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Legalizing Marijuana Would Generate Billions In Additional Tax Revenue Annually

By: Caroline Fairchild – April 20, 2013

As Washington lawmakers struggle to find ways to balance the national budget, a significant source of revenue may be burning away right before their eyes.

The federal legalization of marijuana would offer a large new revenue stream, according to research from the Cato Institute, a libertarian think tank.

"We don't know the size of the marijuana market right now, and we certainly don't know what would happen to the price and the demand for marijuana under different levels of legalization," Carl Davis, senior analyst at the Institute on Taxation and Economic Policy told The Huffington Post. "But we do know that legalization would lead to a positive revenue impact on the income and sales tax side."

According to a 2010 study from Cato, legalizing marijuana would generate \$8.7 billion in federal and state tax revenue annually.

The researchers assumed that legalized marijuana would be taxed similarly to alcohol and tobacco and that the income earned by pot producers would be subject to standard income and sales tax.

Taxes aren't the only source of revenue that would come from legalizing weed, according to the study. State and local governments also stand to save billions of dollars that they currently spend regulating marijuana use.

Washington and Colorado, both states that have legalized the use of marijuana recreationally, will serve as litmus tests to measure the possible fiscal impact of marijuana legalization on a national level. The state of Washington estimates it will generate as much as \$1.9 billion in additional revenue in five years due to the legalization of marijuana.

Eighteen states and Washington, D.C. have already made medical marijuana legal and 10 others are currently considering legislation to legalize medical marijuana, according to the National Cannabis Industry Association.

A majority of Americans support weed legalization, according to a recent Pew Research Center poll.

Still, opponents of marijuana legalization argue that any fiscal benefits from legalization are outweighed by the social impact. Legal weed will continue to contribute to violence,

crime, and social disintegration of the country, according to a report from the Heritage Foundation, a conservative think tank.

The research was done by Jeffrey Miron and Katherine Waldock.