

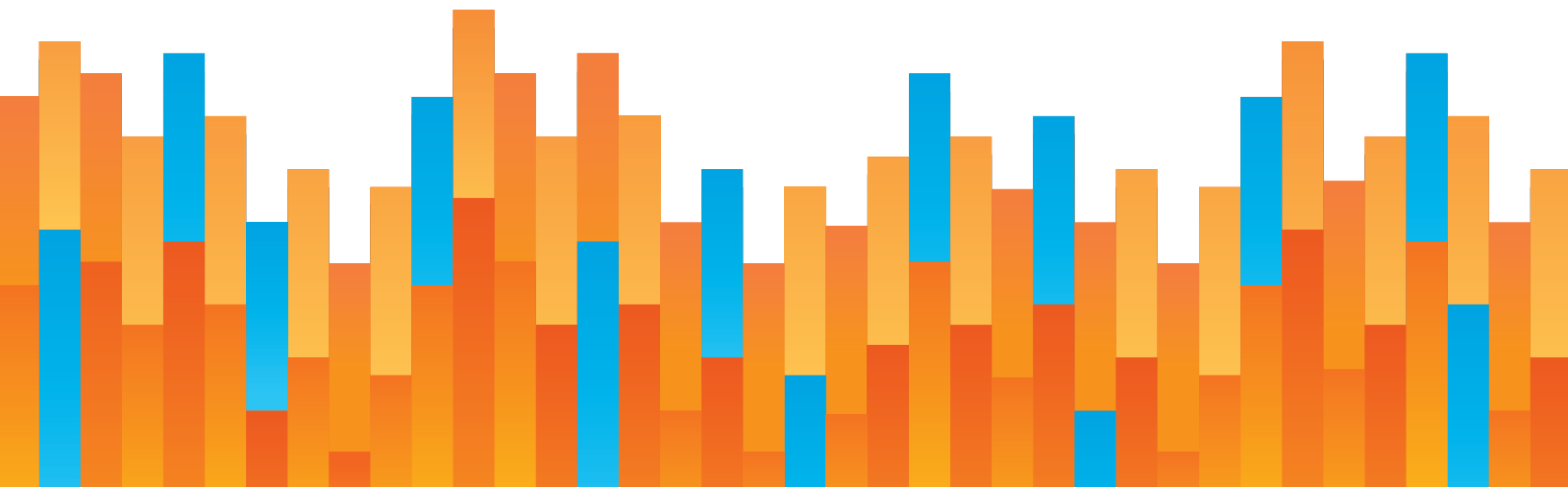


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# DO MARIJUANA LICENSE FEES KEEP THE BLACK MARKET GOING?

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July 2020





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## PART 1

# MARIJUANA LICENSE FEES: COVERING COSTS OR RAISING REVENUE?

Occupational license fees are commonplace in industries that require government permission to do business. Similarly, establishment licenses are granted to start a certain type of business and generally cost more than individual licenses. In the marijuana industry, license fees for both the marijuana business and individual employees are much more expensive than the fees in other industries. Because the marijuana industry lacks financing options, license fees act as a serious barrier to entry.

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License fees for marijuana are one method of covering the costs of application review and enforcement. The Oregon Liquor Control Commission (OLCC) insists that the “OLCC is

currently authorized only to collect fees necessary to recover the costs of administering the program.”<sup>1</sup> Yet in most states, high license fees make fulfillment of this promise seem implausible. Government’s quest to collect as much revenue as possible from new marijuana industries creates an incentive to raise license fees.

In Ohio, for example, medical marijuana annual license fees of \$200,000 a year for a level one cultivator’s license,<sup>2</sup> \$20,000 annually for a testing laboratory license,<sup>3</sup> and \$100,000 a year for a processor’s license<sup>4</sup> are partially justified to repay the \$1.8 million regulatory agencies borrowed from the state to develop the medical marijuana program.<sup>5</sup> It was estimated that the state would raise \$11 million in fee revenue before the medical program even launched.<sup>6</sup> The state insisted that all fees were necessary without providing any explanation for how fee revenue is appropriated.<sup>7</sup>

Perhaps the most striking example is a nonrefundable application fee of more than \$60,000 for one of a few medical marijuana licenses available in Florida. Other states with high application fees include Connecticut and Illinois at \$25,000 and Minnesota at \$20,000.<sup>8</sup>

