



National Marijuana Legalization: How Much Tax Revenue Could It Bring In?

By Jake Mann

July 30, 2014

The New York Times made headlines across the country last week when it called for federal marijuana legalization. "For too long, politicians have seen the high cost — in dollars and lives locked behind bars — of their pointless war on marijuana and chosen to do nothing," editor David Firestone wrote.

The debate continues to rage among the American public, and it's unlikely to be decided anytime in the immediate future. But, assuming federal lawmakers do eventually adopt a pot-friendly stance, there will be enormous financial ramifications.

How much money are Colorado and Washington making?

Colorado and Washington, the only two states that currently allow marijuana for recreational use by adults, are set to generate millions in tax revenue from legalization. In Colorado, economists project \$30.6 million in taxes will be collected during this fiscal year, *The Denver Post* reports. An additional \$17.3 million should hit tax coffers from the sale of medical marijuana during this time, the state forecasts.

Washington, which saw its recreational marijuana market open up earlier this month, will likely also make eight figures annually from the move. Despite a tax rate Moody's calls "a major deterrent for consumers [who could instead obtain a medical card]," the state estimates it will bring in \$51.2 million between 2015 and 2017, *The Washington Post* reports.

What would federal legalization mean for tax revenue?

Because purchases from out-of-state customers account for a portion of Colorado and Washington tax revenue, it's difficult to extrapolate these figures. But, thanks to a 2010 report from the Cato Institute, we can roughly calculate what federal marijuana legalization would mean on a per-state basis.

According to the think tank, states (and the District of Columbia) would make an estimated \$2.9 billion in tax revenue each year from legal marijuana. As seen below, California leads all states with more than \$350 million in potential tax revenue, followed by Texas, New York, and Florida.

Not pictured in this graph, annual federal tax revenues from marijuana legalization would hit \$5.8 billion, the Cato Institute estimates. In total, that's \$8.7 billion per year, assuming \$0.67 of every \$1 goes to the federal government, the organization says.

Worth noting is that Colorado and Washington are projected to make about \$47 million and \$63 million a year, respectively. Both figures are lower than what each state is currently on track to make in the near future, but why? Most likely, this differential is due to medical marijuana. In many dispensaries, it's cheaper to buy with a doctor-prescribed card than without one. In Colorado, medical purchase limits are also higher than those imposed on recreational users.

"We sort of expected that the adult-use (recreational) market would cannibalize the medical marijuana market," economist Larson Silbaugh said last month, the Colorado Fiscal Institute reports. He adds: "So far, there isn't any evidence that the medical marijuana market is sort of shrinking with people going to the adult-use market."

Ultimately, this is an issue states need to solve. As *The Denver Post* points out, medical marijuana could shrink potential revenue because it's taxed at a lower rate. The outlet recently interviewed Larry Wolk from the Colorado Department of Public Health and Environment. It writes:

[Wolk] is "still very concerned" that too many medical marijuana cards go out without the existence of a bona fide physician-patient relationship, as the law requires ... so long as it remains relatively easy to get certified — thanks in part to constitutional language — Wolk believes there may not be much incentive for people to get off the medical program. And if so, the long-term tax revenues from retail pot may end up being much less than promised.

Would legalization save the government money?

Legalization should also save money by eliminating the need for drug prevention. An old but useful study from the National Organization for the Reform of Marijuana Laws estimated in 1994 that total savings could be between \$6 billion and \$9 billion per year. Marijuana-related arrests make up more than a quarter of all U.S. drug crimes, it said.

More recently, the ACLU said marijuana enforcement costs states about \$3.6 billion in 2010, according to CNBC. The aforementioned Cato Institute study pegs this number at \$5.4 billion. When federal costs are included, the organization implies legalization could lead to annual savings of more than \$8 billion.

What's next?

Lawmakers in Oregon and Alaska will put the topic to a vote later this year. There's no guarantee that they and other states follow in Colorado and Washington's footsteps. But if they do, and the federal government jumps on board, outright marijuana legalization could generate billions in tax revenue. The potential savings are almost as high.

Given that public opinion is radically shifting to support the drug, this scenario may be a foregone conclusion. The Pew Research Center reports 54% of Americans are now in favor of legalization, compared to just 16% in 1989. Seven in 10 millennials share this sentiment, it reports.

While marijuana taxes will never balance the national debt, the list of programs that could benefit from greater government attention is almost endless. Cancer research, environmental

protection, tech research and development, and education are just a handful of the areas that could gain from a greener future. It remains to be seen if other states, and the federal government, choose to follow the path being blazed by Colorado and Washington.