

The State of State (and Local) Tax Policy

How do marijuana taxes work?

SPECIFIC STATE AND LOCAL TAXES

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Q. How do marijuana taxes work?

A. Marijuana sales are legal and taxed in seven states. Most of these states tax the consumer purchase of marijuana (similar to a retail sales tax) but some tax the transaction between cultivators and distributors or retailers (similar to taxes on alcohol).

HOW MUCH REVENUE DO STATE AND LOCAL GOVERNMENTS RAISE FROM MARIJUANA TAXES?

Although prohibited under federal law, marijuana sales are legal and taxed in seven states: Alaska, California, Colorado, Massachusetts, Nevada, Oregon, and Washington. Marijuana is legal in Maine and Vermont but neither state has established its tax system yet. Michigan voters approved legal and taxable marijuana in November 2018. The District of Columbia also legalized marijuana but Congress currently prevents the city from regulating and taxing sales (figure 1).

In Colorado and Washington, where marijuana has been taxed since 2014, marijuana taxes bring in hundreds of millions of dollars, or roughly 1 percent of each state's own-source general revenue. (Own-source revenue excludes intergovernmental transfers.) Nevada collected nearly \$70 million in its first year of taxable sales, which is also roughly 1 percent of its own-source general revenue. In the past year, Alaska collected \$10 million and Oregon collected \$80 million—both totals are well below 1 percent of each state's own-source general revenue. California and Massachusetts have taxed marijuana for less than a year.

Medical marijuana is legal in 32 states and some of these states levy a tax on the purchase. But these tax rates are often the same as or close to the state's general sales tax rate and do not raise much revenue.

HOW DO MARIJUANA TAX RATES DIFFER?

Most states tax marijuana as a percentage of the retail price (table 1). These rates range from 10 percent in Nevada to 37 percent in Washington. California, Colorado, Massachusetts, and Oregon also use these taxes, which are similar to a retail sales tax the consumer pays on the purchase and the retailer remits to the state. Michigan's legislature will set up its tax system, but the ballot initiative called for a 10 percent excise tax on retail sales. Localities can also levy an additional tax in some states, mostly as an excise tax on retail sales.

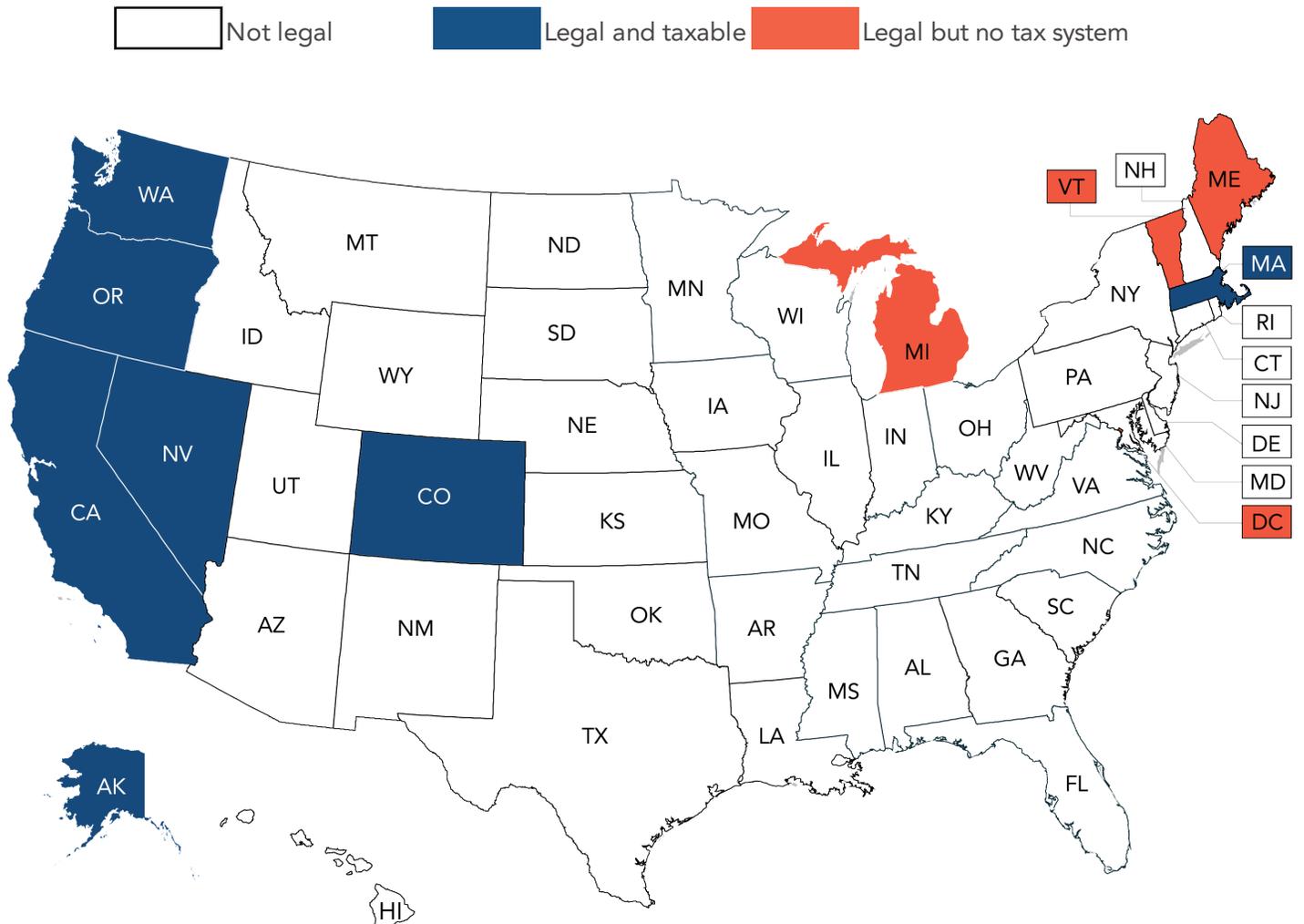
Colorado and Nevada additionally have a tax on the wholesale transaction between cultivators and distributors or retailers. The expectation is that some or all of these wholesale taxes are passed through to the consumer via higher purchase prices—similar to how alcohol taxes work. Alaska and California also levy a tax at this stage of production but tax marijuana per ounce instead of as a percentage of price (similar to a cigarette tax).

