



CITY OF BANNING STAFF REPORT

TO: CITY COUNCIL

FROM: Arturo Vela, Acting City Manager

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MEETING DATE: August 26, 2025

SUBJECT: Discussion and Review of Cannabis Retail Tax Rate Reduction Request.

RECOMMENDATION:

This agenda item provides the City Council with an opportunity to review data related to cannabis retail businesses within Banning and to consider the request from these businesses to reduce the current annual tax rate of 10% of gross receipts. The Council will discuss potential regulatory or tax adjustments specific to cannabis retail operations and provide direction to City staff accordingly.

BACKGROUND:

The City of Banning currently imposes a local cannabis retail tax of 10% of gross receipts, pursuant to Chapter 3.15 of the Banning Municipal Code. This tax is in addition to the applicable state taxes levied on cannabis sales and products in California. The local tax revenue from cannabis retail is allocated to the City's general fund, supporting municipal services such as law enforcement, public safety, parks, and infrastructure.

At its regular meeting of June 10, 2025, the City Council discussed whether a change to the City's retail cannabis tax should occur and directed staff to return with additional information. The following topics were raised at the meeting and staff provides additional information on each as requested.

- **Process for Reporting Sales & Paying Tax.** Councilmembers requested information on the process for cannabis retailer sales reporting and tax remittance. At the time the cannabis retail program began, the City required that cannabis retailers reported their gross sales and remit tax payments annually, which lasted through June 2024. At the start of the 2024/2025 fiscal year, the City revised the reporting and payment process with the implementation of Tax Administrator Regulation 2023-1 (attached), changing the process for reporting sales and remitting tax payments to quarterly beginning July 1, 2024. The form that the City uses to receive reports is included as an attachment to this report. Cannabis retailers are required to remit tax payments 45 calendar days after each quarter end.
- **Sales Tax Calculation.** There was a question on how gross receipts were calculated. According to the Banning Municipal Code, Chapter 3.15 (Cannabis Retailer Tax), gross receipts is defined as follows:

"Gross receipts" means the total amount of the sale price of all sales and the total amount charged or received for the performance of any act, service or employment of whatever nature it may be for which a charge is made or credit allowed, whether or not such act,

service or employment is done as a part of or in connection with the sale of materials, goods, wares, or merchandise. Included in gross receipts shall be all receipts, cash, credits and property of any kind or nature, and any amount for which credit is allowed by the seller to the purchaser without any deduction therefrom on account of the cost of the property sold, the cost of the materials used, labor or service costs, interest paid or payable, or losses or other expenses whatsoever. Excluded from gross receipts shall be cash discounts allowed and taken on sales, any tax required by law to be included in or added to the purchase price and collected from the consumer or purchaser, and such part of the sale price of the property returned by purchasers upon rescission of the contract of sale as is refunded either in cash or by credit.

- **Sales Tax Calculation (Cont'd).** The City's 10% local cannabis retail tax is in addition to state excise and sales tax. In January 2023, the state excise tax was 15% for cannabis retailers and this rate recently increased to 19% as of July 1, 2025. Sales tax also applies to retail purchases in the amount of 7.75% on top of excise taxes. An example of a cannabis retail sale calculation is provided below with the tax hierarchy as they apply.

Excise tax calculation example:

Selling price of cannabis product	\$35.00
Service Fee (as applicable)	\$3.00
Delivery (as applicable)	\$5.00
Local cannabis business tax (\$43.00 × 10%)	+ \$4.30
Gross receipts subject to state excise tax	\$47.30
State cannabis excise tax rate	x 19%
State excise tax (\$47.30 × 19%)	\$8.99
Subtotal (\$47.30 + \$8.99)	\$56.29
State sales tax (\$56.29 + 7.75%)	+ \$4.36
Total Purchase Price	\$60.65

- **Tax Payments Remitted.** The Council requested additional information on the tax remittance paid by the cannabis retailers. The table below shows annual tax payments remitted by the three cannabis retailers conducting business within Banning.

Retailer	FY 2023 (7/22-6/23)	FY 2024 (7/23-6/24)	FY 2025 (7/24-6/25)
A	(Non-operational)	\$413,282.00	\$378,856.88
B	\$330,715.00	\$255,594.00	\$158,082.07
C	(Non-operational)	\$208,586.94	\$407,525.54

With the transition to quarterly tax remittance in July 2024, below is a table displaying quarterly payments for each retailer.

Retailer	Jul-Sep '24	Oct-Dec '24	Jan-Mar '25	Apr-Jun '25
A	\$106,290.00	\$86,699.00	\$92,659.00	\$93,208.88
B	\$43,375.00	\$39,904.00	\$38,317.00	\$36,486.07
C	\$92,500.00	\$106,057.97	\$103,242.96	\$105,724.61

In addition to the above, staff provided the following local cannabis retail tax rates for comparison to other city rates in the region:

City	Current Local Cannabis Retail Tax Rate	Notes
Cathedral City	5%	Lowered in Mar 2023
Coachella	6%	In place since Feb 2022. Has 50% tax abatement program for new bus. for first two years
Desert Hot Springs	5%	Lowered in May 2025
Hemet	15%	In place since Jan 2022
Moreno Valley	8%	In place since Apr 2018
Palm Desert	5%	Lowered in Feb 2023
Palm Springs	5%	Lowered in Feb 2024
San Jacinto	15%	Temporarily reduced to 10% earlier in 2025

After reviewing the above information, staff seeks direction from City Council on the current tax rate of 10% and whether further actions, such as penalties, may be desired to ensure tax remittance occurs timely. The City Council may choose to direct the following:

1. Take no action and keep the local excise tax at 10% and reassess at a future time.
2. Temporarily reduce/increase the local excise tax for a determined period of time.
3. Implement a penalty for late tax remittance.

JUSTIFICATION:

Several cannabis retailers have requested this matter be considered by City Council.

FISCAL IMPACT:

Fiscal impact will depend on direction received from City Council.

ALTERNATIVES:

1. Take no action and keep the local excise tax at 10% and reassess at a future time.
2. Temporarily reduce/increase the local excise tax for a determined period of time.
3. Implement a penalty for late tax remittance.

BUDGETED?:

No

CONTRACT/AGREEMENT:

No

ATTACHMENTS:

1. [BMC Ch 3.15 Cannabis Retailer Tax](#)
2. [Tax Administrator Regulation 2023-01 - Cannabis Retailer Tax - Quarterly Remittance](#)
3. [Banning Cannabis Retail Sales Quarterly Tax Form](#)