

Michigan Lawmakers Approve 24% Wholesale Cannabis Tax

Michigan Lawmakers Approve New 24% Wholesale Cannabis Tax Amid Industry Backlash

Lawmakers Move Swiftly to Finalize State Budget and Avoid Shutdown

In a move that could significantly reshape Michigan's cannabis economy, state lawmakers have approved a sweeping budget proposal that introduces a new 24% wholesale tax on cannabis products. The measure, which passed both chambers of the state Legislature late last week, comes as part of a larger effort to finalize Michigan's fiscal year 2026 budget and avert a potential government shutdown.

The Michigan House approved the proposal 78–21 just hours after it was introduced last month, while the Senate narrowly passed it in a 19–17 vote on Friday. The rapid turnaround underscored the urgency lawmakers felt to close budget gaps and secure funding for infrastructure projects across the state.

The new tax, applied to wholesale cannabis transactions between growers, processors, and retailers, is expected to raise an estimated \$420 million annually. Lawmakers say the bulk of that revenue will go toward repairing and maintaining Michigan's aging roadways — a top priority for the Whitmer administration.

But while state officials celebrate the projected windfall, cannabis business owners and advocates warn that the move could have devastating consequences for an industry still finding its footing.

Industry Leaders Warn the New Tax Could Drive Businesses Out and Consumers Underground

Members of Michigan's cannabis industry are voicing strong opposition to the new tax, describing it as a financial blow to businesses already struggling with narrow profit margins, falling wholesale prices, and heavy regulatory burdens.

“It's like a gut punch to the industry,” said Al Williams, president of the Detroit Cannabis Industry Association, in an interview with Local 4 News. “We're already overtaxed from the federal government, we were already taxed heavily from the state government, and now to have a 24% increase, a lot of people are going to figure out whether this industry is worthwhile.”

Williams' comments reflect widespread concern that the additional tax burden will push legal operators to the brink, while inadvertently strengthening Michigan's illicit cannabis market, which continues to thrive due to lower prices and minimal regulation.

Many business owners note that Michigan already imposes a 10% excise tax on retail sales, in addition to the state's 6% sales tax, creating a total tax burden among the highest in the region. Adding a 24% wholesale tax, they argue, could make it nearly impossible for small and mid-sized businesses to compete.

Governor Whitmer Defends the Tax, Citing Regional Parity

Governor Gretchen Whitmer, a Democrat who has supported cannabis legalization since before it was enacted by voters in 2018, defended the new tax as both reasonable and necessary.

In remarks to local media, Whitmer said the 24% rate “actually makes us commensurate with other states in our region,” adding that Michigan's cannabis products will still be competitively priced compared to nearby states such as Illinois and Ohio.

“It is not out of line, and it's not even close to the tobacco tax on tobacco products or taxes on alcohol,” Whitmer said.

However, critics point out a key difference: unlike alcohol and tobacco companies, cannabis businesses cannot deduct normal operating expenses — such as rent, payroll, or marketing — from their federal taxes due to the continued classification of marijuana as a Schedule I controlled substance.

This restriction, codified under Section 280E of the federal tax code, effectively means that cannabis businesses are taxed on their gross income, not their profits — a burden unique to the industry.

Cannabis Advocates Say Policy Ignores Industry Realities

Cannabis advocates and policy experts argue that lawmakers are using the cannabis industry as a convenient revenue source without considering its unique challenges.

“Cannabis businesses are already operating under tremendous financial pressure,” said one Michigan policy analyst. “You've got federal tax restrictions, oversupply, price compression, and now a 24% wholesale tax. It's a recipe for consolidation and closures, not growth.”

Indeed, Michigan's cannabis market has been one of the most competitive in the nation. Wholesale flower prices have plummeted over the past two years, falling from around \$2,000 per pound in 2021 to less than \$900 per pound in 2024, according to state data.

This price collapse has been a boon for consumers but a nightmare for small producers, many of whom are now warning that the new tax could force them out of business entirely.

Revenue Targeted for Infrastructure, but Critics Question Fiscal Priorities

According to the state budget documents, the \$420 million in projected revenue from the new cannabis wholesale tax will be earmarked primarily for road and bridge repair, with a smaller portion going to public safety and administrative costs.

Proponents argue that the measure ensures cannabis revenues are used for tangible public benefits, echoing similar policies in other states that dedicate marijuana taxes to infrastructure or education.

However, critics argue that Michigan is balancing its budget on the backs of small businesses, and that the decision to allocate cannabis tax funds to roads — rather than reinvesting them into public health, addiction treatment, or social equity programs — undermines the original intent of cannabis legalization.

“This isn’t about fixing roads,” said one industry advocate. “It’s about squeezing a new revenue stream from an industry that’s already struggling to survive.”

Concerns Over Market Impact and Consumer Prices

Economists predict that the 24% wholesale tax will have a ripple effect throughout the cannabis supply chain. Growers and processors will likely raise their prices to offset the new costs, and retailers may have no choice but to pass those increases on to consumers.

That could make Michigan’s once-affordable cannabis market significantly more expensive, eroding one of its key advantages and potentially driving consumers back to unlicensed sources.

According to a 2024 University of Michigan study, the state’s illicit cannabis market still accounts for roughly 25% of total marijuana sales, despite legalization. Analysts warn that any further increase in retail prices could push that figure even higher.

Lawmakers Emphasize Fiscal Responsibility Amid Criticism

Supporters of the measure maintain that the new tax is a pragmatic step toward fiscal stability. With Michigan’s infrastructure needs estimated at billions of dollars annually, lawmakers have been under pressure to identify new, reliable sources of revenue without raising personal income or property taxes.

State Sen. Mike McDonald (D-Lansing) defended the move, stating, “We had to make tough choices. This tax ensures that everyone, including high-growth industries like cannabis, contributes to Michigan’s future.”

Still, lawmakers face growing pressure from industry leaders to revisit the measure or at least introduce targeted relief for smaller operators who may not survive the increased financial strain.

What’s Next: Implementation and Industry Response

The new 24% wholesale cannabis tax is expected to take effect January 1, 2026, pending administrative review and the development of enforcement guidelines by the Michigan Cannabis Regulatory Agency (CRA).

Industry groups, including the Michigan Cannabis Industry Association (MiCIA), have vowed to lobby for revisions before the law takes effect. Some advocates are also exploring potential legal challenges, arguing that the tax could violate fair commerce principles under the state constitution.

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