



**GROSS RECEIPTS TAX
Cannabis Legalization**

May 4, 2021

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 600 (Winkler) 6th Engrossment, Article 2

	Fund Impact			
	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>
	(000's)			
Gross Receipts Tax	\$0	\$8,600	\$39,100	\$58,600
Sales Tax	<u>\$0</u>	<u>\$5,600</u>	<u>\$25,400</u>	<u>\$38,100</u>
General Fund – Total	\$0	\$14,200	\$64,500	\$96,700
Sales Tax	<u>\$0</u>	<u>\$300</u>	<u>\$1,500</u>	<u>\$2,200</u>
Natural Resources and Arts Funds	\$0	\$300	\$1,500	\$2,200
Total – All Funds	\$0	\$14,500	\$66,000	\$98,900

Effective for gross receipts received after December 31, 2022.

EXPLANATION OF THE BILL

Current Law: Therapeutic use of medical cannabis is legal in Minnesota for individuals with a qualifying medical condition who have been admitted into a patient registry program. Medical cannabis is not subject to the general state sales tax. Recreational use of cannabis is illegal in Minnesota.

Federal law prohibits a business from claiming any expense as a deduction from federal taxable income if the business consists of trafficking in controlled substances such as cannabis. Medical cannabis businesses are allowed to subtract business expenses from their state taxable income.

Proposed Law: The bill would legalize the use, possession, or transport of adult use cannabis, cannabis products, and cannabis accessories by individuals 21 years or older.

A gross receipts tax of 10% would be imposed on the retail sale of cannabis and cannabis products. Revenues from the gross receipts tax would be deposited in the General Fund. The state general sales tax of 6.875%, and any locally imposed general sales taxes, would apply to sales of cannabis. Localities are prohibited from imposing cannabis-only excise taxes. Medical cannabis is exempt from the gross receipts tax.

The bill would allow a subtraction from Minnesota taxable income of expenses incurred in the business of providing recreational cannabis, effective for taxable years beginning after December 31, 2021. The subtraction would also be allowed in determining alternative minimum taxable income.

REVENUE ANALYSIS DETAIL

Gross Receipts Tax

- Estimates of cannabis usage in Minnesota are based on National Surveys on Drug Use and Health conducted by the Substance Abuse and Mental Health Services Administration.
- Cannabis sales data from Colorado is scaled to Minnesota's population and economy.
- An elasticity of -0.54 is assumed.
- It is assumed that the Cannabis Management Board will complete rulemaking and issue licenses for cannabis businesses to be operational by the 2023 start date for legal sales.
- Growth rates are estimated using cannabis sales growth from Colorado.
- The fiscal year 2023 estimate is adjusted for five months of impact.

Business Expense Subtraction

- The expected additional business income and corporate tax revenue from the legalization of cannabis is not included in the forecast. The business expense subtraction provided for in the bill is also not included as a revenue impact.
- The business income and corporate tax subtraction is estimated to reduce general fund income and corporate tax revenue by \$900,000 in fiscal year 2023, \$4.2 million in fiscal year 2024, and \$7.7 million in fiscal year 2025.
- The estimates are based on Colorado cannabis business expenses and sales scaled to the Minnesota population and economy.
- A 7% marginal individual income tax rate is assumed for pass-through businesses and a 9.8% marginal income tax rate is assumed for C corporations.
- Tax year impacts are allocated 30% and 70% to the fiscal years.

Minnesota Department of Revenue
Tax Research Division
[https://www.revenue.state.mn.us/
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