

It's high time someone studied marijuana taxes—so we did

September 20 2019, by Muhammad Salar Khan



Marijuana plants in Oregon. CC BY

Consumers don't seem to mind [paying sales taxes](#) on things like food and clothing. Marijuana may be a different story.

As marijuana taxes are imposed [in more states](#), many [recreational marijuana users might cross interstate borders](#) to avoid them or even [hoard stocks of weed](#) in anticipation of them. If state governments don't

adjust to such behavior, it will reduce revenue and most likely increase overall marijuana consumption.

Not many states have studied the implications of pot taxes on consumer behavior. [So we did.](#)

I'm a [Ph.D. student of public policy](#), and [my colleagues and I studied data from marijuana users](#) in Oregon.

We wanted to see what the economic consequences of marijuana taxes are on this [billion-dollar industry](#). Also, we wanted to help [local governments](#) to understand them—at a time when states are increasingly relying on these new sources of revenue to [pay for education, health and law enforcement](#).

Changing consumer behavior

Although marijuana is considered a Schedule I controlled substance by the U.S. government, meaning [the drug has a high potential for abuse](#) and is illegal to possess, [10 states and the District of Columbia](#) have legalized the possession or sale of recreational marijuana.

As of 2019, [33 states have permitted medical](#) marijuana or decriminalized marijuana possession, and [most Americans](#) support legalization.

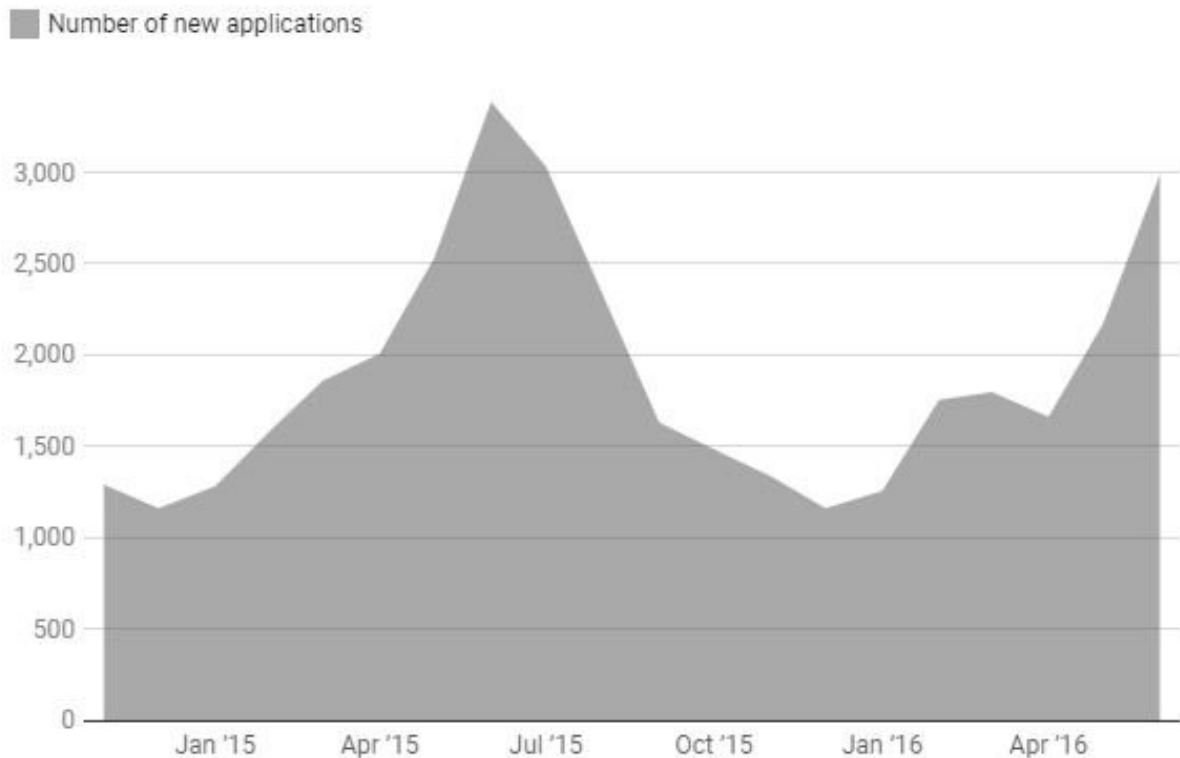
Each state with a legalized market has [imposed a tax on marijuana transactions](#). Starting on Jan. 4, 2016, Oregon officials levied [a 25% tax](#) on recreational marijuana, which generated [US\\$60.2 million in tax revenue](#) that year alone.

[Research suggests](#) that taxes—particularly [taxes on substances or activities considered harmful](#), such as gambling, alcoholic beverages or

sugary soft drinks—alter consumer behavior.

Medical marijuana applications

Medical marijuana licenses rose to nearly 3,400 in Oregon by June 2015. Once adults could legally possess recreational marijuana, new medical marijuana licenses fell to nearly 1,250. After a 25% marijuana tax went into effect in Jan. 2016, new medical marijuana applications increased to over 2,000.



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If [consumers](#) foresee tax changes, they may purchase and store large quantities before implementation of a tax. [This may lower](#) overall revenue raised by the product temporarily until consumers use their stores.

Cross-border purchasing is likely to be a more permanent issue regarding marijuana taxation, especially in states like Oregon, where [large population centers are located near borders](#) of [other states that have also legalized](#) marijuana sales—making it easy to avoid taxes with a quick road trip.

Many people shifted to [untaxed medical marijuana](#) immediately [after marijuana legalization passed in Oregon](#) as you can see by the [rise of medical marijuana applications post-taxation](#). Medical marijuana patients may also buy untaxed marijuana for friends and family, further cutting into the revenue raised.

What comes next

So what can public officials do?

One solution is to coordinate tax rates across [states](#) to avoid cross-border purchasing.

Our study also suggests that health officials need to work around [medical marijuana](#) users who circumvent taxes faced by recreational users. Connecting dispensaries electronically and making the purchasing cards computer-readable to keep track of [marijuana](#) sales could help cut down on this practice.

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