

FOR IMMEDIATE RELEASE

November 30, 2021

Contact: Tom Temprano: tom.temprano@sfgov.org

San Francisco suspends cannabis business tax amid concerns about ongoing illegal sales

San Francisco Board of Supervisors passes ordinance by Supervisor Rafael Mandelman to suspend the imposition of the city's Cannabis Business Tax through December 31, 2022

SAN FRANCISCO — In an effort to support legal cannabis retailers and stem illegal cannabis sales in San Francisco, the San Francisco Board of Supervisors unanimously approved legislation by District 8 Supervisor Rafael Mandelman suspending San Francisco's Cannabis Business Tax for the 2022 tax year.

"Cannabis businesses create good jobs for San Franciscans and provide safe, regulated products to their customers," said Mandelman. "Sadly, the illegal market is flourishing by undercutting the prices of legal businesses, which is bad for our economy as illegal businesses pay *no* taxes while subjecting workers to dangerous conditions and consumers to dangerous products. Now is not the time to impose a new tax on small businesses that are just getting established and trying to compete with illicit operators."

Proposition 64, which legalized adult use cannabis in California, established a 15% State excise tax on retail cannabis sales as well as a tax on cannabis cultivation. [A report](#) by The California Legislative Analyst's Office found that increased cannabis tax rates were directly tied to ongoing illegal cannabis sales, with a possible 10% increase to the State retail tax resulting in a 7-22% decrease in legal cannabis consumption. Five years after the passage of Proposition 64, it is estimated that illegal market sales approach \$8 billion annually in California, twice the volume of legal sales.

"California's cannabis taxes are smothering the legal market and allowing a dangerous, environmentally-destructive illegal market to flourish," said Conor Johnston, co-owner of the City's first social equity dispensary, Berner's on Haight. "Thank you to Supervisor Mandelman and his colleagues for doing what Sacramento has thus far failed to do - give legal cannabis businesses some room to breathe."

The State is struggling to contain the illegal cannabis industry and has conducted close to 500 raids of illegal operations this year. Workers in illegal businesses are often subject to dangerous and illegal working conditions.

"The imposition of new local cannabis tax in San Francisco while State taxes remain high runs the risk of further undermining our local legal market and the good union jobs that it creates," said Jim Araby, Director of Strategic Campaigns for United Food & Commercial Workers Union Local 5 which represents 30,000 workers in the Bay Area, including workers in San Francisco's cannabis industry. "This legislation will help provide additional stability for workers in the emerging cannabis industry in San Francisco."

San Francisco's Office of Cannabis oversees a Cannabis Equity Program to foster equitable participation in the cannabis industry and create business opportunities for those negatively impacted by the War on Drugs. Many equity businesses opened immediately preceding or during the pandemic, and these businesses are just now getting their footing after paying

significant startup costs including, in some cases, years of commercial rent before ever conducting their first sales.

“The cannabis industry is not mature enough to sustain any additional tax burdens in addition to the incredibly high state taxes,” said Ali Jamalian, President of Sunset Connect, the first social equity manufacturing facility in San Francisco and Chair of the San Francisco Cannabis Oversight Committee. “The cannabis industry is capital-intensive for start-ups, leaving little room for newly minted Social Equity Operators and legacy operators to pay a gross receipts tax. This legislation will help us to continue building a solid foundation for a strong, all-inclusive cannabis industry in San Francisco.”

Throughout the Bay Area, cannabis businesses are also facing increased theft, often from organized and armed groups. BASA, a cannabis business on Grove Street in San Francisco had thousands of dollars of product stolen on November 16th, the fifth burglary at this location.

“Cannabis businesses, along with many other retailers in San Francisco, are struggling under the weight of out-of-control retail theft,” said Mandelman. “San Francisco needs to do more to protect these businesses, their employees, and their customers before we hit them with a new tax.”

Following the passage of the legislation, Supervisor Mandelman will convene a meeting with the City Controller, who, in consultation with the Treasurer Tax Collector, Office of Cannabis and Cannabis Oversight Committee, will analyze data on cannabis business’ sales in San Francisco, consider factors like State taxation, the illicit market and impacts to the city’s equity goals, and present the Board of Supervisors with a set of recommendations on a tax rate and structure for the Cannabis Business Tax that can be implemented for the 2023 tax year.

###