In Colorado, the state with the best records available, marijuana revenue is distributed according to a statutory scheme. The majority of tax revenue is deposited in the Marijuana Tax Cash Fund (MTCF) and all license renewal and application fees are deposited into the Marijuana Cash Fund (MCF).<sup>9</sup> These two funds are the only funding sources for the Marijuana Enforcement Division (MED),<sup>10</sup> a division of the Department of Revenue tasked

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<sup>1</sup> “OLCC Marijuana Program: Frequently Asked Questions (all).” *Oregon Liquor Control Commission*. [https://www.oregon.gov/olcc/marijuana/Documents/MJ\\_FAQS.pdf](https://www.oregon.gov/olcc/marijuana/Documents/MJ_FAQS.pdf)

<sup>2</sup> “Cultivation.” *Ohio Medical Marijuana Control Program*. <https://www.medicalmarijuana.ohio.gov/cultivation>

<sup>3</sup> “Testing.” *Ohio Medical Marijuana Control Program*. <https://www.medicalmarijuana.ohio.gov/testing>

<sup>4</sup> “Processing.” *Ohio Medical Marijuana Control Program*. <https://www.medicalmarijuana.ohio.gov/processing>

<sup>5</sup> Borchardt, Jackie. “Ohio Medical Marijuana Panel Questions High License Fees.” *Cleveland.com*. Jan. 27, 2017. [https://www.cleveland.com/metro/index.ssf/2017/01/concerns\\_about\\_ohio\\_medical\\_ma.html](https://www.cleveland.com/metro/index.ssf/2017/01/concerns_about_ohio_medical_ma.html)

<sup>6</sup> Tucker, Randy. “How High? Ohio’s Medical Weed Program Will Bring in \$11 Million in Fees Even Before Sept. Launch.” *Cincinnati.com*. June 1, 2018. <https://www.cincinnati.com/story/money/2018/06/01/how-high-ohios-medical-weed-fees-among-steepest-country/663419002/>

<sup>7</sup> *Ibid.*

<sup>8</sup> Skodzinski, Noelle. “Your State-by-State Guide to Cannabis Cultivation Business Application and Licensing Fees.” *Cannabis Business Times*, February 28, 2019, <https://www.cannabisbusinesstimes.com/article/state-state-guide-marijuana-application-licensing-fees/>.

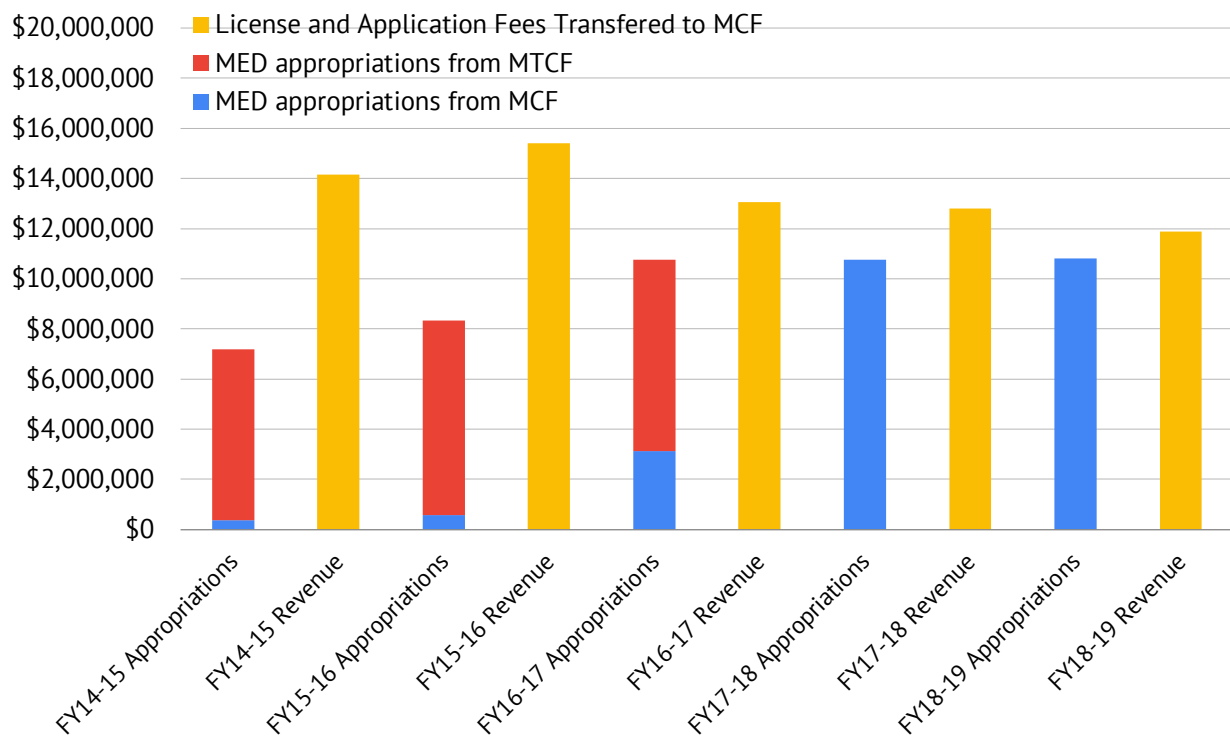
<sup>9</sup> Kampman, Carolyn. “Staff Budget Briefing FY 2019-20: Marijuana Policy Overview.” *Joint Budget Committee*. Nov. 15, 2018. [https://leg.colorado.gov/sites/default/files/fy2019-20\\_marbrf.pdf](https://leg.colorado.gov/sites/default/files/fy2019-20_marbrf.pdf)

