



# MARIJUANA TAX PROP 1

APRIL 4, 2023 · COLUMBIA, MO

City of Columbia, Missouri

## Impact of recreational marijuana tax on the City of Columbia's revenue



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**Impact of recreational marijuana tax  
on the City of Columbia's revenue**

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# Background information

Overall the citizens in Columbia pay a total sales tax of 7.985%, out of which the City receives 2%. Sales of recreational marijuana in Missouri began Feb. 6, 2023. Currently, the City of Columbia only collects the 2% sales tax<sup>1</sup> on all purchases of cannabis products that it collects all retail goods. On the next municipal election day, **Apr. 4, 2023, the residents of Columbia will be asked if the City should impose an additional 3% tax on sales of recreational marijuana. Contingent on voter approval, recreational marijuana would then be subject to the standard 2% local sales tax as well as the additional 3% selective sales tax allowed for under Amendment 3. If approved, the City will implement the additional 3% sales tax Oct. 1, 2023.**

Columbia Marijuana Tax	Sales tax rate	Selective sales tax rate
Medical	2%	-
Recreational (adult use)	2%	<b>Additional 3%, If voters approve Prop 1</b>

## Example: Boulder, Colorado

Colorado was one of the nation’s first states to legalize the sale of marijuana for recreational purposes. Boulder, Colorado, collects a standard sales tax of 3.86% on all medical and recreational cannabis products and an additional 3.5% selective sales tax on recreational cannabis products. Note that their recreational tax revenues also include a 5% excise tax levied on transfers between cultivators and retailers as well as a small portion of the state marijuana sales tax collected within the city borders.

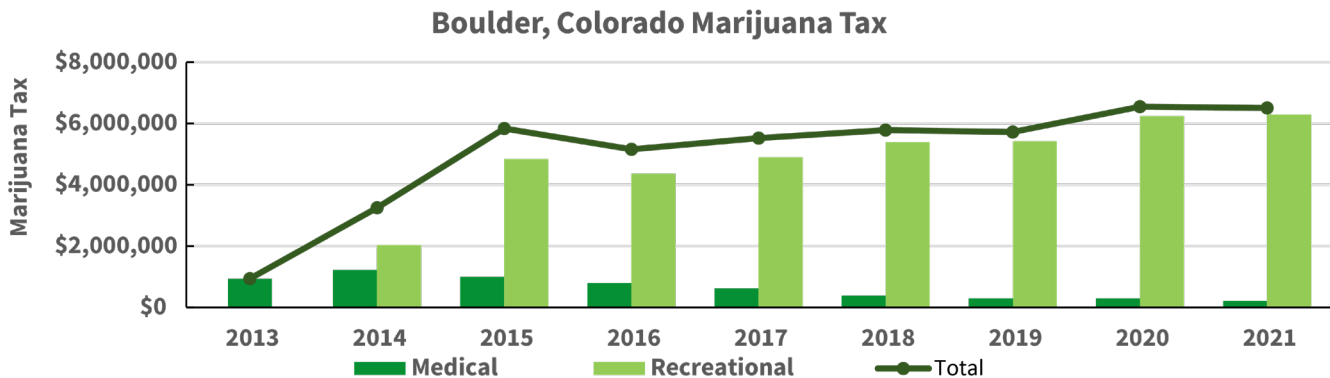


Figure 1. Historical trends Medical and Recreational Tax Collections for the City of Boulder, Colorado

Boulder is of similar size to Columbia and home to the University of Colorado. For these similarities, trends in cannabis sales tax revenue for Boulder were used to predict how the market may evolve in Columbia if the 3% selective sales tax is approved by voters. However, there are several circumstantial differences to address. Colorado was the first state to legalize recreational marijuana resulting in heightened sales tax revenue from visitors arriving to purchase it. Most of Missouri’s neighbors have not legalized recreational marijuana, but because of Columbia’s central location within the state, it is not likely to experience a major influx of cross-border customers. Medical marijuana cards expire after one year in Colorado, which could explain the fall in medical marijuana sales tax revenues following the first year of recreational legalization. As of Dec. 8, 2022, medical cards in Missouri require renewal after three years, which may make demand for medical marijuana more resilient.

<sup>1</sup> <https://www.como.gov/tax-breakdowns/>

# Assumptions

The market for medical marijuana is new to Missouri. In fiscal year 2022, Columbia approximately collected \$300,000 in sales tax revenue from licensed medical marijuana dispensaries. However, new dispensaries continue to be licensed and this number does not contain a full year of sales from all vendors. To reflect both the lower taxes paid by medicinal customers and the durability of medical marijuana cards in Missouri, it is assumed that demand for medical marijuana will remain constant at the fiscal year 2022 level in the short run.

