

# CANNABIS TAX FACT



## Information for Cannabis Retailers Excise Tax on Cannabis Purchased before January 1, 2018

New cannabis taxes are now in effect in California. We developed a series of “Cannabis Tax Fact” messages to provide information on specific topics to help you understand your cannabis excise tax and sales and use tax responsibilities. Today’s topic for cannabis retailers is:

### How to calculate and pay the cannabis excise tax on cannabis products acquired prior to, and sold at retail after January 1, 2018

As you know, beginning January 1, 2018, licensed distributors who supply you with cannabis or cannabis products are required to calculate and collect the 15 percent cannabis excise tax from you. When you sell those items at retail you are required to collect the cannabis excise tax from your customer.

If you had cannabis or cannabis products in your inventory on January 1, 2018, you are required to collect the 15 percent cannabis excise tax from your customer when you sell those items and then pay that amount to a licensed distributor with whom you have established a business relationship.

To collect the excise tax from your customers, apply the 15 percent excise tax to the “average market price.” The average market price can be calculated as either:

1. Your gross receipts, which is the retail selling price to your customer, or
2. Your wholesale cost plus a markup predetermined by the California Department of Tax and Fee Administration (CDTFA)\*.

The examples below illustrate the two methods to calculate the average market price and apply the 15 percent excise tax on your sale to your customer. Both examples assume that your retail selling price to your customer is \$100 and the sales tax rate is 8 percent (your actual sales tax rate may be different):

Example # 1 - Based on your gross receipts:

Retail selling price	\$100.00
15% excise tax ( $\$100 \times 15\%$ )	<u>\$ 15.00</u>
Total gross receipts ( $\$100 + \$15$ )	\$115.00
8% sales tax ( $\$115 \times 8\%$ )	<u>\$ 9.20</u>
Total amount due ( $\$115 + \$9.20$ )	\$124.20

You must pay the \$15.00 excise tax collected from your customer to a licensed distributor with whom you have a business relationship. The sales tax is due on your total gross receipts, which *includes* the excise tax. You must report and pay the \$9.20 in sales tax on the quarterly sales and use tax return you file with the CDTFA.

Example #2 - Based on your wholesale cost plus a markup predetermined by the CDTFA\* currently set at 60 percent.

Your wholesale cost	\$ 75.00
60% current markup ( $\$75 \times 60\%$ )	<u>\$ 45.00</u>
Average market price ( $\$75 + \$45$ )	\$120.00
15% Excise tax due ( $\$120 \times 15\%$ )	\$ 18.00

You must pay the \$18.00 excise tax collected from your customer to a licensed distributor with whom you have a business relationship.

The sales tax is a separate computation as follows:

Retail selling price, including excise tax (\$100 + \$18)	\$118.00
8% sales tax (\$118 x 8%)	<u>\$ 9.44</u>
Total amount due	\$127.44

The sales tax is due on your total gross receipts, which *includes* the excise tax. You must report and pay the \$9.44 in sales tax on your quarterly sales and use tax return you file with the CDTFA.

When invoicing your customer, you are required to add the following statement on the invoice or receipt to your customer, "The excise taxes are included in the total amount of this invoice."

Regardless of which method you choose, you must pay the excise tax you collect to a licensed cannabis distributor by the fifteenth of the month following the date you collected the excise tax from your customer. Make sure you receive a receipt from the licensed distributor showing the amount of excise tax you collected and paid to the licensed distributor.

This notice is intended to give you an overview of some of the requirements for cannabis retailers and does not address all requirements for the cannabis industry. We encourage you to read our [Tax Guide for Cannabis Businesses](http://www.cdtfa.ca.gov/industry/cannabis.htm) at [www.cdtfa.ca.gov/industry/cannabis.htm](http://www.cdtfa.ca.gov/industry/cannabis.htm) or contact us.

In the future, these *Cannabis Tax Facts* will be sent via email only. If you would like to continue receiving the *Cannabis Tax Facts*, please sign up to our Cannabis Outreach email listserv on our website at [www.cdtfa.ca.gov/subscribe/cannabis.aspx](http://www.cdtfa.ca.gov/subscribe/cannabis.aspx). Or you may update your account with a valid email address by calling our Customer Service Center at 1-800-400-7115 (TTY: 711) Monday through Friday, from 8:00 a.m. to 5:00 p.m. (Pacific time), except state holidays.

*\*Please note:* The markup rate percentage is used to calculate average market price for excise tax calculation purposes and is *not* meant to be used to determine the markup on your product that you sell to your customers. This markup rate is determined by the CDTFA every six months. For current markup rates, visit the [Special Taxes and Fees](http://www.cdtfa.ca.gov/taxes-and-fees/tax-rates-stfd.htm) page at [www.cdtfa.ca.gov/taxes-and-fees/tax-rates-stfd.htm](http://www.cdtfa.ca.gov/taxes-and-fees/tax-rates-stfd.htm) and select *Cannabis Taxes*.