<sup>10</sup> Email correspondence with Colorado General Assembly.

with administering the state’s marijuana program. The MCF is currently meant to support the activities of the MED, and the MTCF supports other Department of Revenue activities associated with collecting and distributing marijuana revenue.<sup>11</sup>

Yet, as shown in Figure 1, revenue from license applications and fees transferred to the MCF always exceeds MED appropriations—although the difference has become much less pronounced in recent years.<sup>12</sup>

**FIGURE 1: REVENUE FROM MARIJUANA LICENSE FEES COMPARED TO ENFORCEMENT APPROPRIATIONS IN COLORADO**



**Source:** Colorado Department of Revenue and email correspondence with Colorado General Assembly

The blue bar shows appropriations to the MED from the MCF. Since fiscal year 2017–18, the MED has received appropriations only from the MCF. The red bar shows the appropriations to the MED from the MTCF from prior years. In contrast, the yellow bar shows revenue from license and application fees transferred to the MCF in each fiscal year.

<sup>11</sup> Kampman. “Staff Budget Briefing FY 2019-20.”

<sup>12</sup> Appropriations provide the legal authority for spending, but may not always match the final expenditure amount recorded by the state. Email correspondence with Colorado General Assembly.

License fee revenue that is not appropriated remains in the MCF.<sup>13</sup> While appropriation decisions and transfers to the MCF are not made simultaneously, it is clear that each year Colorado has collected more money in license fees than was deemed necessary to enforce the adult-use program.

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<sup>13</sup> Email correspondence with Colorado Department of Revenue.

## PART 2

# CONSEQUENCES OF LICENSE FEES

While all business endeavors have uncertainty, the marijuana business has extra risks including that it remains illegal under federal law. Expensive licenses for marijuana can be especially burdensome for would-be entrepreneurs who cannot access traditional bank credit. Lack of access to bank credit, small business loans or other sources of debt capital means marijuana startups are entirely dependent on capital contributions from the entrepreneur or private equity markets. Many aspiring entrepreneurs may have difficulty soliciting equity investments if they have few moneyed connections or lack knowledge about federal and state securities laws, with which they must also comply. Consequently, onerous license fees rapidly consume the capital available to most entrepreneurs before they even begin to build out a business. This hurdle needlessly limits the pool of potential entrepreneurs to those with extensive personal resources and legal knowledge or a wealthy personal network. In particular, license fees tend to crowd out individuals from more modest backgrounds, including those some policymakers have expressly sought to include within the industry through social equity programs.<sup>14</sup>

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<sup>14</sup> Nurin, Tara. "Social Equity Advocates Push to Diversify the Cannabis Industry." THC Net, April 8, 2020, <https://thcnet.com/news/social-equity-advocates-push-to-diversify-the-cannabis-industry>.





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Policymakers must recognize the abnormal financial burdens marijuana entrepreneurs must already bear. Most are subject to excise taxes at both the state and local levels and marijuana businesses face a federal tax penalty because they cannot write off ordinary business expenses. Therefore, marijuana businesses effectively pay federal taxes on their gross margin rather than net income.<sup>15</sup> Growers also have a difficult time obtaining crop insurance and could face catastrophic losses if a crop is contaminated by pests, mold or other hazards.<sup>16</sup> Adding an additional yearly payment to these burdens for the simple privilege of doing business may deter many from market. To the extent that happens, the black market will remain the chief supplier of marijuana.

