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FISCAL IMPACT REPORT

SPONSOR Duhigg **LAST UPDATED** _____
ORIGINAL DATE 1/24/2024
BILL
SHORT TITLE Removing Incremental Cannabis Tax **NUMBER** Senate Bill 99
ANALYST Gray

REVENUE* (dollars in thousands)

Type	FY24	FY25	FY26	FY27	FY28	Recurring or Nonrecurring	Fund Affected
			(\$2,000.0)	(\$4,300.0)	(\$6,800.0)	Recurring	General Fund
			(\$1,000.0)	(\$2,100.0)	(\$3,300.0)	Recurring	Local Governments

Parentheses () indicate revenue decreases.

*Amounts reflect most recent analysis of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT* (dollars in thousands)

Agency/Program	FY24	FY25	FY26	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
TRD – IT & Admin	\$12.2	\$2.4		\$14.6	Nonrecurring	General Fund

Parentheses () indicate expenditure decreases.

*Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files

Agency Analysis Received From

Taxation and Revenue Department (TRD)
 Regulation and Licensing Department (RLD)

Agency Analysis was Solicited but Not Received From

Department of Health (DOH)
 Department of Finance and Administration (DFA)

SUMMARY

Synopsis of Senate Bill 99

Senate Bill 99 removes provisions of law that raise the cannabis excise tax. The bill keeps the excise tax at 12 percent.

Currently, statute raises the cannabis excise tax by 1 percentage point each year for six fiscal years, growing the tax rate from 12 percent in FY25 to 18 percent by FY31.

The effective date of this bill is July 1, 2024.

FISCAL IMPLICATIONS

The bill lowers the tax burden on cannabis consumers at the expense of state revenues.

The Taxation and Revenue Department (TRD) estimated revenues under current law and then under the bill's proposal to set the tax rate at 12 percent. If the cannabis excise tax decreases, this can be modeled as a decline in its price, presuming tax changes are fully passed through to prices at the retail level. Because the price of cannabis declines under the bill's proposal, it is necessary to choose a value of the price/tax elasticity of demand for cannabis to determine how revenues on it respond. TRD used an average value for the elasticity of 0.53, taken from the literature,¹ data from TRD cannabis distribution report, and the cannabis revenue growth from the December 2023 Consensus Revenue Estimating Group's forecast to calculate the fiscal impact.

TRD provides the following note on its estimation methods:

It is essential to mention that deviations from the impact estimated here will be mainly driven by the price differences between low-, medium-, and high-quality cannabis products and their respective price elasticities. Furthermore, it is expected that age groups respond differently given variations between income elasticities. The tax revenues accruing from cannabis will also depend on the response of cannabis users in the illegal cannabis sector to the proposed tax change and the market linkages between 'sin' goods (e.g., alcohol and tobacco).

Regarding the agency's operating budget, TRD asserts the agency will need to make IT changes, and the bill will increase administrative burdens, which will impact its operating budget.

SIGNIFICANT ISSUES

TRD analysis notes that taxation is a standard policy lever used to generate revenue and to limit the harms associated with the consumption of so-called sin goods. The agency notes "while a reduction in cannabis taxes could stimulate this sector, making it more profitable and attracting more competition, lower cannabis prices could also increase demand, particularly in adolescents, influencing the age of cannabis initiation," because research suggests "that monetary price is important in this age group and negatively associated with initiation."

The agency notes, however, policies that aim to maximize "tax revenues generally leads to the continued co-existence of legal and illegal markets as consumption moves to the illegal market to avoid higher taxes and prices."

¹ Pacula RL, Lundberg R. Why Changes in Price Matter When Thinking About Marijuana Policy: A Review of the Literature on the Elasticity of Demand. *Public Health Rev.* 2014;35(2):1-18. doi: 10.1007/BF03391701.

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