Excise Tax Survey Results

September 2024

“Taxes on cannabis will be kept low to support the objectives of its legalization: keeping it out of the hands of youth, and profits out of the hands of criminals.”

~ Federal-Provincial-Territorial Agreement on Cannabis Taxation

2017

2024 Excise Tax Survey

In 2023, the Cannabis Council of Canada (C3) conducted its first nationwide survey of Licensed Cultivators and Processors or Licensed Parties (LPs), which highlighted the profound impacts of regulation and taxation on Canada's legal cannabis industry. The results underscored how excessive taxation related to excise duties significantly eroded the legal industry’s ability to establish financial viability, thereby undermining the objectives of the Cannabis Act.

A year later, the situation persists. With ongoing market closures and consolidations, the majority of LPs remain unable to achieve profitability. The financial challenges faced by the sector remain persistent.

This 2024 survey aims to provide comprehensive snapshot of the industry's financial health and assess the ongoing pressures caused by the existing excise framework.

The findings presented herein highlight the continued and urgent need for excise reform to prevent further erosion of the legal cannabis market.

67 survey responses were collected between collected between August 15 and September 13, 2024.

Survey Highlights

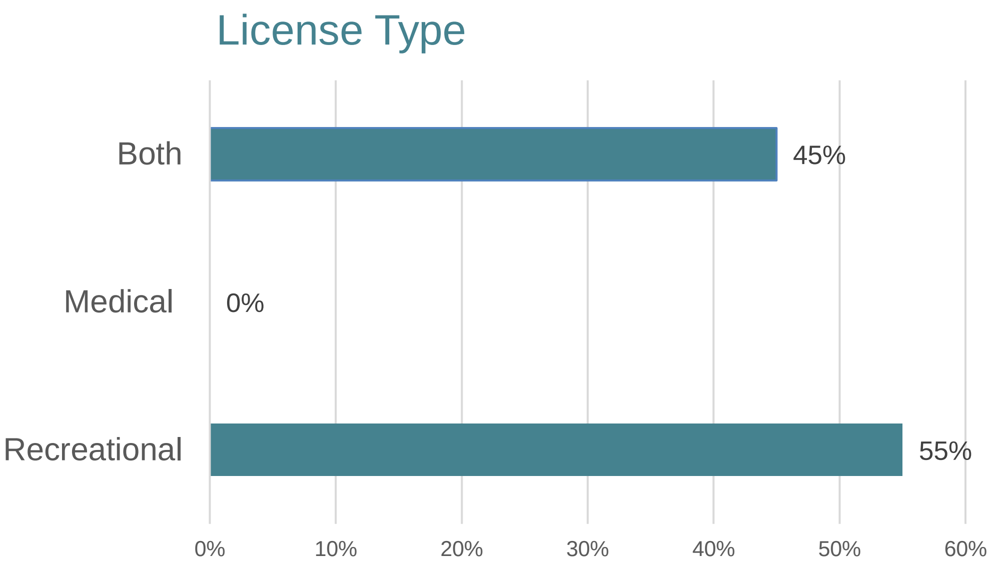
LPs paid 20-45% excise tax
in 2023
(% of gross sales)

67% of LPs remain unprofitable
in 2023
(negative net income)

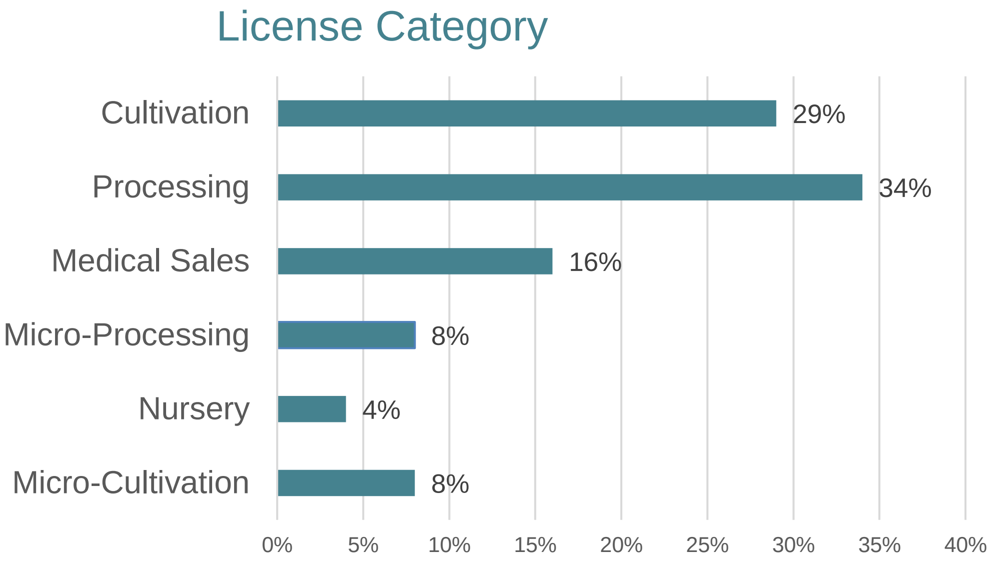
85% reported paying an increase in excise rate
in 2023
(Increase of 14% YoY)

