



**GROSS RECEIPTS TAX  
Cannabis Legalization**

May 13, 2021

	<b>Yes</b>	<b>No</b>
DOR Administrative Costs/Savings	X	

Department of Revenue  
Analysis of H.F. 600 (Winkler) 8<sup>th</sup> Engrossment, Article 2

	<b>Fund Impact</b>			
	<b>F.Y. 2022</b>	<b>F.Y. 2023</b>	<b>F.Y. 2024</b>	<b>F.Y. 2025</b>
	(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 a subtraction for 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.

## **EXPLANATION OF THE BILL** *(cont.)*

The bill creates a tax relief account in the special revenue fund, with the purpose of using revenue in the account to lower tax rates and fees for lower-income and middle-income tax and fee payers. Revenue from the 10% cannabis gross receipts tax are allocated first to specific general fund expenditures related to the administration of recreational adult-use cannabis and appropriations to the substance use disorder treatment and prevention grant account. Remaining revenues from the gross receipts tax are to be transferred to the tax relief account, annually beginning in fiscal year 2023. It is not expected that excess revenues will be available in the forecast period.

## **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.
- Based on estimates of administrative costs, a transfer of excess gross receipts tax revenue to the tax relief account is not expected to occur within the forecast period.

### *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  
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