Cultivation Tax Ends on July 1, 2022

Beginning July 1, 2022, the cultivation tax no longer applies to cannabis or cannabis products entering the commercial market. Cannabis enters the commercial market when the cannabis or cannabis products pass the required testing and quality assurance review.

Changes to Your Cultivation Tax Requirements – Starting July 1, 2022

- Distributors and manufacturers (including microbusinesses authorized to distribute or manufacture) are no longer required to collect the cultivation tax from cultivators.
- Cultivators (including microbusinesses authorized to cultivate) are no longer responsible for paying the cultivation tax to manufacturers or distributors when cultivators sell or transfer cannabis to another licensee.
- Cultivation tax is not due on cannabis or cannabis products entering the commercial market on or after July 1, 2022, even if you received cannabis from a cultivator prior to July 1, 2022.
- Any cultivation tax collected on cannabis that enters the commercial market on or after July 1, 2022, must be returned to the cultivator that originally paid the cultivation tax.

What to Do If Excess Cultivation Tax is Collected

Cultivation tax that cannot be returned to the cultivator who paid it is considered excess cultivation tax collected.

- A manufacturer that has collected the cultivation tax and is not able to return it to the cultivator who paid it, must transfer the excess cultivation tax collected to a distributor to remit to the California Department of Tax and Fee Administration (CDTFA).
- A distributor that has collected the cultivation tax and is not able to return it to the cultivator who paid it, must remit the excess cultivation tax collected to CDTFA.
- A distributor should report and pay any excess cultivation tax collected on their next cannabis tax return.

Additional guidance on how to report excess cultivation tax on your cannabis tax return will be provided in a separate notice.

Keep Accurate Records

Each licensee in a transaction should keep clear records to document when the cultivation tax was collected or not collected, returned to a cultivator, transferred to a distributor, or when excess cultivation tax was paid to CDTFA.

Legislation Information

Assembly Bill 195 (Stats. 2022, ch. 56), which revises the Cannabis Tax Law, was approved on June 30, 2022. We will provide additional information once it becomes available in future special notices and on our website. We encourage you to read our online Tax Guide for Cannabis Businesses at www.cdtfa.ca.gov/industry/cannabis.htm, for more information about the upcoming changes.

For More Information

For more information, visit our website at www.cdtfa.ca.gov. You may also call our Customer Service Center at 1-800-400-7115 (CRS:711) then select the option for Special Taxes and Fees. Customer service representatives are available Monday through Friday from 7:30 a.m. to 5:00 p.m. (Pacific time), except on state holidays.