

The State of State (and Local) Tax Policy

SPECIFIC STATE AND LOCAL TAXES

How do state and local marijuana taxes work?

Q. How do marijuana taxes work?

A. Marijuana sales are legal and taxed in nine states. States currently levy three types of marijuana taxes: as a percentage of price (either the retail or wholesale price), based on weight (i.e., per ounce), and based on the drug's potency (i.e., THC level). Some states use a combination of these taxes.

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

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

[Colorado](#) and [Washington](#) have collected marijuana taxes since 2014. In calendar year 2018, Colorado collected \$267 million and Washington collected \$439 million in state marijuana taxes, or roughly 1 percent of state and local own-source revenue in each state. Four other states reported a full year's worth of state marijuana tax revenue in 2018: Alaska (\$15 million), California (\$354 million), Nevada (\$87 million), and Oregon (\$94 million). All totals were less than 1 percent of state and local own-source general revenue. (Note: None of these totals include local tax revenue.)

Medical marijuana is legal in [33 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.

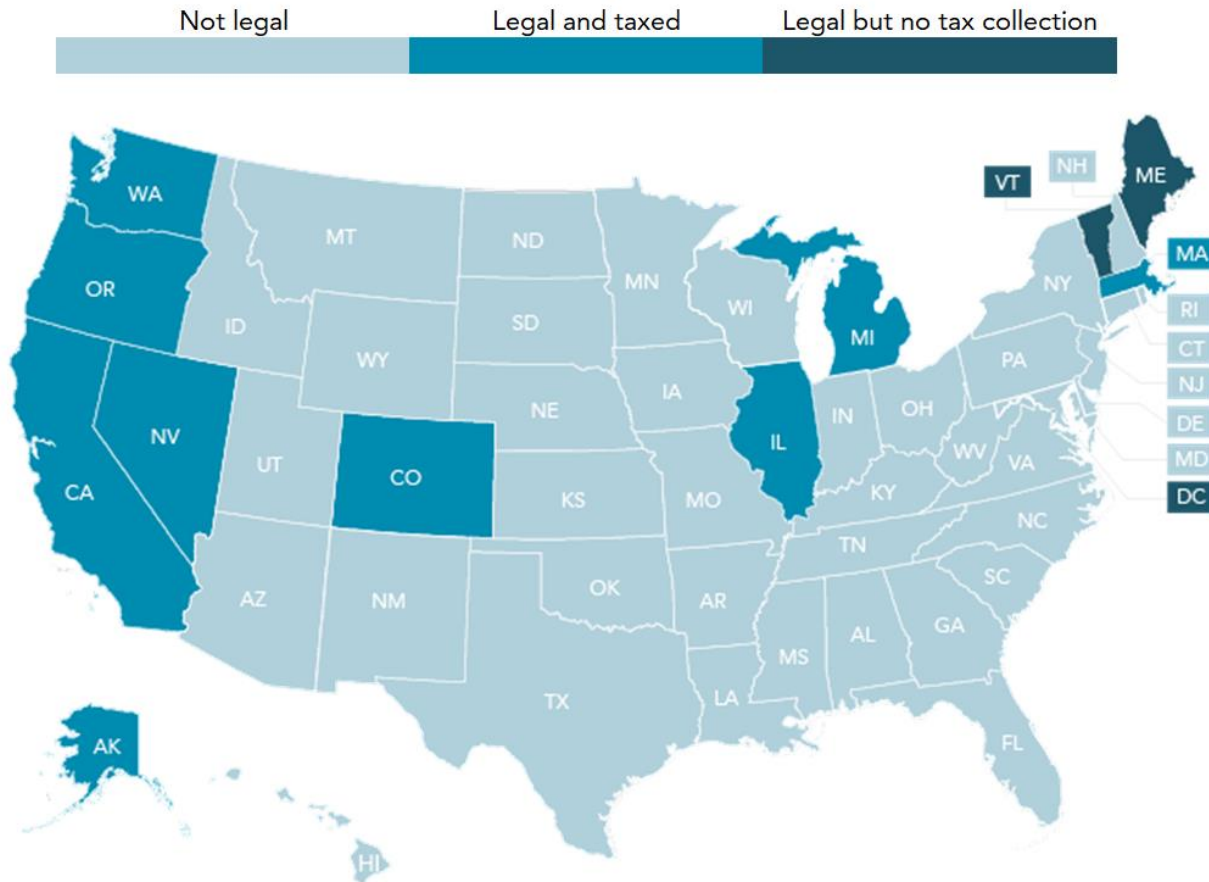
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FIGURE 1

Where is Marijuana Legal and Taxable? 2020



Source: State government websites.

Note: Medical marijuana is legal in 33 states.

HOW DO MARIJUANA TAX RATES DIFFER?

There are three ways state and local governments tax marijuana.

Percentage-of-price. These taxes are similar to a retail sales tax where the consumer pays a tax on the purchase price and the retailer remits it to the state. A few states levy their percentage of price tax on the wholesale transaction, but it is assumed this cost is then passed on to the consumer in the final purchase price. Some states also let localities levy a percentage of price tax—typically with a maximum rate.

Weight-based. These taxes are similar to cigarette taxes, except instead of taxing per pack of cigarettes the tax is based on the weight of the marijuana product. States with this type of tax also typically set different rates for different marijuana products. For example, [California](#) levies a \$9.65 per ounce tax on marijuana flowers, a \$2.87 per ounce tax on marijuana leaves, and a \$1.35 per ounce tax on fresh plant material. As

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with other wholesale taxes, it is assumed most of this cost is passed on to the consumer in the final purchase price.

Potency-based. These taxes are similar to alcohol taxes, except instead of taxing drinks with a higher percentage of alcohol at higher rates (i.e., liquor is taxed at a higher rate than beer), the tax is based on the THC level of the marijuana product. [Illinois](#) is currently the only state with a THC-based tax. It taxes products with a TCH content of 35 percent or less at 10 percent of retail price and those with more than 35 percent at 25 percent of retail price. All marijuana-infused products (e.g., edibles) are taxed at 20 percent of retail price.

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

TABLE 1
Marijuana Tax Rates



State	Taxes	Legalization Date
Alaska	Cultivators pay \$50 per ounce for bud/flowers, \$25 per ounce for immature 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
Illinois	7% state excise tax on gross receipts (cultivator). 10% state excise tax on retail sale of products with 35% or less THC. 25% state excise tax on retail sale of products with greater than 35% THC. 20% state excise tax on retail sale of cannabis-infused products (i.e. edibles).	2019
Maine	10% state excise tax on retail sale. Cultivators pay \$335 per pound of flowers, \$94 per pound of trim, \$1.50 per pound of seedling, and \$0.35 per pound of seed.	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?

So far, every state that taxes marijuana has dedicated at least a portion of the resulting revenue to specific programs:

- [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.
- [Illinois's](#) revenue first pays for administrative costs associated with marijuana legalization. Any remaining revenue is then divided among the general fund, programs that supporting criminal justice reform efforts, substance abuse programs, and local government transfers.
- When [Maine](#) begins collecting tax revenue, it will evenly split its revenue between public health and safety programs and law enforcement training programs associated with marijuana legalization.
- [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.

Updated May 2020

Further Reading

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

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

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