

GOVERNMENT OPERATIONS and BUDGET AND FINANCE COMMITTEES REPORT relative to aligning the City's definition of gross receipts tax with the provisions of Senate Bill 1059 in connection with the collection of business taxes for cannabis and cannabis-related products.

Recommendation for Council action:

REQUEST the City Attorney to prepare and present an Ordinance to amend Los Angeles Municipal Code (LAMC) Section 21.51a(4) to specifically exclude the State excise tax from the definition of gross receipts.

Fiscal Impact Statement: None submitted by the Office of Finance. Neither the City Administrative Officer nor the Chief Legislative Analyst has completed a financial analysis of this report.

Community Impact Statement: None submitted.

Summary:

On January 21, 2025, the Government Operations (GO) Committee considered a January 6, 2025 Office of Finance report in response to Motion (Padilla – Hutt) relative to

According to the Office of Finance, on September 28, 2024, Governor Newsom signed California Senate Bill 1059 which added new Section 16005 to the California Business and Professions Code. The changes introduced by the bill will directly impact how cannabis operators calculate and report their taxable receipts. Under current State law, the definition of gross receipts for the purpose of calculating State excise tax on cannabis sales includes any amount calculated to cover local business tax.

Under current City law, which was adopted by the voters as part of Proposition M in 2017, the definition of gross receipts for the purpose of calculating City business tax on cannabis sales includes any amount calculated to cover State excise tax. SB 1059 changes this by prohibiting local jurisdictions from including the State excise tax in their definition of gross receipts, effective January 1, 2025. This means that, while the State will have the ability to include receipts collected to cover City business tax in their calculation of the excise tax, the reverse will no longer be true.

Because the State code supersedes the City's code, no changes to the LAMC are necessary in order to effectuate the new law. However, in the interest of transparency and clarity on how to calculate City tax due, the Council may wish to revise the LAMC to be consistent with SB 1059. Language requesting the City Attorney to prepare and present the necessary ordinances is included in the recommendation should the Council wish to move in that direction.

The current tax structure results in 34.75 percent tax on cannabis retail sales. This is comprised of 9.75 percent sales tax, 10 percent City business tax, and 15 percent State excise tax. Sales tax is already excluded from the business tax calculation per State law, so the taxable gross receipts are 125 percent of the base sale price. Once SB 1059 takes effect in January, this percentage will drop to 110 percent, a reduction of 12 percent.

The City's 2024-25 Adopted Budget assumes \$94 million from Cannabis business tax. 12 percent of this total would be \$11.3 million annually. However, since the new law is effective January 1, 2025, and cannabis business taxes are due the month following, no impact will be seen until February, and only five months of the current fiscal year will be impacted. This makes the current year estimate no more than \$4.7 million. Reducing this estimate further is the current trend for overall cannabis business tax which, through the first five months of the year, is lagging well under budget. Due to this trend, we estimate that the current year impact of SB 1059 will be approximately \$3-4 million. After consideration and having provided an opportunity for public comment, the GO Committee moved to recommend approval of the recommendation contained in the Office of Finance report.

Subsequently, on February 4, 2025, the Budget and Finance Committee also considered this matter. After further consideration and having provided another opportunity for public comment, the Budget and Finance Committee moved to concur with the GO Committee. This matter is now submitted to Council for its consideration.

Respectfully Submitted,

Government Operations Committee

COUNCILMEMBER VOTE

PADILLA: YES

LEE: YES

JURADO: ABSENT

Budget and Finance Committee

COUNCILMEMBER VOTE

YAROSLAVSKY: YES

BLUMENFIELD: YES

HUTT: YES

McOSKER: YES

HERNANDEZ: YES

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2/5/25

-NOT OFFICIAL UNTIL COUNCIL ACTS-