It is important to weigh any revenue raised by marijuana license fees against the money that must now be spent policing the illicit market. Even when license fees are only meant to fund regulation and enforcement, the consequences of fees cannot be ignored. Agency decisions to add more programs to regulatory enforcement and administration increase the need for funds. The benefits of these programs must be weighed against the cost to business owners and employees. For example, licensees who have paid large licensing fees may want and expect greater enforcement against the black market because they will need to charge higher prices to recover the costs of licensing. However, with a lower fee burden, licensees may be able to compete more closely on price with black market alternatives.

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<sup>15</sup> Lawrence, Geoffrey and Purnell, Spence. "Marijuana Taxation and Black Market Crowd-Out." Reason Foundation policy brief, January 31, 2020, <https://reason.org/policy-study/marijuana-taxation-and-black-market-crowd-out/>.

<sup>16</sup> Weed, Julie. "California Marijuana Start-Ups, Shut Out From Banks, Turn to Private Backing." *The New York Times*. Dec. 27, 2017. <https://www.nytimes.com/2017/12/27/business/smallbusiness/california-marijuana-start-ups.html>

In Colorado, for example, in fiscal year 2017–18, \$10 million was paid from the MCF to the state Department of Agriculture to build a laboratory related to pesticide testing for marijuana products.<sup>17</sup> Colorado’s testing structure is abnormal because most states license private certified labs to perform testing rather than assuming that task directly. For fiscal year 2018–19, though, appropriations from the MCF paid for programs such as new marijuana research licenses and additional background checks.<sup>18</sup> The expensive license fees that fund these programs force many would-be-entrepreneurs to stay in the black market. As a result, the state must continue to spend money on black market enforcement as seen in the nearly \$1 million appropriated from the MCF in fiscal years 2019–20 and 2020–21 to pay new employees in the Colorado Bureau of Investigation as “part of a statewide enforcement initiative to address illegal and unregulated residential (black and gray market) cultivation of marijuana.”<sup>19</sup> Perhaps collecting less money from fees and thus lowering the price of entering the legal marijuana market would be a better way to address unregulated cultivation.

Even more perverse is the Massachusetts Cannabis Commission’s nearly \$8 million budget for fiscal year 2019—a \$4 million increase from the prior year.<sup>20</sup> Of this budget, \$300,000 is spent on community outreach programs to help include minority communities and those disproportionately impacted by past marijuana arrests in the state’s legal program.<sup>21</sup> This budget is paid entirely from the Massachusetts Marijuana Regulation Fund<sup>22</sup> which is funded by marijuana license and application fees.<sup>23</sup> Illinois has a similar program that requires new cultivation and dispensary businesses to donate to a social equity program in order to be licensed.<sup>24</sup> Additionally, new businesses must pay into a business development fund, which will be used to fulfill a few statutorily authorized tasks such as providing low

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<sup>17</sup> Email correspondence with Colorado General Assembly.

<sup>18</sup> “Appropriations Report Fiscal Year 2018-2019.” *Joint Budget Committee*.  
[https://leg.colorado.gov/sites/default/files/fy18-19apprept\\_0.pdf](https://leg.colorado.gov/sites/default/files/fy18-19apprept_0.pdf)

<sup>19</sup> “Appropriations Report Fiscal Year 2019-2020.” *Joint Budget Committee*.  
<https://leg.colorado.gov/sites/default/files/fy19-20apprept.pdf>

<sup>20</sup> Plaisance, Mike. “Nearly \$8 Million Budget for Massachusetts Marijuana Oversight Board Includes Over 40 Full-Timers.” *MassLive*. Jan. 30, 2019.  
[https://www.masslive.com/news/2018/07/nearly\\_8\\_million\\_for\\_massachus.html](https://www.masslive.com/news/2018/07/nearly_8_million_for_massachus.html)

<sup>21</sup> *Ibid*.

<sup>22</sup> “Cannabis Control Commission.” *Governor’s Budget FY19*.  
[https://budget.digital.mass.gov/bb/h1/fy19h1/brec\\_19/dpt\\_19/hlcnb.htm](https://budget.digital.mass.gov/bb/h1/fy19h1/brec_19/dpt_19/hlcnb.htm)

<sup>23</sup> Massachusetts General Laws, Part I, Title XV, Chapter 94G, § 14.  
<https://malegislature.gov/Laws/GeneralLaws/PartI/TitleXV/Chapter94G/Section14>

