

BEST PRACTICES

# California Cannabis Cultivation Tax Guide



Los Angeles Office: 27200 Tourney Road, Suite 290,  
Valencia, CA 91355  
Telephone Number: 818 898 9911

Beverly Hills: 9440 Santa Monica Blvd Suite 301,  
Beverly Hills, CA 90210-9999  
Telephone Number: 760 779 0990

**MIOD**  
*and Company, LLP*  
CERTIFIED PUBLIC ACCOUNTANTS  
& ADVISORS

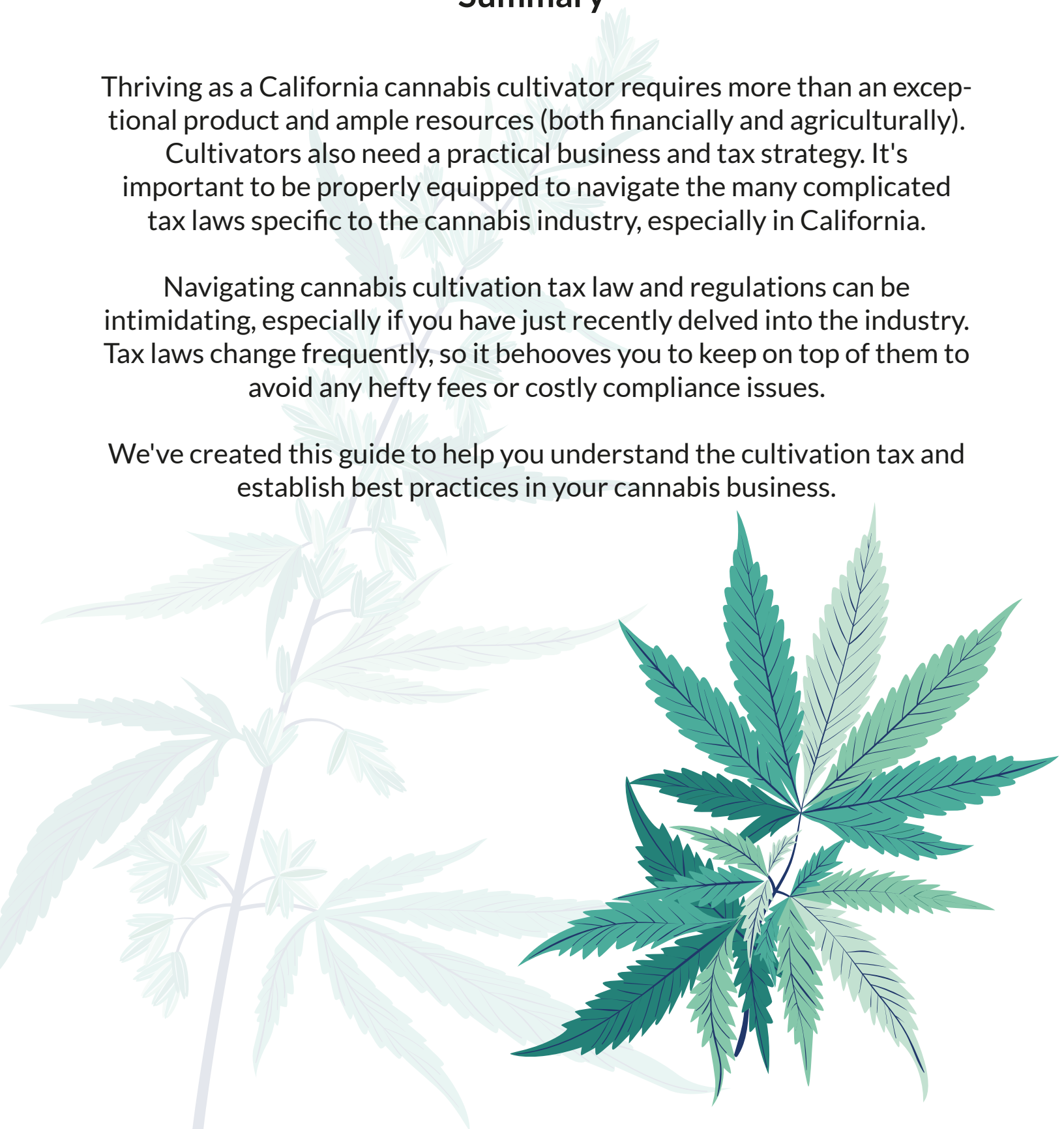
## Summary

Thriving as a California cannabis cultivator requires more than an exceptional product and ample resources (both financially and agriculturally).

Cultivators also need a practical business and tax strategy. It's important to be properly equipped to navigate the many complicated tax laws specific to the cannabis industry, especially in California.

