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BENGAL CAPITAL

The Bengal Bite

What did Cannabis do for Colorado Anyway?

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This week's Bengal Bite was written with invaluable assistance from [Owen Miller](#). Owen is a part-time research analyst with the Colorado Governor's Office of State Planning and Budgeting and a recent graduate from Colorado College. He is currently exploring additional opportunities, so please do not hesitate to contact him at owen@owenmiller.com.

Cannabis is today's Wild West of politics and business - the rewards for successful pioneers are staggering, but the risks are high (pun intended), and the trail to legalization is not well-marked. Colorado, having legalized adult-use in 2012, is one of the original cannabis pioneer states. What lessons does it hold for other states and cannabis legalization generally?

Background

First off, it's useful to remember that states cannot print money to pay their

debts when they run a deficit as the federal government can. Anything borrowed must be repaid with actual taxes collected. All states other than Vermont have some form of a balanced budget amendment that requires that, generally, money in from taxes equals money out in spending.

When there is a state deficit the answer is usually to raise taxes and/or cut services neither of which leaves taxpayers happy. Legalizing cannabis is a potent source of potential tax and economic activity, and it also can improve public services (especially policing) by having those services not waste time on cannabis-related issues. Here we explore how Colorado's tax regime is structured, where it goes, and the likely benefits to citizens of Colorado.

In 2020 alone, Colorado brought in \$362m in cannabis tax revenues - approximately 1% of its overall state budget of \$32.5 billion. While this may seem relatively small, to legislators it is a major source of funds for discretionary programs they want to push forward because much of any state's budget is non-discretionary in any given year (e.g., school funding and teacher pay, which is often set for a multiyear period and then is on autopilot in non-negotiation years).

The \$362 million that Colorado brought in compares favorably to a second-mover, California, which brought in only \$1.03B. California has a population almost seven times the size of Colorado but only generated three times the tax revenue.

Legalization During COVID 19

Pressure on States to legalize retail marijuana reached a fever pitch during the COVID-19 pandemic (Arizona, Montana, New Jersey, New Mexico, New York, Connecticut, and Virginia all legalized recreational marijuana between November 2020 and June 2021). As such, many states are looking to Colorado for guidance on how to best set up their state cannabis tax systems for success.

Colorado's Cannabis Tax System

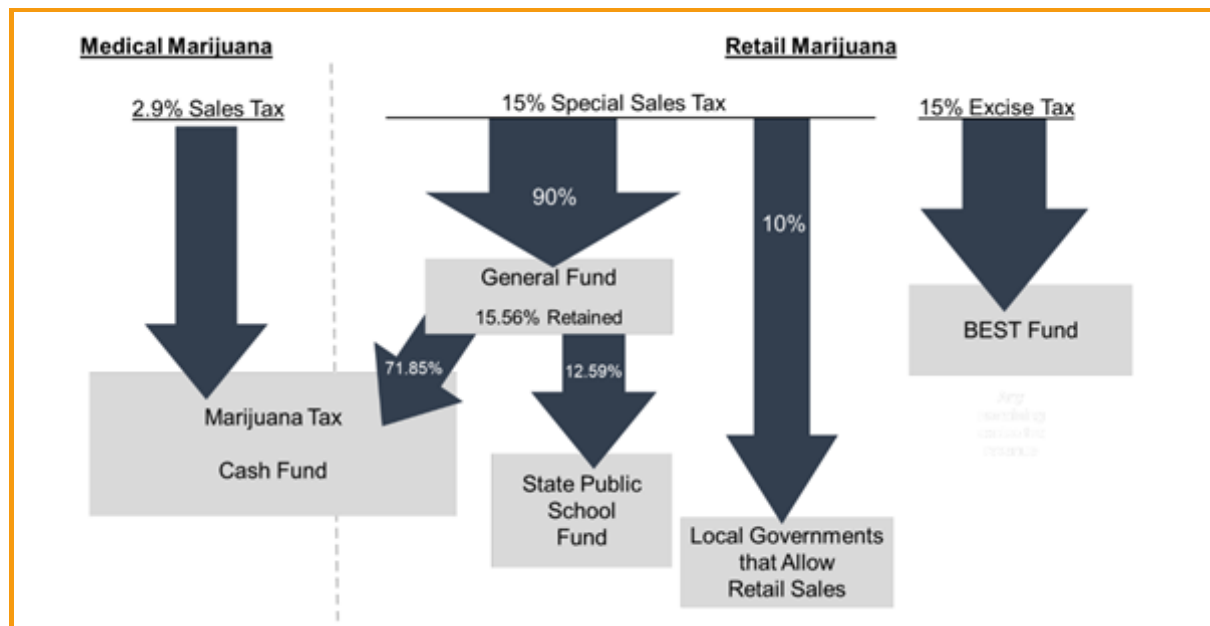
Colorado's marijuana tax collection is relatively simple - medical marijuana is subject to Colorado's regular sales tax rate of 2.9% while retail marijuana is

subject to Colorado's regular sales tax rate of 2.9 %, while retail marijuana is subject to both a special sales tax of 15% and an excise tax of 15%. This is in comparison to California where there is a cultivation tax per ounce, a state excise tax of 15%, a state sales tax of 7.25%, and local (i.e., county and municipal) cannabis business taxes that vary from 0-15%.

2021	\$768,067,702 (Jan - Apr)
2020	\$2,191,091,679
2019	\$1,747,990,628
2018	\$1,545,691,080
2017	\$1,507,702,219
2016	\$1,307,203,473
2015	\$995,591,255
2014	\$683,523,739

Source: Colorado Governor's Office of State Planning and Budgeting

Dividing up the revenue is where things get a little confusing. All revenue raised from the excise tax is directed to school construction through the BEST program (Building Excellent Schools Today), which is projected to receive \$136 million this year. The Special Sales Tax is divided, with small portions directed to both Colorado's Public School Fund and to local governments to assist regulation.



Clearly, however, the lion's share of Colorado's marijuana tax revenue (between 60-70%), including all revenue from medical marijuana and the majority from the Special Sales Tax, is directed to the center-piece of Colorado's marijuana tax structure - the Marijuana Tax Cash Fund (MTCF).

When you fantasize about what legal marijuana could do for your state, the MTCF is what you are dreaming about, if unknowingly. The MTCF provides funding for programs that fall under the following categories:

- Education and youth services
- Mental health treatment and study of health impacts
- Regulation and enforcement
- Hemp research
- Marijuana banking
- Local government grants
- Veterans' services
- Housing

Colorado has been able to fund incredible programs through the MTCF, which has already provided \$261 million in total appropriations in FY2021. While many prohibition states are still reeling from the effects of the pandemic, Colorado casually invested almost \$35 million on mental health services and programs alone through the MTCF, just in the last year.

Colorado's success shows that the simpler you make your tax system, the more accessible you make legal cannabis, the more tax revenues you will generate, and the more programs you will be able to adequately fund. And, on the whole, it seems like cannabis has only helped improve the state of Colorado's ability to provide for its citizens.



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