<sup>24</sup> 410 Illinois Compiled Statute 705. Cannabis Regulation and Tax Act.  
<http://www.ilga.gov/legislation/ilcs/ilcs5.asp?ActID=3992&ChapterID=35>

interest loans to certain social equity applicants, assisting those disproportionately impacted by the drug war with job training, and researching the participation of women, veterans, minorities, and those with disabilities in the marijuana industry.<sup>25</sup> Thus, both states attempt to meet inclusionary goals market by requiring applicants to pay an inflated license fee in order to fund future outreach.<sup>26</sup>

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<sup>25</sup> 410 Illinois Compiled Statute 705. See also: Lawrence, Geoffrey. “Comparing Illinois’ Draft Legislation to Legalize Marijuana to Reason’s Conceptual Framework.” Reason Foundation, May 20, 2019, <https://reason.org/commentary/comparing-illinois-draft-legislation-to-legalize-marijuana-to-reasons-conceptual-framework/>.

<sup>26</sup> It is worth noting that both states provide for some fee reductions for social equity participants. Yet, these programs do not provide a waiver for everyone who may need one to start a marijuana business. Enwemeka, Zeninjon. “How Mass Plans to Create Equity in its Marijuana Industry.” *WBUR*. June 27, 2018. <https://www.wbur.org/bostonmix/2018/06/27/massachusetts-marijuana-equity>

## PART 3

# SUMMARY OF MARIJUANA LICENSE FEES AND BREAKDOWN OF FEES BY STATE

For adult-use marijuana, all states require an application fee and an annual license fee. Nevada and Colorado reduce some license fees after the first year of business while Alaska increases license fees for renewal licenses. In Michigan, renewed licenses may cost more or less depending on gross retail sales, gross weight transferred, or number of tests completed for different license types. The rationale for this approach is that fees are based on a licensee's wherewithal to pay, however an alternative viewpoint is that the approach arbitrarily penalizes a licensee's success in the marketplace.

Fees range based on business type. Some states determine fees using a tiered system for production capacity or, in some cases, gross revenue. The cheapest annual license fee is in Maine: \$9 per mature plant for an outdoor-only tier 1 cultivation facility. Some of the most expensive license fees include the Early Approval cultivation licenses in Illinois that could

cost up to \$650,000<sup>27</sup> or California’s microbusiness license for entities exceeding \$80 million in gross revenue, which costs \$300,000.<sup>28</sup>

State licensing authorities grant a license to each marijuana establishment. Potential entrepreneurs may apply as a sole proprietor, partnership, corporation, or other business structure, although Arizona requires its medical marijuana operators to be structured as nonprofit corporations. Some states also require occupational licenses for business owners, managers, or employees. State-specific information on licensing fees is provided below. This section only compares annual license fees for adult-use marijuana. States may have additional fee structures for temporary licenses.

## MARIJUANA LICENSE FEES BY STATE:

### ALASKA<sup>29</sup>

*Establishment License Fees:* \$1,000 application fee, \$600 renewal fee, and annual fees are \$1,000 or \$5,000. Renewed establishment licenses cost \$1,400, \$2,000, or \$7,000—more than initial licenses.

An onsite consumption endorsement license costs \$2,000 with the same application fees for other establishment licenses.

*Employee License Fees:* Marijuana handler permits are required for licensees, agents, and employees who handle marijuana or check customer identification. Permits are valid for three years and cost \$50.

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<sup>27</sup> Lawrence, Geoffrey. “Comparing Illinois’ Draft Legislation to Legalize Marijuana to Reason’s Conceptual Framework.”

<sup>28</sup> California Code of Regulations. Title 16. Division 42. Bureau of Cannabis Control. <https://cannabis.ca.gov/wp-content/uploads/sites/13/2019/01/Order-of-Adoption-Clean-Version-of-Text.pdf>

<sup>29</sup> 3 Alaska Administrative Code. Chapter 306. <https://www.commerce.alaska.gov/web/Portals/9/pub/MCB/StatutesAndRegulations/3AAC306%209.18.19.pdf>

## CALIFORNIA<sup>30</sup>

*Establishment License Fees:* Application fees range from \$135–\$8,655 and licenses require a yearly fee ranging from \$200–\$300,000.

*Employee License Fees:* None.

## COLORADO<sup>31</sup>

Licenses are established for both businesses and individuals. Controlling interest owners of a retail marijuana establishment must have an Owner License and each retail marijuana establishment must have at least one controlling beneficial owner who holds a valid owner license. Those who wish to start a new marijuana business must apply for both a business and individual license.