Navigating cannabis cultivation tax law and regulations can be intimidating, especially if you have just recently delved into the industry. Tax laws change frequently, so it behooves you to keep on top of them to avoid any hefty fees or costly compliance issues.

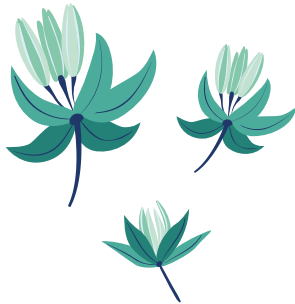
We've created this guide to help you understand the cultivation tax and establish best practices in your cannabis business.



## What is the Cannabis Cultivation Tax?

Effective January 1, 2018, a cultivation tax on all harvested cannabis that enters the commercial market was imposed upon all licensed cultivators.

In the California Cannabis industry, the cannabis cultivation tax is different for the category of cannabis product. Each category is calculated according to the rate determined by the California Department of Tax and Fee Administration.



**CANNABIS FLOWER**



**CANNABIS LEAVES**






**FRESH CANNABIS PLANT**

Precisely how much you owe in taxes will depend on the weight of the cannabis that enters the commercial market.

It's important to note that you will not be able to sell cannabis until you have paid the cannabis cultivation tax.

## What Are the Cannabis Cultivation Tax Rates?

California cannabis cultivation tax rates are reviewed every 6 months by the CDTFA. As of 2021, these are the present cultivation tax rates, by category, as reported by the CDTFA:

CANNABIS CATEGORY	EFFECTIVE TAX RATE AS 1/1/2021
 <p>The term “<b>cannabis flowers</b>” simply refers to the flowers of the cannabis plant. In a cultivator’s case, these flowers have not undergone any manufacturing but have been harvested, dried, trimmed or untrimmed, and cured. The term does not include the leaves and stems removed from the cannabis flower.</p>	\$9.25 / ounce
 <p>“<b>Cannabis leaves</b>” means all parts of the cannabis plant other than the cannabis flowers that are sold or consumed.</p>	\$2.75 / ounce
 <p><b>Fresh cannabis plant</b> covers the entire plant, including:</p> <ul style="list-style-type: none"><li>• flowers</li><li>• leaves</li><li>• a combination of adjoined flowers, leaves, stems, and stalk from the cannabis plant.</li></ul> <p>These parts can be either cut off just above the roots or completely removed from the plant.</p>	\$1.29 / ounce

## How Do You Accurately Calculate the Cultivation Tax Due?

To properly calculate the cultivation tax due, it is important that you know the weight in ounces of each category of cannabis that enters the commercial market.

Partial ounces, rounded to the nearest hundredth, must be included in the calculation of the cultivation tax due.

As an example, let's say that you sell 7.5 pounds of Cannabis flowers to a distributor.

To determine taxes owed, multiply the total ounces (7.5 x 16) by the cultivation tax rate of \$9.25 (the current cultivation tax rate for 2021).

This totals \$1,110, which is what you owe in taxes.

You can use the weight conversion chart for guidance.

**Total Pounds:  
7.5 x 16**

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**Total Ounces 120**

**Flower tax rate \$9.25**

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**Cultivation Tax \$1,110**

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## Weight Conversion Chart

**1 Gram = 0.035 Ounces = 0.001 Kilograms**

**1 Ounce = 28.35 Grams = 0.0625 Pounds**

**1 Pound = 453.6 Grams = 16 Ounces**

Remember to standardize and document your weighing process in work papers and in your company files.

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## Who is Responsible for Paying and/or Collecting Cannabis Cultivation Tax?

There can be several different license holders involved in the cultivation tax process and final payment to the CDTFA.

### CANNABIS SUPPLY CHAIN



### CULTIVATORS

The cultivation tax originates with the cannabis cultivator.

Section 34012 of the Revenue and Taxation Code requires that all cultivators pay a cultivation tax when cannabis is sold commercially. Cannabis can not be sold unless the tax has been paid as provided in this part.

The tax is due once a cultivator meets two conditions:

1. The cultivator has harvested the cannabis intended for sale.
2. Cannabis has entered the commercial market.

The cultivator is responsible for calculating and paying the cultivation tax based on the quantity sold and the category of the cannabis product.

Although the cultivator is responsible for the cultivation tax calculation and payment, the cultivator is currently not responsible for filing the cannabis cultivation state tax return and remitting that payment to the state. This responsibility lies with the distributor.

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## PROCESSOR/MANUFACTURERS

Often, a cannabis product will be sold or transferred to several different processors/manufacturers, before it finally reaches a distributor who can ensure that the product is tested and meets specific quality standards.

The processors/manufacturers who possess the cannabis product will be responsible for holding on to the cultivation tax and passing it on to the distributor.