Some states also levy their general sales tax on the purchase of marijuana in addition to the excise taxes.

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FIGURE 1
Where is Marijuana Legal and Taxable?
 2018



Source: State government websites.
Note: Medical marijuana is legal in 32 states. [?](#)

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TABLE 1
Marijuana Tax Rates



State	Taxes	Legalization Date
Alaska	Cultivators pay \$50 per ounce for bud/flowers and \$15 per ounce for remainder of plant Localities can levy an excise tax on retail sales	2014
California	15% state excise tax on retail sale Cultivators pay \$9.25 per ounce for flowers and \$2.75 per ounce for leaves Localities can levy an excise tax on retail sales	2016
Colorado	15% state excise tax on retail sale 15% marijuana tax on contract price (cultivator) Localities can levy both a retail and/or cultivator tax	2012
District of Columbia	Prevented from taxing sales	2014
Maine	No tax system in place	2016
Massachusetts	10.75% state excise tax on retail sale Local excise taxes on retail sales capped at 3%	2016
Michigan	No tax system in place Ballot initiative proposed 10% excise tax on retail sale	2018
Nevada	15% state excise tax on wholesale sale (cultivator) 10% state excise tax on retail sale Localities can levy an excise tax on retail sales	2016
Oregon	17% state excise tax on retail sale Local excise taxes on retail sales capped at 3%	2014
Vermont	No tax system in place	2018
Washington	37% state excise tax on retail sale	2012

Source: State government websites.

Notes: Some states also levy their general sales tax on marijuana purchases. The legalization date is when the law passed and not when taxable sales began.

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HOW DO STATES USE MARIJUANA REVENUE?

- Alaska sends half of its revenue to its general fund and half to programs aimed at reducing repeat criminal offences.
- California's revenue pays for administrative costs associated with marijuana legalization, and then uses excess funds for programs related to drug use, including economic development, academic studies, and youth programs.
- Colorado's revenue is dedicated to education programs.
- Massachusetts distributes its revenue to various public safety programs.
- Nevada's revenue is sent to education programs and its rainy day fund.
- Oregon dedicates its revenue to education programs, drug prevention and treatment programs, and transfers to local governments.
- Washington dedicates its revenues to health care programs.

Further Reading

Auxier, Richard. 2017. "[A Trump Crack Down on Legal Marijuana Would Hurt State Budgets.](#)" *TaxVox* (blog). April 4.

Marron, Donald. 2015. "[Should We Tax Internalities Like Externalities?](#)" Washington, DC: Urban-Brookings Tax Policy Center.

Marron, Donald, and Adele Morris. 2016. "[How Should Governments Use Revenue from Corrective Taxes?](#)" Washington, DC: Urban-Brookings Tax Policy Center.