*Establishment License Fees:* New business application fees are \$1,000 or \$5,000. For businesses, initial licenses range from \$1,000–\$4,400. There is a \$300 application fee for establishment license renewal. Then, renewal licenses cost between \$750 and \$4,400. At the renewal stage for cultivation facilities, licenses for expanded production range from \$2,300–\$6,500.<sup>32</sup>

*Employee License Fees:* A finding of suitability for an owner license costs \$800 for each natural person or \$800 for an entity and \$5,000 for a publicly traded company, plus \$800 per natural person owner. Owner Licenses cost \$500 to renew and must be renewed annually.

Any person who handles marijuana, inputs data into the inventory tracking system, or has access to a restricted access area must hold an employee license. Employee licenses cost \$100 total and renewal costs \$75. Employee licenses must be renewed every two years.

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<sup>30</sup> California Code of Regulations. Title 16. Division 42. Bureau of Cannabis Control; California Code of Regulations Title 3. Food and Agriculture. Division 8. Cannabis Cultivation. [https://static.cdfa.ca.gov/MCCP/document/CDFA%20Final%20Regulation%20Text\\_01162019\\_Clean.pdf](https://static.cdfa.ca.gov/MCCP/document/CDFA%20Final%20Regulation%20Text_01162019_Clean.pdf); Title 17. Division 1. Chapter 13. Manufactured Cannabis Safety. [https://www.cdph.ca.gov/Programs/CEH/DFDCS/MCSB/CDPH%20Document%20Library/DPH17010\\_FinalClean.pdf](https://www.cdph.ca.gov/Programs/CEH/DFDCS/MCSB/CDPH%20Document%20Library/DPH17010_FinalClean.pdf)

<sup>31</sup> 1 Code of Colorado Regulations 212-3. <https://drive.google.com/file/d/1elp1bpu7Jz7yusFvhA6kbC5icRYwzqkK/view>

<sup>32</sup> Fees may be higher for licensees with expanded production due to licensing upcharge for each additional tier of 3,600 plants over a tier five amount of plants (10,201-13,800 plants).

## ILLINOIS<sup>33</sup>

The adult-use marijuana program in Illinois will launch on January 1, 2020 with a complex fee structure for the first few years. Initially, the state will only grant licenses to current medical dispensaries and cultivation organizations as part of the early approval program. For dispensaries, the business must pay a \$30,000 application fee, a business development fee of either “3% of the dispensing organization’s total sales between June 1, 2018 to June 1, 2019, or \$100,000, whichever is less,” and make a social equity contribution. The social equity plan can be a \$100,000 donation, payment of another 3% of total sales or \$100,000 (whichever is less) to either the business development fund or a cannabis training program, the business can act as an incubator to a social equity applicants with a \$100,000 loan and mentorship, or the business can act as a sponsor to a social equity applicant by providing an interest-free \$200,000 loan. Additionally, the state may grant early approval dispensary organizations a secondary site. This requires a \$30,000 license fee, a \$200,000 business development fee, and a social equity contribution. Early approval dispensing licenses cost \$30,000 to renew.

For cultivation organizations, the early approval program license costs \$100,000 in addition to a business development fee “equal to 5% of the cultivation center’s total sales between June 1, 2018 to June 1, 2019 or \$750,000, whichever is less, but at not less than \$250,000” and a social equity contribution of either 5% of total sales or \$100,000 (whichever is less) to the cannabis business development fund, a cannabis industry training program, or a job training program to those disproportionately affected by the drug war or act as an incubator by providing a \$100,000 loan and mentorship. Early approval cultivation center licenses costs \$100,000 to renew.

*Establishment License Fees:* After March 31, 2022, early approval organizations must apply for regular adult-use licenses. Additionally, regular dispensary, cultivation, craft grower, transporter, and infuser licenses can be applied for later in 2020. For these regular licenses, the application fee is \$5,000 and license fees range in cost from \$5,000–\$100,000.<sup>34</sup> Renewed licenses cost the same as initial licenses and most licenses must be renewed annually, except for adult use dispensary licenses, which must be renewed on March 31<sup>st</sup> of even-numbered years.

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<sup>33</sup> 410 Illinois Compiled Statute 705.

<sup>34</sup> For cultivation and dispensary businesses, adult use licenses are only available to early approval organizations and those that applied for a conditional adult use permit. The Department of Agriculture has not yet set the application fee for conditional adult use cultivation center permits.

*Employee License Fees:* Agents at each type of business must obtain an agent identification card. For dispensary employees, the statute sets the license fee at \$100 to be paid annually. For cultivation, craft grower, infuser, and transporter employees, occupational license fees have not yet been established.

