

The tax man cometh: California ponders legal pot, paying up

November 30 2016, by Michael R. Blood

California's legal marijuana industry is expected to involve everything from backyard growers to sprawling fields in the farm belt, storefront sellers along rural roads to chain-store like outlets in Los Angeles.

State tax collectors are taking initial steps to get a hand into that vast, emerging economy, with billions of dollars at stake in the future for the state treasury. State analysts have estimated that state and [local governments](#) could eventually collect over \$1 billion annually from the production and sale of legal pot.

Just how big a job that will be, no one knows.

The state has no reliable way to predict how many new retailers will enter the marketplace when [marijuana](#) becomes legal in 2018. It's estimated there could be 25,000 cultivators who will have to register and begin paying taxes.

But it's only a guess how many operations making money off the fragrant, sticky buds will try to remain hidden in the black market.

"It's just going to be the wild, wild West out there," predicted Jerome Horton, who sits on the state's tax-collecting Board of Equalization.

The panel on Tuesday started framing its job, approving on a divided vote a proposal to request funds to begin gradually adding staff in anticipation of collecting taxes from the legal sale and cultivation of

marijuana.

The board's action came three weeks after voters approved Proposition 64, which legalized the recreational use of marijuana in the nation's most populous state.

A draft report made an early estimate of new jobs that would be needed to police the market and make sure everyone is paying up: by 2021, 114 positions and nearly \$20 million in funding. But with so many unknowns, several board members acknowledged those figures would likely need to be updated within months.

Horton, at the meeting in Culver City, California, called the projections "grossly understated."

Board member Diane Harkey alluded to the challenges of taking what has been largely an illegal marketplace and moving it under state government. "Nobody knows how this is really going to work," she said.

California was the first state to embrace legal, medicinal marijuana two decades ago, and the board estimates there are 1,700 dispensaries operating in the state.

The California vote on Nov. 8 represented the national legalization movement's biggest victory to date and sets the stage for a sweeping transformation. The new law attempts, at least in theory, to tame a market that now ranges from legal, medicinal production and sales to vast illegal grows operated by drug cartels.

In general, the state will treat cannabis like it does alcohol. Taking effect in 2018, the law allows people 21 and older to legally possess up to an ounce of pot and grow six marijuana plants at home. It also allows cities and counties to impose their own regulations and taxes on recreational

marijuana.

Proposition 64's approval comes with two new state taxes on legal weed: Consumers will pay a 15 percent excise tax on the retail selling price, which applies to recreational and [medical marijuana](#). Separately, a cultivation tax will be imposed on all harvested marijuana that enters the commercial market. Local governments can also take a bite, and dozens of communities are ready to impose new levies and regulations.

With pot-growing long a growth industry for criminal gangs and cartels, there are fears about possible violence against tax inspectors or investigators who go looking for hidden grows.

Meanwhile, with pot remaining illegal on the federal level, it's unclear what stance the incoming Donald Trump administration will take with the new marketplace. California and other weed-friendly states might be in for trouble: Trump's pick for attorney general, Alabama Sen. Jeff Sessions, has called marijuana a danger that should not be legalized.

Twenty-eight [states](#) and Washington, D.C., allow marijuana for medical or recreational purposes.

The prediction by state analysts of \$1 billion annually in tax revenue from pot could be an elusive target. It could be years before kinks are worked out of the system, and it is not known how much of the robust illegal market will come under the legal umbrella.

New positions could range from inspectors who would visit growing sites and pot shops, investigators who would probe possible felony crimes and auditors to check the books.

New systems need to be designed. Because marijuana is illegal on the federal level, the staff report said tax payments from marijuana-related

businesses must be made in cash. The agency is researching how that could be done on such a large scale.

Inevitably, some won't pay up.

"Since the marijuana excise tax and the cultivation tax represent new tax liabilities for taxpayers, prior experience shows having new taxes due results in new delinquencies from taxpayers," the report said.

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