

# CANNABIS STAKEHOLDER MEETING

March 19<sup>th</sup>, 2018

2pm – 4pm

# CONDITIONAL USE PERMITS

- 172 Received
- 63 Approved

# BUSINESS OPERATING PERMITS

- 165 Received
- 1 Approved

# DELIVERY REGISTRY

- Deadline is **March 31, 2018**
- Applications accepted after this date will not be part of the list submitted to the State.
- Yes, applications will still be accepted after this date.

# BUILDING PERMITS

- **Who needs a Building Permit?**
  - Everyone who are or intends to engage in a cannabis operation!
  - All registered/operating cultivators; everyone who made tenant improvements without permits
  - Everyone who has submitted a CUP and BOP
- Cannabis-related Occupancies – Commercial Building Permit Application Submittal Requirements; Commercial Remodel Checklist are available on our website.

# FIRE LIFE & SAFETY

- Staff from our Fire Department will now present.



# VETERAN'S FEE EXEMPTION

- Entity must be a sole proprietorship owned 100% by a veteran.
- Application is now available on our website  
[cityofsacramento.org/cannabis](https://cityofsacramento.org/cannabis) > **Business Information** > **Forms**
- For more information please refer to  
California Business and Professions Code § 16001.7

# NURSERIES

- Includes the cultivation of clones, seeds and immature plants only.
- **Requires a Cultivation CUP**
- **Nurseries can now apply as a Class A cultivation permit, regardless of the size of facility or number of plants**
- **BOP Fee - \$9,700**



# UPCOMING POLICY

- **City Council April 3, 2018 (PFP 3/27/18)**
  - Administrative Penalties for Commercial Cultivation - \$500 per plant
  - Restriction on sale of Butane
    - Large quantities of Butane is associated in illegal BHO manufacturing
    - Restricts sale to 600 mL per month, and possession to 600 mL at any given time
    - Violations: Misdemeanor +\$1,000 fine + imprisonment in County jail



# UPCOMING POLICY

- **Law and Legislation Committee – April 10, 2018**
  - **Distribution Ordinance**
    - Addition of a transport-only permit with no CUP requirement
    - Waiver of CUP requirement for small manufacturer doing self-distribution
  - **Microbusinesses**
    - Staff still developing framework; will present concept to Committee
    - Will draft ordinance per Committee's direction
  - **Badging Requirements**

# TAXATION

CAN WE MAKE IT MORE COMPLICATED?

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# RETAIL TAXATION

If you are a cannabis retailer, the CDTFA requires that you:

- Register with the CDTFA for a seller's permit.
- Charge and collect sales tax on your taxable retail sales of cannabis and/or cannabis products, and other products.
- Electronically file your sales and use tax returns and pay the sales and/or use tax to the CDTFA.
- Charge and collect the cannabis excise tax from your customers who purchase cannabis and/or cannabis products.
- Pay the cannabis excise tax that is due to your distributor. DO NOT remit cannabis excise tax on your sales and use tax return.
- The 15% cannabis Excise tax is INCLUDED in the purchase price.
- Provide your customer with an invoice, receipt, or other document which includes the statement: "The cannabis excise taxes are included in the total amount of this invoice." (Your customers are liable for the cannabis excise tax until it has been paid to the state or you provide them with such an invoice or receipt.)

# RETAIL TAXATION

Cannabis Excise Tax		
Rate: 15% of Average Market Price		
Transaction Type	Basis for Calculation	Mark-Up Rate* Effective 1/1/2018
Arm's Length Transaction	Wholesale cost of the cannabis or cannabis products, plus a mark-up.	60%
Non-Arm's Length Transaction	Retailer's gross receipts	Not applicable

# CANNABIS EXCISE TAX

A 15 percent excise tax is imposed upon retail purchasers of all cannabis and cannabis products, including medicinal cannabis. The 15 percent excise tax is calculated based on the average market price from the retail sale.

The average market price is determined by the type of transaction (either "arm's length" or "nonarms' length")

In an arm's length transaction, the average market price is the wholesale cost of the cannabis or cannabis products sold or transferred by a cultivator, manufacturer or distributor to a cannabis retailer, plus a mark-up determined by the CDTFA.

The current CDTFA assumed mark up rate is 60% - It is adjusted every 6 months

# ARMS LENGTH TRANSACTION

## Example:

You are a retailer and you purchase one pound of cannabis flowers for \$1,200 (which reflects the fair market price in the open market) plus charge a \$300 transportation fee. The wholesale cost paid by the retailer is \$1,500 (\$1,200 + \$300).

