

## Calculation of the Local Dispensary Cannabis Tax in Monterey County

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The legal cannabis industry in California is still in adolescence stages. Nobody would be shocked to hear that the taxing authorities in state and local governments are in the same boat.

Take the local dispensary cannabis tax. The local dispensary cannabis tax in Monterey County, the City of Salinas, and the City of Del Rey Oaks all apply a tax rate to Gross Receipts, which is reduced by various exclusions. One of the allowable exclusions is: “Any tax required by law to be included in or added to the purchase price and collected from the consumer or purchase.”

Most of the dispensaries I work with understand that state sales tax qualifies as an exclusion from gross receipts, as it is clearly collected from the customer and remitted to the state. On the other hand, dispensaries are all over the board in handling the state excise tax. The excise tax is collected by the distributor from the retailer, and is commonly considered part of the wholesale cost. Excluding the excise tax from gross receipts may not seem intuitive.

However, looking closer at the California excise tax, the rules state: “As a retailer, you are required to pay the cannabis excise tax to your distributor and collect the cannabis excise tax from your customers. No cannabis and/or cannabis products may be sold unless the cannabis excise tax is paid by the purchasers (consumers) at the time of sale.” This definition clearly qualifies the excise tax as an exclusion from gross receipts for purposes of computing the local cannabis retail tax. This is true whether the excise tax is identified on the invoice or not. The customer may not even know the amount of tax being paid.

The city of Salinas has verbally confirmed this treatment of excise tax. I have not been able to get Monterey County staff to give an opinion.

Taxes of many kinds are a heavy burden in this industry. Don't overpay taxes needlessly.

- Steinbruner Hill CPAs provides advice, accounting, and tax services to cannabis businesses within Monterey County and throughout California.

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