## **MAINE**<sup>35</sup>

*Establishment License Fees:* Annual application fees range from \$60–\$500 and annual fees are between \$9 a plant and \$30,000.<sup>36</sup>

*Employee License Fees:* Individuals who handle marijuana or input data into the marijuana tracking system must have an individual identification card. Cards cost \$50 and must be renewed annually.

## **MASSACHUSETTS**<sup>37</sup>

*Establishment License Fees:* Application fees range from \$100–\$2,000 and annual license fees range from \$625–\$50,000<sup>38</sup> (microbusiness annual fees are 50% of all applicable fees). Application and license fees may be reduced or waived for certain applicants as part of a social equity program.

*Employee License Fees:* All employees, board members, directors, executives, managers, and volunteers must be registered for each marijuana establishment. Registration is \$100 and the card must be renewed annually.

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<sup>35</sup> 18-691 Code of Maine Rules. Chapter 1. Adult Use of Marijuana Program.

<https://www.maine.gov/dafs/omp/adult-use/rules-statutes/18-691-C.M.R.-ch.-1>

<sup>36</sup> License fees may be higher due to a \$10,000 upcharge for an increase in canopy size above the highest tier.

<sup>37</sup> 935 Code of Massachusetts Regulations 500. Cannabis Control Commission. [https://mass-cannabis-control.com/wp-content/uploads/2019/11/935\\_CMCR\\_500.000\\_Adult\\_Use\\_of\\_Marijuana\\_11.1.19.pdf](https://mass-cannabis-control.com/wp-content/uploads/2019/11/935_CMCR_500.000_Adult_Use_of_Marijuana_11.1.19.pdf)

<sup>38</sup> Fees for craft marijuana cooperatives may be higher due to an application and license fee upcharge for each additional location after six locations.



## MICHIGAN<sup>39</sup>

*Establishment License Fees:* Initial applications cost \$6,000. Initial licenses range from \$1,000–\$40,000 and renewed licenses cost between \$1,000 and \$50,000.

*Employee License Fees:* None.

## NEVADA<sup>40</sup>

*Establishment License Fees:* Application fees are \$5,000. Initial license fees are \$10,000–\$30,000 and annual renewal fees range from \$3,300–\$10,000.

*Employee License Fees:* All board members, officers, contractors, employees, volunteers, and persons with more than 5% ownership interest must obtain a marijuana establishment agent card. Applications cost \$75 and agent registration cards are valid for one year.

## OREGON<sup>41</sup>

*Establishment License Fees:* Application and renewal fees are \$250 and annual license fees range from \$1,000–\$5,750. Adding a medical canopy at the same location as one's producer license costs \$100 and a hemp certificate costs \$1,000.

A research certificate costs \$4,750 for a three-year term.

*Employee License Fees:* Marijuana worker permits are required for employees carrying out certain tasks. Permits cost \$100 and are good for five years.

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<sup>39</sup> Department of Licensing and Regulatory Affairs. Marijuana Regulatory Agency. Adult-Use Marijuana Establishments. Emergency Rules. [https://www.michigan.gov/documents/lara/Adult\\_Use\\_Marihuana\\_Establishments\\_659804\\_7.pdf](https://www.michigan.gov/documents/lara/Adult_Use_Marihuana_Establishments_659804_7.pdf)

<sup>40</sup> Nevada Administrative Code. Chapter 453D. <https://www.leg.state.nv.us/Nac/NAC-453D.html#NAC453DSec340>; "Marijuana Establishment Agent Card Application and Checklist." *State of Nevada Department of Taxation*. Feb. 25, 2019. <https://tax.nv.gov/uploadedFiles/taxnvgov/Content/Forms/AgentApplication022519.pdf>

<sup>41</sup> Oregon Administrative Rules. Oregon Liquor Control Commission. Chapter 845. Division 25. Recreational Marijuana. <https://secure.sos.state.or.us/oard/displayDivisionRules.action?selectedDivision=3873>

## WASHINGTON<sup>42</sup>

*Establishment License Fees:* Application fees are \$250 and annual licenses cost between \$1,000 and \$1,381. Specialty endorsements cost \$250 for transportation and research licenses and \$895 for a marijuana-infused edibles processor.

*Employee License Fees:* None.

This summary does not include all fees to do business in each state. New businesses still may have to pay for fingerprinting, trade name registration, a business license, or insurance. Additionally, business owners can pay additional fees for other permits or business privileges.

Another potential burden may arise from local licensing fees. In Portland, Oregon, annual application fees for marijuana businesses range from \$200 to \$500, while annual license fees range from \$1,000 to \$3,500.<sup>43</sup> These fees are on top of state licensing fees, which range from \$100 to \$5,750 annually after a \$250 application fee.

