



## Connecticut Center for Economic Analysis Cannabis Legalization Study: Key Findings

In its comprehensive September 2020 report, the Connecticut Center for Economic Analysis (CCEA) examined the economic impacts of legalizing and taxing cannabis on Connecticut's tax revenues, GDP, and jobs.<sup>[1]</sup> CCEA made projections based on two different approaches to taxation: one drawn from Gov. Ned Lamont's 2020 bill, S.B. 16, which applied both a weight-based tax and state and local sales taxes,<sup>[2]</sup> and the other applying a percent-based tax totaling 26.35% to the state and 3% to localities.

CCEA found that no matter which tax regime the state chooses, and whether or not it spends or saves the new revenues, legalization will generate significant job creation, strong growth in GDP, and hundreds of millions in new tax revenues per year once the market is mature. It also noted that its projections are conservative. The economic growth could be substantially higher with a quick rollout of sufficient licenses and if Connecticut begins legal cannabis sales before New York and Rhode Island.

- Over the initial start-up year and the first five years of legal sales, Connecticut's adult-use cannabis industry will generate \$622 to \$669 million in direct tax revenue for the state, depending on the tax regime.
- Adding in additional revenue from induced and indirect activities raises aggregate state revenues over the six years to \$793 to \$840 million.
- In the likely event that the state uses cannabis tax revenues to expand services and/or to curtail cutbacks arising from extraordinary expenditures and diminished revenue due to COVID-19, CCEA estimates the total new state revenue for these six years will reach \$898 to \$962 million.
- Depending on the tax regime, legalization would generate direct state tax revenues between \$35 to \$48 million in the first year to \$188 to \$223 million in year five. Including indirect and induced impacts, CCEA predicts total state tax revenues reaching \$235 to \$314 million in the fifth year.
- A 3% local tax, envisioned in both models, would produce new revenues for municipalities projected at more than \$70 million over five years, with over \$21 million in year five alone.
- New and preserved employment would range from 5,669-7,418 in year one of legal sales to 10,424-17,462 in year five. This includes new cannabis industry jobs, jobs in ancillary industries, and preserved jobs that would otherwise be lost due to budget cuts and a smaller economy.
- Annual GDP growth resulting from legalization would range from \$186 to \$214 million in the start-up year to \$953 to \$1,737 in year five of sales, depending on the tax method and whether the state saves or spends the revenue.
- By 2026, the legalization of marijuana will generate additional income taxes of \$29 to \$55 million to the state depending on the chosen tax structure and whether Connecticut spends or saves the new revenue. Of the personal income taxes raised, 23.5% goes to the state government and the remainder goes to the federal government.

CCEA concludes that in the face of the challenge of recovering from the COVID-19 pandemic, the legalization of cannabis offers a path to a stronger recovery.

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[1] Available at [www.mpp.org/CCEA](http://www.mpp.org/CCEA)

[2] SB 16 proposed per-gram taxes of \$1.25 on dry flower and \$0.50 on trim, in addition to the usual 6.35% state sales tax and municipal tax rates of 3%. It also included a \$0.28 tax per gram on wet cannabis, which is excluded from this study due to data shortcomings.