In Boulder’s case, Marijuana-related sales tax revenue increased 3.5 fold between 2013 and 2014. However, we conservatively anticipate a much lower growth rate and compare three different rates for the increase in demand for fiscal year 2024. They are:

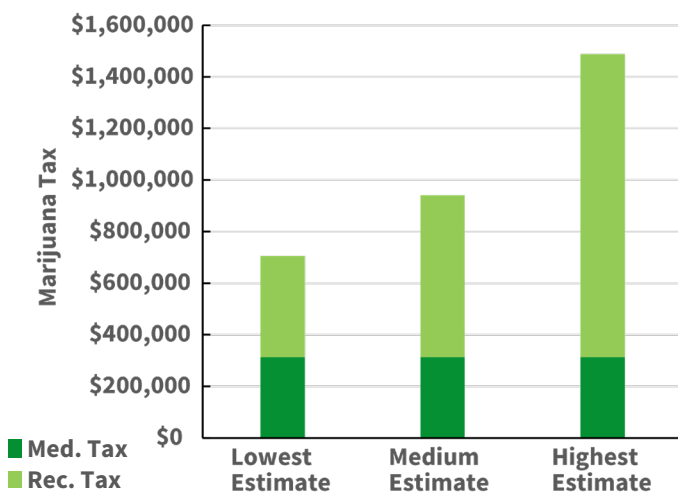
- Lowest Estimate: 50% increase in demand
- Medium Estimate: 80% increase in demand<sup>2</sup>
- Highest Estimate: 150% increase in demand

Furthermore, we forecast five-year, marijuana-related sales tax collection assuming a 10% increase in fiscal year 2025 and a 5% increase in fiscal year 2026 onwards.

# Revenue forecasting

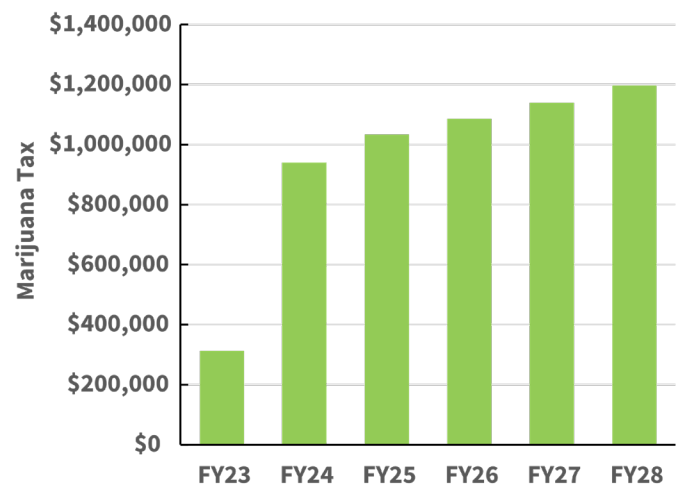
The projections for recreational marijuana sales tax revenue are based on the assumption that recreational sales will be mostly limited to local customers. Boulder’s initial jump in revenue indicates we should expect strong demand for recreational marijuana. However, in this case, the median estimate scenario only assumes an 80% increase in demand for recreational marijuana use. This contrasts with Boulder whose tax policy is relatively heavier than that of Columbia and whose extraordinary jump in demand is likely due to Colorado’s unique position as the first state to legalize recreational marijuana.

**FY 24 Potential Marijuana Tax Revenue**



**Figure 2. Columbia’s Prospective Marijuana Tax Revenue**

**Marijuana Tax Revenue Forecast**



**Figure 3. 5-year Marijuana Tax Forecast**

In Boulder, after a dramatic initial increase, cannabis-related sales tax revenue experienced a more modest growth rate averaging around 5% annually. If voters approve Proposition 1, we assume a similar growth rate for Columbia’s recreational marijuana tax forecast. The initial 80% increase from fiscal year 2023 to fiscal year 2023 results in a total projected revenue of just under \$1 million in fiscal year 2024. From there, a 10% increase to approximately \$1.03 million is projected for fiscal year 2025. For years succeeding fiscal year 2025, a growth rate of 5% is assumed with revenue projected to grow to around \$1.2 million in fiscal year 2028.

<sup>2</sup> This is based on the fact that in the first year, we may not see full implementation of this policy.

# Conclusion

Starting in 2023, recreational marijuana is available for sale in Missouri. If the selective sales tax is approved by the voters, recreational cannabis products will be subject to a combined city tax rate of 5% while medical cannabis products will be taxed at the standard 2%. The funds collected from the marijuana sales tax could be allocated toward public safety, public health and social services.



**Public Safety**



**Social Services**



**Public Health**

In Boulder, Colorado, sales tax revenue on recreational marijuana quickly surpassed revenue from medical marijuana and, while there are some important differences, it is not unreasonable to assume a similar trend may occur in Columbia. Using Boulder as reference, an initial increase of 80% in the total demand for cannabis products was forecasted as the median estimate scenario for Columbia. With the segmented tax regime on marijuana, this may come to a total sales tax revenue of approximately \$1 million to the City of Columbia for fiscal year 2024. If trends similar to that of Boulder continue in years beyond fiscal year 2024, then cannabis-related sales tax revenue could grow to around \$1.2 million by fiscal year 2028.

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