Cities Need SB 864

Cities support SB 864 to allow local governments to increase local marijuana taxes from the current maximum of 3% up to a possible 10%.

With the passage of Measure 110 there will be a massive shift in the allocation of state marijuana tax distributions.

- The state imposes a 17% tax on recreational marijuana.
- Until the end of 2020 cities and counties each received 10% of net state tax revenues, so 20% total.
- Under Measure 110 cities and counties will split $2.25M quarterly, or $9M annually, which is not indexed and will not grow with the market.

Cities and counties will lose $49.9M in state marijuana revenue for the 2021-23 biennium, a reduction of over 73%.

- The May OEA forecast projects almost $339.4M in state tax revenue (net of administrative cost) for the 2021-23 biennium.
- Before Measure 110 cities and counties would have each received 10%, or about $67.9M total for the biennium, instead locals will receive $18M.

Oregon would still have recreational marijuana taxes at least 10% lower than other West Coast states under SB 864.

- Even with a local tax of 10% and a state tax of 17% Oregon will be well below Washington (over 45% possible including general sales taxes) or California (about 40% possible *not including* cultivator tax).

City revenues are struggling due to the pandemic, Measure 110 will make these problems worse. Cities need SB 864.

May 20, 2021

Industry claims about the effect of the local tax on businesses are greatly overstated.

- The local marijuana tax is a tax on consumers, not businesses, this tax will be passed through by the retailer.
- Industry numbers on total tax rates speak to an issue with federal income tax regulations, not local sales taxes. LOC has lobbied, and will continue to lobby, for changes at the federal level to allow income tax deductions of ordinary business expenses by marijuana businesses.

Unbiased academic studies contradict industry economist claims on elasticity of demand.

- One industry economist has projected increasing taxes would significantly decrease demand and result in an overall loss of tax revenue. This is similar to the industry argument we heard when Oregon decided to increase the cigarette tax.
- Washington State provides the best empirical example of a state increasing their marijuana tax, academic research papers by the University of Oregon and UCLA/Yale do not support the bill opponent's projections.[1] Oregon will still be well below the overall Washington tax rate after SB 864, and well to the left of the peak of the Laffer curve, the point at which taxes do not generate additional revenue.

Logic does not support industry claims about a rush to the black market.

- Most literature on the black market focuses on cross border sales into states that prohibit legal marijuana, keeping current tax levels on sales inside Oregon does nothing to address that issue.
- Price sensitive consumers can always move to lower priced products or avoid the marijuana tax entirely by growing their own marijuana.
- Oregon marijuana prices inclusive of tax are some of the lowest in the country and will remain so after SB 864.
- Price is not the only consideration, Oregonians accustomed to patronizing safe well-lit stores with regular business hours and a variety of products will likely be reluctant to return to the days of having to meet up with illegal dealers.

LOC Contact
Mark Gharst (503-991-2192 or mgharst@orcities.org)

[1] The Taxation of Recreational Marijuana: Evidence from Washington State, August 2017
Taxation and Market Power in the Legal Marijuana Industry, October 2018