## DISTRIBUTORS

The distributor who oversees the required quality assurance review to confirm that a cannabis product is safe to enter the commercial market will be responsible for paying the cultivation tax to the California Department of Tax and Fee and Administration.



## Best Practices to Avoid Cannabis Cultivation Tax Liability



A cultivator's liability for the tax is not extinguished until the tax has been paid to the State.

With so many potential transactions and parties involved related to the cultivation tax, it is important to have best practices in place to evidence that you've paid the cultivation tax and are not liable to the state.

To qualify for cultivation tax liability relief, you will need to provide evidence that you've paid the cultivation tax.

Cultivators will have to produce an invoice or receipt that shows how much cultivation tax was paid and by whom. This should be evidenced through a signature of both the cultivator and the party the cultivator remitted the tax to.

## 7 Things Every Cannabis Cultivator Should Do

Navigating cannabis cultivation tax law and regulations can be intimidating, especially if you have just recently delved into the industry. Tax laws change frequently, so it behooves you to keep on top of them to avoid any hefty fees or costly compliance issues.

Fortunately, you can set yourself up for success as a cannabis cultivator by establishing meaningful tax practices from the start. Here are some tips to help you ensure smooth operations:



### 1. MAKE SURE THAT YOU ARE INVOICING PURCHASES PROPERLY.

An in-demand cultivator will likely do business with many different distributors and manufacturers in just one week.

As such, you must keep track of every purchase through careful customer invoicing. Be careful to list not only the products sold but also the products' weights and the names of every customer (more info on setting up an invoice will be provided below). Cultivators who want to thrive in the cannabis industry need to master the art of invoicing.

While creating invoices is not the most riveting part of the job, invoices are essential in creating a concrete record of all transactions and ensuring that all cannabis products are accounted for. Here is some information that your invoice should always include:

1. Name, business address, and department or other authorized license number of the seller (in this case, the cultivator).
2. Name, business address, and department or other authorized license number of the seller (in this case, the distributor or manufacturer).
3. Date of sale or transfer (include month, date, and year).

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4. Invoice or receipt number.
5. The total weight or quantity of the cannabis or unprocessed cannabis products included in the sale or transfer.
6. The cost of the items purchased (include any discounts)
7. Description of all products, including their categories (for example, flower, leaves, pre-rolls, etc)



## 2. ENSURE THAT YOUR INVOICING SYSTEM COMPLIES WITH THE CDTFA AND THE REGULATING BODY.

At the end of the day, a cultivator is first and foremost a business person. As a businessperson, you must ensure that you stay in compliance both with cannabis-specific laws and the more general tax laws set forth by the CDTFA (California Department of Tax and Fee Administration).

Your invoicing practices should reflect these laws. For example, keep in mind that the CDTFA can update the cultivation tax rates every six months to account for inflation. Make sure that you've subscribed to the CDTFA website and access their learning materials [here](#).



## 3. CALCULATE CANNABIS CULTIVATION TAX EVERY TIME YOU MAKE A SALE

Remember, you will be expected to pay the cannabis cultivation tax the moment it enters the commercial market.

It is ideal not to allow purchases to accumulate until you are forced to grapple with the numbers and make sense of them. You can save yourself a significant amount of time by using the tax rate guidelines above to calculate tax any time you make a sale.

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## 4. KEEP A RECORD OF YOUR CANNABIS CULTIVATION TAX CALCULATIONS.

Once you have calculated your cultivation tax, be sure to keep that information someplace safe. It would help to start an Excel spreadsheet detailing what you sell and how much you sell (by weight), with a special column for calculated tax rate. You'll also want this information handy at all times, because the CDTFA requires you to keep record of this information for 5 years and the cannabis regulatory bodies 7 years.



## 5. COMMUNICATE CLEARLY AND EFFECTIVELY WITH YOUR CUSTOMERS ABOUT THEIR TAX RESPONSIBILITY.

Ensure that your customers understand what cultivation tax entails and what their responsibility is. You might also provide them with the right resources from the CDTFA so that they can navigate all tax laws carefully.



## 6. MAINTAIN A PAPER TRAIL OF TAX RECORDS.

Make sure that you have data and records to back you up in case of an audit or inquiry from a customer or the regulatory body.

This means that any signatures from distributors or manufacturers, sales data, and invoices and receipts indicating that you have paid your taxes all belong in your tax portfolio. Never dispose of evidence that shows that you are staying on top of your taxes.

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## 7. SECURE EVIDENCE THAT THE CANNABIS CULTIVATION TAX HAS BEEN PAID TO THE MANUFACTURER OR THE DISTRIBUTOR.

Avoid any potential conflict with the CDTFA by keeping clear records of taxes paid. A physical signature on an invoice will suffice.



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(818) 898-9911

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Schedule your consultation with us now!

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