CDTFA Assumed Mark-up ( $\$1,500 \times 60\%$ ) = \$900. Thus the Average market price = \$2,400

The cannabis excise tax due from the retailer to the distributor on this transaction is \$360

( $15\% \times \$2,400$ ) = \$360. Retailer pay Distributor \$1,500 + \$360 = \$1,860

Your distributor will calculate the amount of excise tax due on the cannabis or cannabis products which they supply to you...

# NONARMS LENGTH TRANSACTION

*A non arms-length transaction* is when the buyers and sellers of a product have an existing relationship with each other. Examples: Owned by same company, vertical integration, Microbusiness

In a nonarm's length transaction, the average market price means the cannabis retailer's gross receipts *from the retail sale* of the cannabis or cannabis products. Gross receipts include all charges related to your sales, such as labor, service, and shipping and handling charges.

Retailer sells a pound of flower for \$3,000. Tax is 15% of 3,000. Tax owed = \$450

In a nonarm's length transaction, you must pay the excise tax to the Distributor on or before 90 days after the sale or transfer cannabis, *or* at the time of the retail sale by the cannabis retailer, whichever is earlier.

# RETAILER EXISTING INVENTORY

If you sell cannabis or cannabis products that you acquired before January 1, 2018, you must collect the 15 percent cannabis excise tax from your customers based on the average market price and pay the excise tax on those sales to a licensed distributor with whom you have a business relationship.

The amount of Tax owed will depend if it was an arms length or Nonarms length transaction.

Whole sale + 60% assumed Mark up or 15% of retail price.



# COMPUTING SALES TAX

The sales tax due on your taxable cannabis sales at retail must be computed on your selling price of cannabis, *plus* the cannabis excise tax.

Sacramento Sales Tax is 8.25%

Example:

Sale Price of 1/8<sup>th</sup> of Cannabis Flower is \$35

$$\$35 \times 8.25\% = \$37.89$$

# ARMS LENGTH SALES EXAMPLE

The excise tax collected/due is embedded in the sale price and is calculated based on the whole sale price plus the assumed mark up rate of CDTFA which is currently 60%.

Example:

$\$1,500 \text{ lb} + \$900 \text{ Assumed Mark Up} = \$360 \text{ in Tax } \$1,860 \text{ Total Cost}$

Sale Price of  $\frac{1}{8}$ <sup>th</sup> of Cannabis Flower is \$35 (128  $\frac{1}{8}$ <sup>th</sup> in 1 lb.)

$\$35 \frac{1}{8}$ <sup>th</sup> of Cannabis has \$2.81 in Excise tax included in the sale price.  $\$360/128 = \$2.81$

$\$35 \times 8.25\% = \$37.89$

State Tax Remitted:  $\$2.81 \text{ in Excise Tax} \& \$2.89 \text{ in Sales Tax} = \$5.70$

City 4% BOT calculated on the  $\$35 - \$2.81 \text{ excise tax} = 4\% \text{ of } \$32.19 = \$1.29$

Sale Price  $\$35 - \$2.81 - \$1.29 = \$30.90$  Purchase Price: \$14.53

# NONARMS LENGTH SALES EXAMPLE

The excise tax collected/due is embedded in the sale price and is calculated based on the retail sale price at 15%

Example:

Whole Sale Cost to Vendor – Not relevant

Sale Price of 1/8<sup>th</sup> of Cannabis Flower is \$35 (128 1/8<sup>th</sup> in 1 lb) = \$4,480

\$35 1/8<sup>th</sup> of Cannabis has \$5.25 in Excise tax included in the sale price.

$$\$35 \times 15\% = \$5.25. \quad \$35 - 5.25 = 29.75$$

$$\$35 \times 8.25\% = \$37.89$$

State Tax Remitted: \$5.25 in Excise Tax & \$2.89 in Sales Tax = \$8.14

City 4% BOT calculated on the \$35- \$5.25 excise tax = 4% of \$29.75 = \$1.19

$$\$35 - \$5.25 - \$1.19 = \$28.56 \quad \text{Purchase Price: Unknown}$$

# WHO PAYS WHO?

**Cultivator** → **Distributor** → **State**

Distributor collects Cultivation Tax and remits to State

**Cultivator** → **Manufacturer** → **Distributor** → **State**

Manufacturer collects Cultivation Tax and remits to a Distributor

**Manufacturer** → **Manufacturer** → **Distributor** → **State**

Manufacturer passes on Cultivation Tax proportionally to the next Manufacturer

# CONCLUSION

- We will take Q&A until the conclusion of the meeting at 4pm
- We take questions in an orderly fashion and ask *you keep your questions clear and concise, mindful of other's speaking time.*
- **Thank you for your participation!**



## CONTACT US:

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