

Three States Raise Cannabis Taxes Amid Ongoing Rate Debate

Three States Increase Cannabis Taxes Amid Growing Budget Shortfalls and Federal Spending Cuts

Cannabis Industry Faces Mounting Pressure as States Seek New Revenue Sources

Three U.S. states are increasing cannabis taxes this year as part of their efforts to address rising budget deficits, while more tax hikes loom on the horizon for 2026. These fiscal moves arrive as states brace for reduced consumer spending and the fallout from President Donald Trump's expansive federal spending bill, which is squeezing local and state government budgets.

For the cannabis industry, these developments are more than just fiscal footnotes—they represent a growing dependence by governments on the regulated marijuana sector to fill budgetary gaps. Experts warn that this increasing reliance could have significant consequences for legal operators and the illicit market alike.

A Quick Glance: Where Cannabis Taxes Are Rising—and Where They Almost Did

Three states have officially passed cannabis tax hikes in 2024:

- California: Boosting its excise tax from 15% to 19% after a temporary freeze was blocked by lawmakers.
- Minnesota: Raising its cannabis tax from 10% to 15%, even though its legal adult-use market has yet to open.
- Maine: Increasing its excise tax from 10% to 14% in its maturing market.

Meanwhile, cannabis tax increases were proposed—but failed—in Ohio, Michigan, and New Jersey, where lawmakers and governors floated aggressive tax reform plans that faced strong opposition.

Policymakers Rely More on Cannabis Revenue to Patch Budget Holes

Marijuana taxes are increasingly becoming a fiscal lifeline for many states grappling with budget gaps. Once a niche or experimental source of revenue, cannabis is now viewed by some legislators as a dependable source of funds—even if that perspective overlooks the fragility of the still-evolving industry.

Patrick Oglesby, a cannabis taxation researcher at the Center for New Revenue, questioned the long-term strategy of piecemeal increases. “It’s like cutting off the cat’s tail one inch at a time,” he said, alluding to the cumulative damage of frequent hikes without enforcement or planning.

Varying Tax Rates Highlight Disjointed Cannabis Policy Across the U.S.

The ideal cannabis tax rate remains elusive. While some states find success with higher levies, others struggle under the weight of excessive taxation that drives consumers to the unregulated market.

- Washington State has the highest cannabis tax in the country at 37%, yet manages a relatively stable market.
- California, by contrast, is fighting a losing battle with illicit sellers, despite a lower excise tax.
- Missouri, a recent market entrant, boasts a 6% state tax, credited with helping exceed revenue expectations although additional local taxes often push totals above 20%.

According to researchers at Ohio State University, while higher rates can increase revenue, they also risk pushing consumers toward illicit sources. Their 2023 report emphasized that 17% is the national median, but local tax stacking often distorts the real-world financial burden on buyers.

Legal Cannabis Industry Suffers When Tax Increases Aren't Matched With Crackdowns on Illicit Operators

A significant concern among stakeholders is that increased taxation without adequate enforcement only fuels the illegal market. In California, despite efforts at statewide crackdowns, unlicensed dispensaries continue to flourish.

The message is clear: states must couple tax strategies with meaningful enforcement, or risk undermining the very revenue streams they hope to grow.

Red States, High Stakes: Even Conservative States See Cannabis as Revenue Gold

Missouri's approach illustrates how even traditionally conservative states are embracing cannabis revenue. The state's 6% excise tax appears deceptively low, but tax stacking at local and county levels can bring the total tax burden to over 22%.

This practice is being challenged at Missouri's Supreme Court, which is expected to weigh in this summer. Meanwhile, California's combined tax burden can approach 30% or more depending on local rates, further complicating efforts to bring consumers into the legal fold.

More Increases Coming? State Legislatures Face Tough Budget Choices in 2026

Fiscal pressures are far from over. Analysts forecast more budget stress in 2026 as states begin to feel the pinch from Trump administration budget cuts, particularly in Medicaid, SNAP (food stamps), and other aid programs.

State budgets are also being hit by stagnant consumer spending and underwhelming revenue from traditional sources such as sales taxes and property taxes. With limited options to borrow or run deficits unlike the federal government—state lawmakers are likely to once again turn to cannabis for relief.

Unless state governments diversify their revenue base or revisit outdated budget assumptions, cannabis taxes may continue rising.

Why Not Target Alcohol and Tobacco? Cannabis Still Seen as the Easier Target

Some experts question why states hesitate to raise taxes on alcohol or tobacco, especially when those industries contribute heavily to public health burdens. The answer may lie in lobbying power and established market protections.

That protection, combined with the perceived newness and social stigma still attached to cannabis, makes the marijuana industry an easier—and more politically palatable—target for new taxes.

The Takeaway: Cannabis Tax Policy Must Balance Growth With Revenue

Three states raising cannabis taxes in a single year could be the start of a wider trend. But whether this signals smart fiscal policy or short-sighted dependence remains to be seen.

As states navigate their unique budget realities and political climates, the lesson remains clear: Balance is key.

Excessive taxation without enforcement and clear regulation risks pushing consumers—and businesses—back underground. On the other hand, strategic, well-structured taxation supported by strong compliance measures could turn cannabis into a durable, dependable sector for state economies.

Either way, the tax policies enacted today will shape the cannabis industry's future for years to come.

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