

## Pricing of legal cannabis and taxation

Taxation can be an important tool for deterring cannabis misuse and supporting prevention strategies.

### Why it matters

A recent report from University of Washington and Washington State University researchers notes that “the THC content of cannabis products contributes to adverse health effects in a dose-response manner.” In other words, **products with a higher concentration of THC (the chemical in cannabis that causes the sensation of being “high”) are more associated with harms** such as emergency department visits and hospitalizations, co-mingled drug use, driving or working under the influence, traffic accidents, and driving and work-related injuries.

The increased risk from using higher potency cannabis products is particularly concerning for young users and those with certain pre-existing mental health conditions. Harms are also likely to disproportionately affect marginalized populations (e.g., low income, BIPOC, LGBTQ+) who choose high-potency products because of their lower costs, glamorization of their use through social media, and perceptions that cannabis use is safe.<sup>1</sup>

Further, calls to U.S. Poison Control approach 29,000 for cannabis product exposures annually; these calls are the highest and most increasing call category in legalized states.<sup>2</sup>

The burden on the health care system, and other factors caused by alcohol, tobacco, and illicit drug use are estimated to cost the U.S. approximately \$600 billion annually.<sup>3</sup>

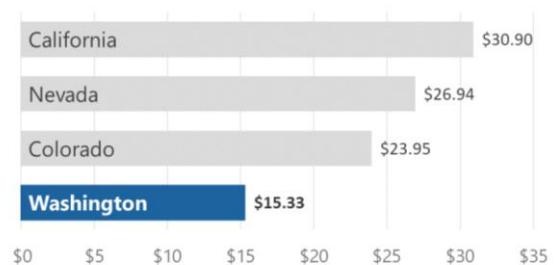
### Taxation as a public health tool

People make spending decisions, in part, based on price. Generally, data indicate that a more expensive product is less likely to be purchased and consumed. Youth are shown to be more price-conscious than adults 18 and older.<sup>4</sup>

Taxation is a tool policymakers can use to influence prices. If taxes make total cannabis prices higher, individuals may buy and use fewer of these products.<sup>5,6</sup> Resulting tax revenue can be used to support programs that prevent and treat cannabis use disorder and its consequences.

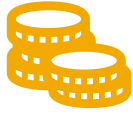
There is some concern that if cannabis taxes (and overall prices) are too high, individuals may turn to unregulated, illegal cannabis sellers. However, research shows that when cannabis prices change, consumers tend to substitute across products rather than switch retailers.<sup>a,5,6</sup> This suggests that consumers could be unlikely to shift to black-market sellers when faced with a price increase.

Average price per cannabis product<sup>7</sup>



Currently, as shown in the graph above, Washington State has one of the lowest average prices per cannabis product across states,<sup>7</sup> despite our high cannabis tax rate. This suggests that there is room to consider the amount and type of taxes that customers pay for cannabis products.

<sup>a</sup> Reliable seed-to-sale tracking in Washington ended in 2017, therefore analyses using this database cover data from the beginning of retail sales in 2014 through 2017.



## Cannabis tax system

Currently, when someone purchases nonmedicinal cannabis in Washington, they pay a tax of 37% of the purchase price.

**One alternative to a flat-rate tax on retail price is a tax based on product weight.** Taxes based on weight or quantity are common for other substances. For example, many taxes for alcohol depend on both alcohol content and volume, and most taxes for cigarettes are per stick/pack.<sup>b</sup> However, there is a potential risk that a weight-based tax system would drive consumers to purchase smaller products with higher potency.

**Another option is taxing based on product potency.** A major advantage of both weight- and potency-based tax systems is that they are generally more stable than price-based taxes. Tax revenue does not fluctuate with changes in the price of cannabis products.

Potency-based taxes may also be the best at addressing the harms of cannabis misuse. Under this model, higher potency products would be more expensive, reflecting the additional public cost associated with higher THC consumption. Implementing weight- and potency-based taxation is more complicated than price-based taxation.<sup>8</sup> Weight-based taxation requires states to establish weight categories, to account for the fact that (for example) fresh marijuana plants weigh more than dried. Potency-based taxation requires reliable tests of THC concentration, which are not always available.

Pricing and taxation are important tools in creating a balance between consumer needs and public health and safety. Policymakers have multiple options for achieving this balance.

**The Northwest Prevention Technology Transfer Center has developed a cannabis toolkit for community members and policymakers.**

**This toolkit provides information about cannabis regulatory frameworks and policies that can prevent youth cannabis use and unsafe adult use.**

## Additional information

More information can be found in these [research briefs](#). Questions: [prevention@hca.wa.gov](mailto:prevention@hca.wa.gov)

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<sup>b</sup> Alcohol and cigarette taxes can be levied by federal, state, and local government.

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