

## Background: Connecticut's State and Municipal Taxes on Recreational Cannabis

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### Issue

Briefly explain the state and municipal taxes on recreational cannabis. This report updates OLR Report [2021-R-0165](#).

### Summary

Under Connecticut's 2021 recreational cannabis law, sales of recreational cannabis are generally subject to three taxes: a state cannabis tax based on the product's type and total THC reflected on its label, a 3% municipal cannabis tax, and 6.35% state sales and use tax ([PA 21-1, June Special Session \(JSS\)](#), §§ 125-127, codified as CGS §§ 12-330// to -330mm). Cannabis for palliative (i.e., medical) use is exempt from all three of these taxes (CGS § 12-412(120), as amended by [PA 21-1, JSS, § 129](#)).

The taxes apply at the retail level to sales by cannabis retailers, hybrid retailers, and micro-cultivators. Revenue from the state cannabis tax is directed to the General Fund, a General Fund account (the Cannabis Regulatory and Investment Account), and two appropriated funds (the Social Equity and Innovation Fund and Prevention and Recovery Services Fund), according to a specified schedule. Revenue from the municipal cannabis tax becomes a part of the municipality's general revenue and must be used for designated purposes, including streetscape improvements and neighborhood developments, education or youth employment or training programs, and services for formally incarcerated individuals.

This report provides a brief overview of the new law's tax provisions. A full summary of these provisions is available on the Connecticut General Assembly's [website](#).

## State Cannabis Tax

### *What is the Tax Rate and Base?*

Connecticut imposes a state tax on retail sales of cannabis, cannabis plant material, and cannabis edible products by a cannabis retailer, hybrid retailer, or micro-cultivator, with certain exceptions. The tax rate is based on the product's type and total THC reflected on its label.

Specifically, the tax rate is:

- 0.625 cents per milligram of total THC for cannabis plant material;
- 2.75 cents per milligram of total THC for cannabis edible products; and
- 0.9 cents per milligram of total THC for cannabis, other than cannabis plant material or cannabis edible products.

The tax does not apply to (1) sales of cannabis for palliative use; (2) sales of cannabis by a delivery service to a consumer; or (3) transfers of cannabis by specified entities to a transporter for transport to other entities (e.g., transfers by cultivators to transporters for transport to product manufacturers or packagers).

### *Does State Sales Tax Apply?*

Yes. The state's 6.35% sales and use tax also applies to retail sales of cannabis, cannabis plant material, and cannabis edible products. The law specifically prohibits any exemptions under the state's sales and use tax law from applying to cannabis sales, other than exemptions for (1) sales of cannabis for palliative use (which is considered a tax-exempt nonprescription drug) and (2) transfers of cannabis to a transporter. It also prohibits anyone from purchasing cannabis on a resale basis. (By law, sales for resale are generally exempt from state sales and use tax.)

Under the law, any products containing cannabis or cannabinoids (manufactured or synthetic) are excluded from the nonprescription drug or medicine exemption and thus subject to sales and use tax.

### **Definitions**

**"Cannabis"** generally means all parts of a plant or species of the genus *cannabis*, whether growing or not. It includes its seeds and resin; its compounds, manufactures, salts, derivatives, mixtures, and preparations; CBD (cannabidiol) and similar compounds unless derived from hemp; any product made from hemp with more than 0.3% total THC concentration; manufactured cannabinoids; and certain synthetic cannabinoids.

**"Cannabis plant material"** means the cannabis flower, trim, and all parts of the cannabis plant or species, excluding hemp and a growing cannabis plant and its seeds.

**"Cannabis edible products"** are those containing cannabis or cannabis concentrate, combined with other ingredients, that are intended to be ingested.

**"Hybrid retailers"** are those licensed to sell both recreational cannabis and medical marijuana.

**"Micro-cultivators"** are those licensed to cultivate, grow, and propagate cannabis plants at an establishment containing between 2,000 and 10,000 square feet of grow space, before any authorized expansion.

# **Municipal Cannabis Tax**

## ***What is the Tax Rate and Base?***

Connecticut imposes a 3% municipal sales tax on the gross receipts from the sale of cannabis by a cannabis retailer, hybrid retailer, or micro-cultivator that must be administered in accordance with the state sales and use tax law. The municipal sales tax is in addition to the state cannabis tax described above and 6.35% state sales tax on such products. As with the state cannabis tax, the following are exempt from the municipal tax: (1) cannabis for palliative use, (2) sales of cannabis by a delivery service to a consumer, and (3) the transfer of cannabis to a transporter.

## ***How is the Tax Administered?***

Retailers and micro-cultivators must collect the tax from consumers at the time of sale and hold it in trust until remitted to the municipality. The law establishes a process by which the retailers and micro-cultivators report their sales to DRS, which in turn notifies municipalities of the tax amount due from each retailer and micro-cultivator. Municipalities then invoice each applicable retailer and micro-cultivator, which must remit their tax payments to each respective municipality. Late tax payments are subject to a penalty of 25% of the amount due and unpaid or \$250, whichever is greater, plus interest at 1% per month or fraction of a month from the due date to the payment date.

## ***Where Does the Tax Revenue Go?***

The tax amounts remitted by retailers and micro-cultivators become a part of the municipality's general revenue and must be used for any of the following purposes:

1. streetscape improvements and other neighborhood developments in communities where cannabis retailers, hybrid retailers, or micro-cultivators are located;
2. education programs or youth employment and training programs in the municipality;
3. services for individuals living in the municipality who were released from DOC custody, probation, or parole;
4. mental health or addiction services;
5. youth service bureaus and municipal juvenile review boards; and
6. community civic engagement efforts.

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## ***How is the Tax Administered?***

Retailers and micro-cultivators must collect the tax from consumers at the time of sale (except for the exempt sales described above). They must (1) file returns with the Department of Revenue Services (DRS) each month in which they may legally sell cannabis in the state and (2) remit the tax due with the return. Late tax payments are subject to a penalty of 25% of the amount due and unpaid or \$250, whichever is greater, plus interest at 1% per month or fraction of a month from the due date to the payment date.

## ***Where Does the Tax Revenue Go?***

Revenue from the state cannabis tax is directed to the General Fund, a new General Fund account, and two new appropriated funds, according to a schedule specified in the recreational cannabis law (PA 21-1, JSS, § 128, codified as CGS § 21a-420f, as amended by PA 22-146, § 4). Table 1 provides the revenue distribution schedule and briefly describes the purposes for which the new account and funds must be used.

**Table 1: State Retail Cannabis Tax Revenue Distribution**

Funds and Accounts	FY 22	FY 23	FYs 24-26	FYs 27-28	FYs 29+
<b>Cannabis Regulatory and Investment Account:</b> to pay costs state agencies incur in implementing the state's recreational cannabis law	100%	100%	-	-	-
<b>General Fund</b>	-	-	15%	10%	-
<b>Social Equity and Innovation Fund:</b> to fund appropriations for (1) access to business capital, (2) technical assistance for business start-ups and operations, (3) workforce education, and (4) community investments	-	-	60%	65%	75%
<b>Prevention and Recovery Services Fund:</b> to fund appropriations for substance abuse prevention, treatment, and recovery services and substance abuse data collection and analysis	-	-	25%	25%	25%