



Cannabis consultant Jacqueline McGowan was right on several predictions that would impact the industry in 2019. What's next for 2020?

PHOTO BY NICOLE FOWLER

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Proposed tax changes in 2020

Meanwhile, California's unregulated market, the largest cannabis market in the world, had a stellar year. With no taxes to charge, small overheads and lax law enforcement, unregulated vendors cashed in on hidden "sesh" markets throughout the state.

"Everything's going good right now, so I'd rather you didn't write about us," said a local vendor who also asked to remain anonymous.

"Under the current tax climate, legal businesses are barely turning a profit, and most are operating at a loss," Harlan said. "Simplifying the tax structure should be combined with lowering and eliminating some taxes."

Harlan suggested eliminating the tax on cultivation is a good place to start.

McGowan also believes tax relief is the most effective way to help legal businesses.

"The regulated market cannot compete with the illicit market on price point," she said. "If it cannot compete with a market that is three times its size, the only thing that would work is an elimination of taxes."

In some California cities, the total tax on legal cannabis products can be as high as 40%. McGowan wants a one-year holiday on all taxes, so that the legal market can strengthen itself.

"Most important of all is tax reduction," said John Oram, CEO and founder of NUG brand cannabis products. "We are getting that [from proposed legislation], but what we are actually getting is a shift of the excise tax from the wholesale transaction to the final sale to the consumer."

Oram went on to explain that, under the proposed changes, consumers would see the tax broken out as a line item in their receipt.

"This will allow the consumers to better understand just how outrageously high the tax is," Oram said. "Ultimately, I believe it will create the political will to fix the tax issues."

McGowan said that's possible, but it's more likely that California legislators will shift to a "potency tax." While nobody knows exactly how a potency tax would be implemented from one cannabis product to another, McGowan said that because tax rates would be calculated by the milligram, legislators might allow higher potency edibles to be sold.

Surviving the future

According to McGowan, vertical integration (owning the product from inception to final sale) makes businesses more likely to succeed. But she cautions that some cannabis businesses will still fail because there are too many of them.

"We don't need one distributor, one manufacturer and two cultivators for every one retailer in the state," she said. "That's not sustainable, so those numbers are going to dwindle."

In addition to tax relief, Oram said that "streamlining the permit process, limiting local control and enforcement of the illicit market are the most important changes required to keep the industry viable."

McGowan summed up the legal market like this: "It's a game of musical chairs, but instead of chairs, there are bags of money, and every time the music stops, an operator is no longer in the licensed market." □

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