34% Average effective excise rate
in 2023
(Increase of 11% YoY)

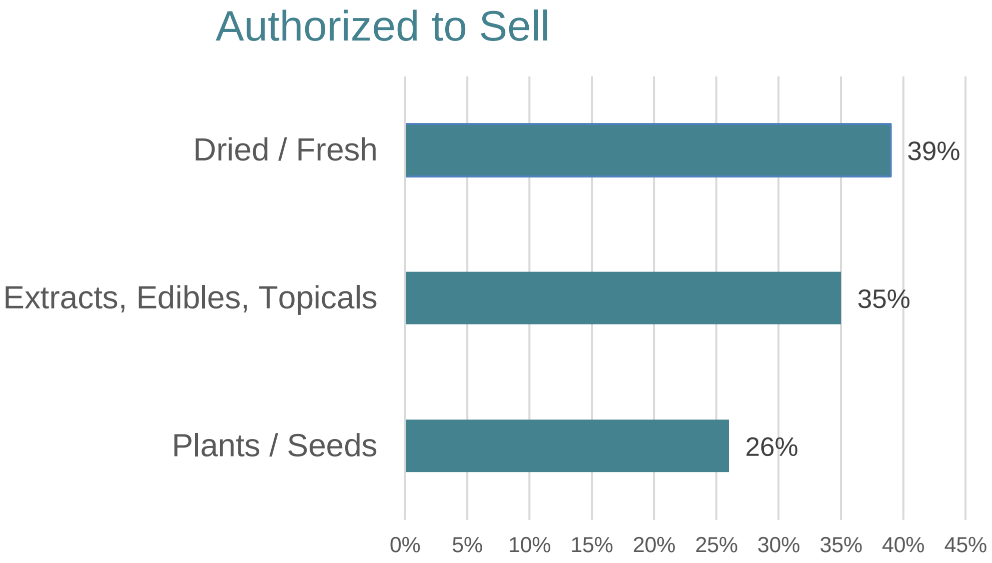
Respondent Profiles



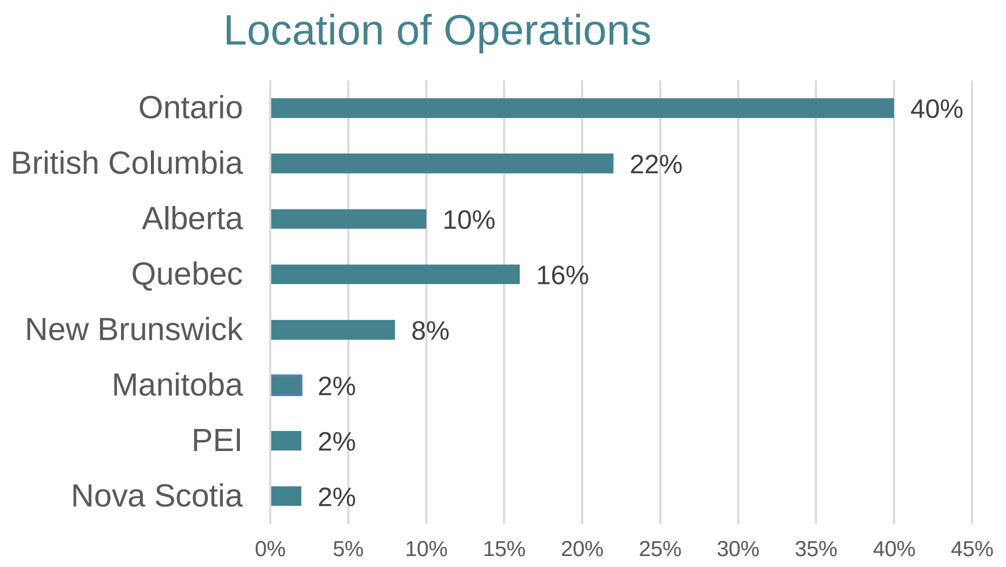
Respondent Profiles



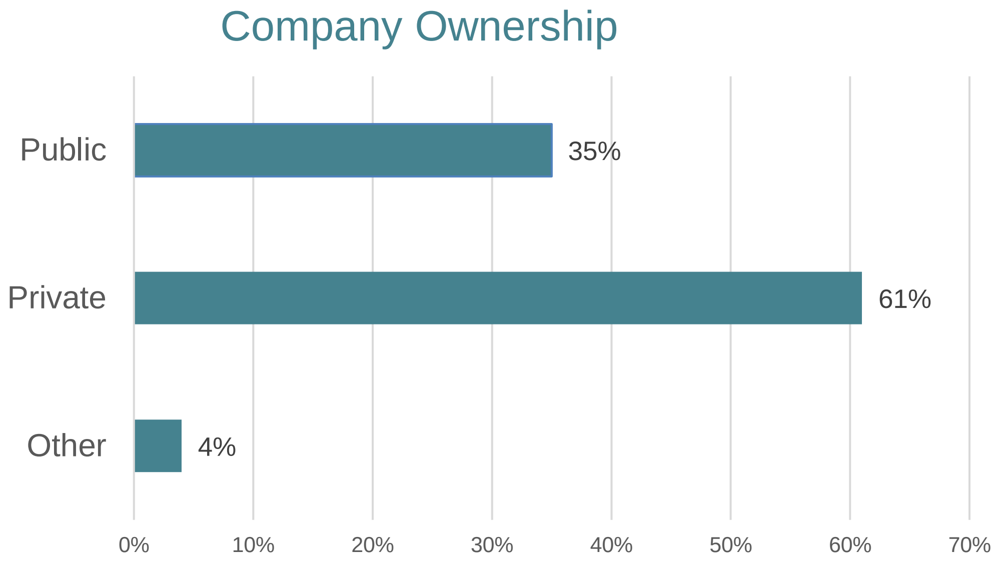
Respondent Profiles



Respondent Profiles



Respondent Profiles



State of Excise

High taxation on a nascent sector battling an entrenched illicit market is keeping LPs in crisis.

94% of respondents view the current excise tax model as excessively punitive on their business.
(Average: 4.80/5)

Why?

Rate is too high
Creates cash flow / profitability issues
Disproportionate as compared to other industries
Inability to compete with illicit market
Price compression further exacerbates the effective excise rate

"The excise tax model requires a high $ deposit in order to maintain, which either takes out valuable working capital from the business or is expensive to pay a guarantor."

"Rates are too high for a competitive industry with an entrenched black market continuing to undercut >30% of the market."

"Margins are slim and tax isn't based on profit."

In Alberta the excise tax is 14 times greater by consumption unit than wine and 9x greater than beer… taxes were supposed to be low and agency fees reasonable started at 10% now north of 30, combined with agency fees and additional taxes (16.8%) in Alberta is regressive and unsustainable. The govt needs to allow returns commensurate with risk and investment for the companies that have made the mandates of legalization possible.

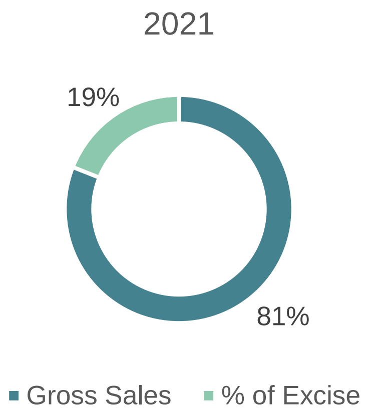
State of Excise

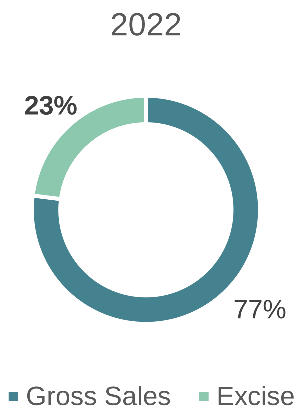
Excise continues to represent a higher percentage of LP's gross sales year over year.

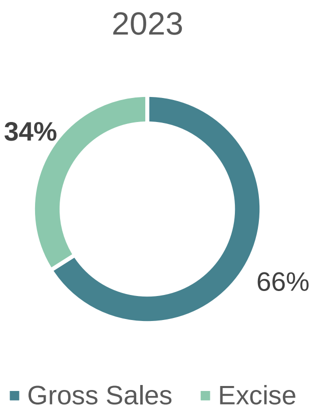
Respondents reported paying an effective excise rate of 34% (vs 23% in 2022)

85% of respondents saw an increase in the rate of excise they paid in 2023 from 2022, an increase of 14% from 2022.

