight-based system.

It compares the predicted impacts each system would have on the three main goals of voter-approved Proposition 64, which are undercutting the black market, ensuring stable tax revenues and discouraging underage usage.

The report warns that any tax rate change will have trade-offs between the three goals.

For example, reducing tax rates may expand the legal market, but it would potentially reduce tax revenue. Lowering taxes could also lead to higher rates of cannabis use among minors, but the state would potentially capture more tax revenue.

Along with a new tax system, the analyst’s office recommends that the state simplify its tax collection process as well.

Currently cultivators, distributors and retailers pay some combination of state and local taxes, and the report says it can lead to difficulty and confusion.

“The current split of taxpaying responsibilities often involves cash changing hands multiple times, to problems with security, compliance and enforcement,” the report states.