



**CANNABIS TAX  
SALES TAX  
Adult-Use Cannabis Legalization**

March 31, 2023

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

Department of Revenue  
Analysis of H.F. 100 (Stephenson) 8<sup>th</sup> Engrossment, As Amended (H0100A86 and H0100A87)

	<b>Fund Impact</b>			
	<b>F.Y. 2024</b>	<b>F.Y. 2025</b>	<b>F.Y. 2026</b>	<b>F.Y. 2027</b>
	(000's)			
Gross Receipts Tax	\$10,700	\$32,300	\$41,400	\$45,900
Sales Tax	\$4,900	\$18,200	\$32,500	\$43,700
Property Tax Refund Interaction	\$0	\$0	\$10	\$40
General Fund – Total	\$15,600	\$50,500	\$73,910	\$89,640
Sales Tax	\$300	\$1,000	\$1,900	\$2,500
Natural Resources and Arts Funds – Total	\$300	\$1,000	\$1,900	\$2,500
Total – All Funds	\$15,900	\$51,500	\$75,810	\$92,140

Gross receipts tax is effective for gross receipts received after June 30, 2023.  
Property tax changes are effective beginning with property taxes payable in 2024 and thereafter.  
Business expense subtraction is effective for taxable years beginning 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. Hemp-derived, edible cannabinoid products for non-medical use are legal in Minnesota and are subject to sales tax.

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. If recreational consumption and sales of cannabis is legalized in Minnesota, current law would prevent businesses in the industry from subtracting their expenses on their state taxes.

**Proposed Law:**

The bill, as amended, would legalize the use, possession, or transport of adult-use cannabis, cannabis products, and cannabis accessories by individuals 21 years or older. Individuals 21 years or older would also be allowed to grow a limited number of cannabis plants without a license for personal use. Businesses involved with the manufacture, distribution, and sale of the products would be required to be licensed with the state.

**EXPLANATION OF THE BILL (Cont.)**

A gross receipts tax is imposed on the retail sale of cannabis, cannabis products, edible cannabinoid products, and low-potency, hemp-derived edible cannabinoid products. The gross receipts tax rate will be 8% from July 1, 2023, to June 30, 2025, then 5.25% from July 1, 2025, to June 30, 2027. Beginning fiscal year 2028, the commissioner of revenue will reduce the tax rate in each odd-numbered year if revenues raised by the gross receipts tax and the sales tax on cannabis sales exceed projected expenditures related to ongoing regulation of cannabis for the upcoming biennium. The new rate will be rounded to the nearest one-quarter of one percent. Revenues from the gross receipts tax will be deposited in the General Fund.

The state general sales tax of 6.875%, and any local general sales taxes, would also apply to sales of cannabis. Medical cannabis is exempt from the gross receipts tax and the sales tax. Cannabis products are not considered food or drugs for sales tax purposes. Sales of cannabis products to governments, nursing homes, and boarding care homes are not exempt from the sales tax. Local governments would not be allowed to prohibit the sale or possession of cannabis or impose a local excise cannabis tax.

The bill, as amended, would classify property used for raising, cultivating, processing, or storage of cannabis plants, cannabis flower, or cannabis products for sale as class 3 commercial, industrial, or utility property. As class 3, this property would be subject to the state general property tax levy on commercial-industrial property. The bill, as amended, would be effective beginning with taxes payable in 2024.

The bill, as amended, would allow the subtraction from Minnesota taxable income of expenses incurred in the business of providing recreational cannabis, for entities registered in Minnesota to do so. The subtraction would also be allowed in determining alternative minimum taxable income.

**REVENUE ANALYSIS DETAIL***Cannabis 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.
- Sales data from several legal cannabis states was used.
- An elasticity of -0.54 is assumed.
- It is assumed that the Office of Cannabis Management will complete rulemaking and issue licenses in time for cannabis businesses to be operational by the beginning of 2024.
- Growth rates are estimated using cannabis sales growth from several legal cannabis states.
- The fiscal year 2024 estimate is adjusted for eleven months of impact for the gross receipts tax on edible cannabinoid products, and five months of impact for cannabis products which are assumed to be first sold at retail on January 1, 2024.
- For the purposes of controlled substances taxation, the definition of marijuana is changed to illegal cannabis which would include any cannabis that is in violation of Minnesota cannabis regulations or criminal laws. The impact would be negligible.

**REVENUE ANALYSIS DETAIL (Cont.)***Property Tax Interaction*

- Under current law, the only legal property used for raising, cultivating, processing, and storing cannabis plants, cannabis flower, and cannabis products is for medicinal cannabis. These properties are already classified as commercial, so their classification would not change under the proposal.
- Any other properties used for these purposes are not classified for this use because the use is illegal under current law. It is assumed that some properties would change use to cannabis production under the proposal. The current property types of these properties are unknown, so it is assumed that some properties would change classification while others would already be classified as class 3. Since class 3 property has the highest classification rate, properties that change classification would have a higher net tax capacity under the proposal.
- The proposal would shift property taxes onto properties changing to class 3 due to the proposal and away from all other properties, including homesteads.
- The shift in taxes away from homesteads would decrease state-paid property tax refunds beginning in fiscal year 2026.

*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, as amended, 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 \$700,000 in fiscal year 2024, \$3.2 million in fiscal year 2025, and \$6.0 million in fiscal year 2026.
- 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.

Minnesota Department of Revenue  
Tax Research Division  
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