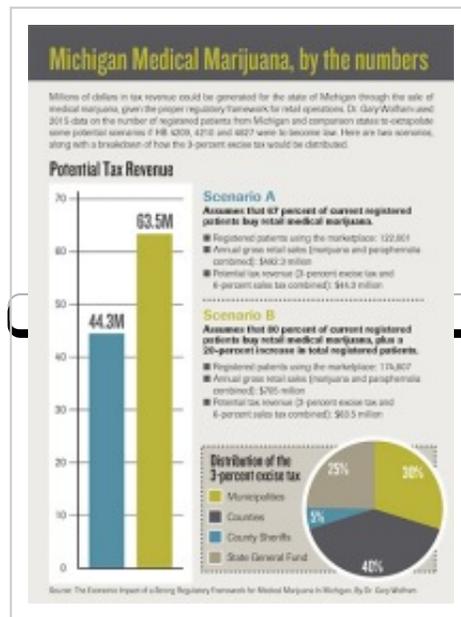


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Creating retail market for medical marijuana would drive tax revenue, job creation, report says

Written by **Josh Veal**

Establishing a regulatory framework for the sale of medical marijuana could generate between \$44.3 million and \$63.5 million annually in tax revenue for Michigan, according to a new report.

Over time, the industry could create 10,000 jobs through processing plants, growth and testing facilities, delivery services, and dispensaries.

For the report, Dr. Gary Wolfram, director of economics at **Hillsdale College**, based his findings on a statewide free market plan proposed in a three-bill package currently before the Michigan Legislature. If passed, the legislation would set in place a regulated, private and taxable marketplace for the sale of medical marijuana.

While Michigan voters opted to legalize the drug for medicinal purposes in 2008, its sale has since remained illegal. Currently, law-abiding patients' only options are to grow their own medical marijuana or work with a registered caregiver. Many patients don't have the ability to cultivate the plants properly, and the caregiver system presents its own issues, according to Wolfram.

"How do you find a caregiver and how regulated are they?" he said. "How do you know they have the right THC content? If it's going to be difficult to get a caregiver anyway, why not just go out on the black market? What this (legislation) would do is bring it all out of the shadows."

While patients can "reimburse" caregivers for their services, those transactions aren't technically

considered sales. As such, they remain untaxed by the state. The framework proposed by House Bills 4209, 4210 and 4827 would establish a 3-percent excise tax on retailers, along with the standard 6-percent sales tax.

Currently, approximately two-thirds of the 182,091 registered patients in Michigan use the caregiver system.

Wolfram assumes these patients would become retail customers, purchasing one ounce per month, the average quantity for registered patients across the state. At an average price of \$285 per ounce, combined with the increase in paraphernalia sales seen in comparison states of Colorado and Nevada, the report estimates annual gross retail sales at \$492.3 million

Altogether, with the combined sales and excise taxes at 9-percent, the revenue for the state comes out to \$44.3 million annually. Wolfram considered the number to be conservative, stating that “this is just assuming there’s no expansionary effects.” The marketplace could potentially coax eligible users out of the black market with a more consistent and higher quality product.

“This legislation doesn’t add anything to how you become a patient,” Wolfram said. “It just says that if you are a registered patient, you’ll have a clear place to buy marijuana. Some people haven’t registered because they’re going to the black market. We assume more people will go to retail.”

With this in mind, the report offers an alternative scenario in which 80 percent, rather than 67 percent, of registered patients use the marketplace, while the total number of all registered patients also increases by 20 percent. Under those circumstances, Michigan would receive nearly \$63.5 million annually from 174,807 active consumers.

The legislative package received overwhelming bipartisan support in the House, with roughly 90 percent of attending representatives voting in favor of each bill.

Rather than getting its hands on the projected revenue, state government’s primary driver for the bills may be the legal obscurity of the current system, according to Wolfram. His report mentions that the Michigan Supreme Court has urged lawmakers multiple times to establish a framework, having “ruled on nine separate occasions that the (current) law contains too many loopholes.”

Since 2008, several dispensaries have opened their doors around the state under legally ambiguous circumstances, with local law enforcement generally choosing to turn a blind eye. In West Michigan, however, several locations were raided and shut down in 2015, according to reports.

“That comes from inconsistent enforcement and a real widespread disparity in how different particular pockets of the state treat the legislation,” said Joe Voss, senior counsel for **Clark Hill PLC** of Grand Rapids. “From a legal standpoint, the legislation will definitely help advise people about what they can and cannot do around the medical marijuana business.”

Still, outside of the Legislature, there is opposition to a heavily regulated medical marijuana marketplace. Some patients and caregivers fear that the tiered structure of the proposed framework would make operations difficult for small business owners and affect access financially.

“You have to support a regulatory system that needs infrastructure, and it can drive up price,” Voss said. “People do have black market systems set up already, and it’s not necessarily easy or financially beneficial to switch over to compliance.”

A House Fiscal Agency analysis mentions similar concerns. The report's authors acknowledge that patients could continue to self-grow or utilize the black market, "rather than pay potentially higher prices charged by provisioning centers."

Until the legislation clears the Senate floor and gets presented to Gov. Rick Snyder for his signature, its impact remains uncertain. Wolfram expects that the bills will pass soon, especially in the face of multiple infrastructure crises on the east side of the state.

"There's this one city that has some water problems and another one with a school district that's not doing too well," he said, referring to the issues in Flint and Detroit, respectively. "I wouldn't suspect it would be much longer, if they're sitting with this much money that they could be gathering."

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