Important Cannabis Excise Tax Reminders for Cannabis Retailers and Distributors

Cannabis Excise Tax Requirements
Distributors are required to calculate and collect the cannabis excise tax from retailers on the sale or transfer of cannabis or cannabis products. Retailers are required to pay the cannabis excise tax to the distributor that supplied the cannabis or cannabis products to a retailer, and the retailers are required to collect the cannabis excise tax from their retail customers.

Distributors are required to provide retailers with an invoice or receipt that indicates, among other requirements, the amount of cannabis excise tax. The California Department of Tax and Fee Administration (CDTFA) may hold a retailer liable for the cannabis excise tax that is due to the CDTFA without a proper receipt, or proof that the retailer paid the cannabis excise tax to its distributor.

Retailers are required to collect the cannabis excise tax from their customers. The amount of the cannabis excise tax a retailer collects from a customer must be the same amount the distributor collected from the retailer. The retailer may include the cannabis excise tax paid to the distributor as part of the retail selling price of the cannabis or cannabis products.

Retailers are not required to separately list the cannabis excise tax on their receipts to the retail customer. However, the following statement is required to be included on the receipt whether the cannabis excise tax is listed separately or as part of the retail price.

“The cannabis excise taxes are included in the total amount of this invoice.”

Distributors’ Reporting Requirements
Distributors that supply cannabis or cannabis products to a retailer will be held liable for the cannabis excise tax due to the CDTFA. Distributors are required to report the cannabis excise tax on their electronic Cannabis Tax Return during the reporting period the distributors sold or transferred cannabis or cannabis products to a retailer. Distributors are required to electronically file their Cannabis Tax Return and pay the cannabis excise tax due to CDTFA by the last day of the month following the reporting period.

Arm’s Length Transactions
In an arm’s length transaction, generally where the distributor is unrelated to the retailer, the distributor calculates the 15 percent cannabis excise tax due based on the “average market price” of the cannabis or cannabis products sold to the retailer. The “average market price” is computed by applying the CDTFA’s predetermined mark-up rate (currently set at 60 percent) to the retailer’s wholesale cost of the cannabis or cannabis products that were sold to the retailer. The predetermined mark-up rate is only used to calculate the average market price in an arm’s length transaction, and is not intended to be used when determining the retail selling price of the cannabis or cannabis products.

Nonarm’s Length Transactions
In a nonarm’s length transaction, generally when the retailer is also the distributor, the 15 percent cannabis excise tax is applied to the gross receipts of the retail sale of the cannabis or cannabis products. The distributor in this type of transaction is responsible for reporting and paying the cannabis excise tax to the CDTFA based on the gross receipts of the retail sale. The retailer in this type of transaction is responsible for collecting the cannabis excise tax from the retail customer based on the gross receipts of the retail sale.

For More Information
This special notice is intended to give you an overview of some of the requirements for cannabis distributors and retailers and does not address all requirements for the cannabis industry. We encourage you to read our online Tax Guide for Cannabis Businesses at www.cdtfa.ca.gov/industry/cannabis.htm.

If you have additional questions, you may call our Customer Service Center at 1-800-400-7115 (TTY:711) Monday through Friday, 8:00 a.m. to 5:00 p.m. (Pacific time), except state holidays. Select the option for Special Taxes and Fees.