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Tax Free Toking: Marijuana's One Day Sale

September 16th is tax-free marijuana day in Colorado. Taxes are suspended on recreational marijuana for one day. The bizarre tax holiday is due to what Gov. Hickenlooper called a fiscal glitch in the state constitution. Colorado's tax move was not a reaction to New Jersey's [Chris Christie railing against taxes on marijuana](#). The Republican claimed that society should never legalize recreational marijuana even if it meant tax money. He even said [tax revenue from marijuana was blood money](#).

Now tax-free is the order of the day, and that brings out value buyers. The tax holiday should shave about \$20 off the price of a mid-grade ounce of marijuana. There could be huge crowds and hoarders. September 16, 2015 was picked because an end-of-year fiscal report is due to be certified the previous day.

A tidy \$700 million worth of legal cannabis was sold in Colorado in 2014, making the tax tally \$76 million. Pot taxes were projected to raise \$70 million in 2014. They actually raised \$58 million, but because overall tax collections exceeded projections, Colorado must ask voters for permission to keep the money. To comply with the requirement that the taxes revert to zero, lawmakers settled on a short one-day tax waiver.



(AP Photo/Gosia Wozniacka)

Colorado now has 380 recreational pot dispensaries and 480 licensed recreational pot growers. But even on September 16, marijuana won't be completely tax-free. A regular 2.9% sales tax still applies, as do [medical marijuana](#) taxes and local pot taxes. For pot retailers, the holiday poses a supply dilemma. They need plenty in stock to sell. But if they stock too much, they'll forego their own one-day waiver on the 15% excise tax they pay marijuana wholesalers.

[Colorado's Taxpayer's Bill of Rights](#)—also called [TABOR](#)—requires the state to issue refunds to taxpayers if the state's spending or revenue collections exceed the previous projections. To try to avoid the refund requirement, legislators introduced [HB 15-1367](#), creating a ballot initiative to allow Colorado voters to approve of the state keeping the \$58 million in marijuana revenue.

Regardless of whether the ballot initiative passes, Colorado did lower the sales tax on marijuana from 10% to 8% beginning in July 2017. The tax holiday is expected to cost about \$100,000, plus \$3.6 million for a one-day elimination of the 15% excise tax. Not long ago, Colorado had a disappointing first year of tax collections from marijuana. But now, officials say the [Colorado marijuana tax revenues are up nearly 100%](#).

If [voters agree](#) to let Colorado spend the tax money, the earmarks are pretty clear. Colorado has already approved [Proposition AA](#), which outlines how marijuana taxes would be spent. If voters vote no, Colorado will have to issue refunds to growers and users. Some would go [via](#) the state's [tiered refund system](#), with \$19.7 million returned to cultivators who pay the 15% wholesale excise tax rate. Plus, on January 1, 2016, the government will reduce the sales tax rate on marijuana from 10% to 0.1% until the reduction in collections equals \$13.3 million or June 30, whichever occurs first.

2013's proposed [Marijuana Tax Equity Act](#) would end the federal prohibition on marijuana and allow it to be taxed—at a whopping 50%. The bill would impose a 50% excise tax on cannabis sales, plus an annual occupational tax on workers in the [field of legal marijuana](#). More recently, Rep. Jared Polis (D-Co.) and Rep. Earl Blumenauer (D-Or.) have suggested a phased 10% rate [here](#), ramping up to 25% in five years. Yet in New Jersey, Governor Chris Christie has said society should never legalize recreational marijuana even if that would allow you to tax it liberally. He even said [tax revenue from marijuana was blood money](#).

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