Respondents produced and sold similar KGs of flower in 2023 as in 2022. (6% more in 2023 on average)







Financial Viability

LPs have made progress in reducing costs and improving cash flow but continue to remain unprofitable.

67% of respondents reported negative net income in 2023.
25% of respondents reported negative cash flow in 2023.
40% of respondents reported negative EBITDA in 2023.

LPs can't afford not to keep the majority from any potential excise tax reform.

Respondents said they would keep an average of 70% of the difference if the government decreased excise tax, with 4% flowing through to reduce the amount consumers pay at retail.

68% of respondents said they would keep all or almost all of the decrease.

They would use any extra funds for:

- Personnel and Hiring
- Capital Improvements and Equipment
- Debt Repayment
- Research and Development (R&D)
- Working Capital and Overhead Costs

Stamp Operations

Excise stamps are overly complex and expensive to administer.

94% of respondents said the current excise stamp model is expensive to operationalize
(vs 89% in the previous year)

100% of respondents said a move to one single National Excise Stamp would reduce operating costs for their company

“This is a cost above and beyond the actual tax. Also creates work to manage inventory, different provinces with different rates, and CRA penalties to replace lost stamps.”

“We limit provinces we sell to due to complexity it adds to the organization, and has historically been a massive administrative burden on us as we scaled.”

“Results in significant waste and inability to package product to order without having a PO first. This adds a processing step that would otherwise (and much more efficiently) be executed at the time of packaging.”

“We cannot re-sell returned products to another province without costly reworks.”