



STATE OF CALIFORNIA
Franchise Tax Board

High-Road Cannabis Tax Credit Report

Economic and Statistical Research Bureau

Purpose

This report is intended to fulfill the Franchise Tax Board's obligation under Assembly Bill 195 (Chapter 56, Statutes of 2022) which added Revenue and Taxation Code (RTC) sections 17053.64 and 23664 and included language that the Franchise Tax Board shall annually report to the Legislature by March 1, the number and total dollar amount of credits claimed under these sections for each taxable year in which the credits are allowed.

Prepared by the Staff of the
Franchise Tax Board
STATE OF CALIFORNIA

Members of the Board:
Malia M. Cohen, Chair
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Background

Chapter 56 of the Statutes of 2022 (AB 195) established the High-Road Cannabis Tax Credit (HRCTC) for qualified taxpayers. It allows a credit to a qualified taxpayer equal to 25 percent of the qualified taxpayer's qualified expenditures in the taxable year, not to exceed \$250,000. To be eligible for the credit, qualified taxpayers must make a tentative credit reservation, with the FTB. This credit is operative for taxable years beginning on or after January 1, 2023, and before January 1, 2028. The aggregate amount of credits available for reservation is \$20 million for all taxable years, cumulatively.

Franchise Tax Board Statutory Reporting Requirements

In accordance with RTC Section 41, the FTB is required to publish an annual report on its internet website, while the credit is in effect, no later than March 1, and provide a printed copy to the Chief Clerk of the Assembly and the Secretary of the Senate, and an electronic or printed copy to the Legislative Counsel. The report is required to include the following:

- The number of credits claimed.
- The total dollar amount of credits claimed.

The legislatively stated goals of the credit are to "(1) provide relief for cannabis employers who are providing good jobs in a struggling industry", and "(2) assist high-road cannabis employers and operators to stay in business or grow their business." The following report meets the FTB's requirement to report by March 1, 2025. The information presented in this report is from 2023 tax return data processed as of November 20, 2024.

Data

Taxpayers may claim the HRCTC using credit code 246 on returns filed under the Personal Income Tax and Corporation Tax Laws. The FTB also created the information reporting form, FTB 3820, to capture additional information related to the credit usage and carryover. When qualified taxpayers file form FTB 3820, they voluntarily self-report the information related to the credit. However, taxpayers are not required to file the form to claim qualified credits nor is there a penalty for failing to file form FTB 3820. Additionally, because many cannabis businesses are formed as partnerships, the business income and expenses flow-through to members or shareholders, and the business activities are reported by taxpayers on their personal income tax returns. These personal income taxpayers may not have the information requested on form FTB 3820 to report information that could generate complete data for this report.

State privacy rules require statistical tabulations prepared at the state level may not be released for cells containing data for fewer than ten returns. Based on available data processed as of November 20, 2024, the number of returns and the amount of credit allowed on the 2023 tax year returns cannot be disclosed due to state privacy rules.