

Michigan Cannabis Industry Battles Proposed Tax Hike in Court

Michigan Cannabis Industry Challenges New 24% Wholesale Tax in Court

The Michigan Court of Claims on Tuesday heard pivotal arguments surrounding the constitutionality of a 24% wholesale tax on cannabis products—a controversial measure that has triggered intense opposition from operators across the state’s booming marijuana industry.

The new tax, scheduled to take effect Jan. 1, was enacted as part of Michigan’s fiscal 2026 budget and is projected to generate roughly \$420 million for road and infrastructure improvements. But industry leaders warn the increased levy could destabilize Michigan’s cannabis market at a time when oversupply and shrinking profit margins already strain operators.

Judge Sima Patel, who oversaw the hearing, said a ruling will be issued soon. Regardless of her decision, the case is widely expected to advance to the Michigan Supreme Court.

Industry Lawsuit Claims Cannabis Tax Violates the Michigan Constitution

According to the lawsuit filed by the Michigan Cannabis Industry Association (MCIA), the state’s newly enacted wholesale tax constitutes an unconstitutional amendment to the 2018 Michigan Regulation and Taxation of Marihuana Act (MRTMA).

The act established a 10% excise tax on adult-use cannabis purchases. The MCIA argues that any alterations to that voter-approved law require a supermajority vote in the Legislature, a threshold the new tax failed to meet.

“Michigan voters made their voices heard loud and clear in 2018 when they passed a citizen ballot initiative legalizing cannabis, and this 24% wholesale tax was imposed in violation of the provisions in the state’s constitution,” MCIA spokesperson Rose Tantraphol said following the hearing.

Industry advocates say the tax threatens approximately 47,000 jobs while incentivizing consumers to return to the illicit market an ongoing challenge even in mature cannabis states.

State Defends Tax as Separate From Voter-Approved Law

Representing the state, the Michigan attorney general argued that the tax stands apart from the voter-approved statute and does not amend MRTMA. Instead, state attorneys contend the wholesale tax functions

as an independent fiscal measure designed to address Michigan's long-standing infrastructure funding gaps.

The stakes are high: Michigan's cannabis market has grown into a \$3.2 billion-a-year powerhouse, the second largest legal market in the nation behind California. Industry observers caution that sudden cost increases could directly undermine the progress Michigan has made in moving consumers from the unregulated market into licensed retail stores.

Nationwide Pushback Builds Against Cannabis Taxation Policies

Michigan's legal fight is part of a broader wave of cannabis tax challenges emerging across the United States as operators grapple with low margins, tight capital conditions, and intense price compression.

In Los Angeles, licensed cannabis retailers recently launched what they described as a "tax revolt," refusing to pay certain local taxes in protest of high levies and insufficient enforcement against illegal shops siphoning off market share.

Elsewhere, federal tax policy continues to burden operators. Section 280E of the Internal Revenue Code prevents cannabis companies from deducting ordinary business expenses, a restriction long criticized for squeezing legal operators while illegal sellers enjoy lower operating costs.

States including New York and Illinois have also faced industry pushback for imposing steep cannabis tax rates that, according to operators, hinder growth and slow the transition to a regulated market.

For more information contact at info@cannabisriskmanager.com

Email: info@cannabisriskmanager.com | Phone: +415-226-4060

© Copyright 2025 Cannabis Risk Manager. All Rights Reserved