Episodes 89 - On Cannabis Taxes

This document provides resources for educators looking for ways to incorporate current events into their curriculum. Each podcast episode is approximately 20 minutes long and available on all major podcast outlets for free. This document provides opportunities for either short-answer/essay-style questions or discussion questions to delve further into topics. Email taxnerds@gmail.com for an answer key.

In this episode, we discuss the tax consequences of legalizing marijuana.

Concepts covered

- Sin taxes
- Cannabis taxation in the U.S.

Multiple choice & True False Questions

1. According to the podcast, which of the following are two reasons states tax cannabis use?
    a. To generate revenue.
    b. To comply with federal laws.
    c. To terminate illegal drug markets.
    d. To shape individuals' behavior around cannabis use.

2. How much tax revenue did Cannabis taxes generate between 2014 and 2024?
    a. $200M
    b. $2B
    c. $20B
    d. $200B

3. True or False: Tax revenues from cannabis sales are typically earmarked to fund social initiatives like education and crime prevention.
    a. True
    b. False

4. True or False: Cannabis use must be legal for states to collect tax revenue from its use or sale.
    a. True
    b. False

5. Which of the following is **not** type of cannabis tax discussed on the podcast?
    a. Percentage-of-price

b. Percentage-of-units sold
c. Potency-based
d. Weight-based

6. Match each type of cannabis tax with characteristic(s) that define it as discussed on the podcast:

a. Percentage-of-price	1. Paid by the seller at checkout
b. Potency-based	2. Paid by the cultivator
c. Weight-based	3. Simple to administer
	4. Most closely align with the goals of a sin tax
	5. Difficult to forecast revenue
	6. Can create a fixed-price barrier to the legal market

7. True or False: States can impose only one type of cannabis tax.
    a. True
    b. False

8. True or False: Cannabis sales are not typically subject to the state's general sales tax.
    a. True
    b. False

9. True or False: Cannabis businesses are subject to different rules for computing federal taxable income than other businesses.
    a. True
    b. False

10. Assume a Cannabis retailer reported the following during the year:

Sales revenue	$800,000
Cannabis taxes	$ 80,000
Advertising	$ 16,000
Cost of Goods Sold	$ 450,000
Rent expense	$ 36,000

Compute taxable income for the year:

a. $218,000
b. $234,000
c. $298,000
d. $350,000

Discussion questions and activities:

Choose a U.S. state where cannabis has been legalized and research the taxation of cannabis in the state. Consider the following:

- What type of cannabis tax does the state impose?
- Are cannabis sales also subject to the general sales tax?
- How much cannabis tax revenue was collected in the most recent fiscal year?
- How is cannabis tax revenue spent?

Discuss the pros and cons of IRC Code Section 280E, which limits the deductions and credits available to illegal businesses.