In Massachusetts, the requirement of “host community agreements” forces entrepreneurs to enter into an agreement with localities to open a business. While payments under an agreement are capped at 3% of gross revenue to cover costs reasonably related to the businesses’ impact on the community under the state regulation, many communities have demanded flat payment “donations” instead. A study conducted by *WBUR* found that some businesses are required to pay sums reaching \$250,000 annually.<sup>44</sup> By allowing city governments to act as gatekeepers to lucrative business areas, municipalities can extract high fees and burdensome promises from marijuana businesses who must pay in order to legally operate.

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<sup>42</sup> “Marijuana Licensing.” *Washington State Liquor and Cannabis Board*. <https://lcb.wa.gov/mjlicense/marijuana-licensing>; “Marijuana.” *Department of Revenue Washington State*. <https://dor.wa.gov/state-endorsements/marijuana>

<sup>43</sup> “Apply for a Marijuana Regulatory License.” *City of Portland Oregon*. <https://www.portlandoregon.gov/civic/70443>

<sup>44</sup> Jarmanning, Ally. “What Some Cities And Towns Are Getting From Marijuana Businesses.” *WBUR*. Aug. 23, 2018. <https://www.wbur.org/bostonmix/2018/08/23/cannabis-host-agreements>

## PART 4

# STATE MARIJUANA LICENSE FEES IN COMPARISON WITH OTHER LICENSES

A national study of occupational licensing conducted by the Institute for Justice explored licensing requirements for 102 occupations. License fees averaged \$209—more than almost all occupational licenses in the marijuana industry, except the \$500 Colorado owner’s license. The study was published in May 2012 and did not look at marijuana licensing.<sup>45</sup>

In most legal states, the argument has been used that marijuana should be regulated like alcohol with a three-tiered system of distributors, producers, and sellers who are kept separate and regulated by the state. This argument could theoretically justify establishment license fees for marijuana similar to liquor license fees. Yet in comparison with state licenses for the selling, distribution, and production of alcohol, marijuana licenses are typically more expensive in all states, as shown below. It is important to note that alcohol fees are only used as a point of comparison here. There are many problems with alcohol licensing and it should not be considered an ideal model for marijuana.

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<sup>45</sup> Carpenter II, Dick M. et al. “License to Work.” *The Institute for Justice*. May 2012.  
[https://www.ij.org/images/pdf\\_folder/economic\\_liberty/occupational\\_licensing/licensetowork.pdf](https://www.ij.org/images/pdf_folder/economic_liberty/occupational_licensing/licensetowork.pdf)

**TABLE 1: ANNUAL LICENSE FEES FOR MARIJUANA AND ALCOHOL BY STATE**

State	Marijuana License Fee Range	Alcohol License Fee Range
Alaska	\$1,400–\$7,000	\$400–\$2,500 <sup>46</sup>
California	\$200–\$300,000	\$10–\$1,955 <sup>47</sup>
Colorado	\$750–\$4,400	\$25–\$800 <sup>48</sup>
Maine	\$9–\$30,000	\$50–\$2,200 <sup>49</sup>
Massachusetts	\$625–\$50,000	\$22–\$10,000 <sup>50</sup>
Michigan	\$1,000–\$50,000	\$10–\$1,000 <sup>51</sup>
Nevada	\$3,300–\$10,000	\$75–\$500 <sup>52</sup>
Oregon	\$1,000–\$5,750	\$100–\$1,000 <sup>53</sup>
Washington	\$1,000–\$1,381	\$20–\$2,500 <sup>54</sup>

**NOTE:** This does not take temporary event licenses, duplicate licenses, license fee upcharges, specialty endorsements, or additional fees to do business into account. For states with a different fee scale for initial and renewal licenses, the range listed is for annual renewals. Illinois is not included in this chart because, at the time of publication, the program was still in early stages and administrative rules finalizing the fee structure had not yet been promulgated.

<sup>46</sup> “Alcohol and Marijuana Control Office.” *Department of Commerce, Community, and Economic Development: Alcohol and Marijuana Control Office.*

<https://www.commerce.alaska.gov/web/amco/AlcoholLicenseApplication.aspx>

<sup>47</sup> The cheapest fee is for wine at a bed and breakfast and the charge is \$10 per room. “2019/20 Schedule of Annual Fees.” *California Department of Alcoholic Beverage Control.*

<https://www.abc.ca.gov/licensing/license-fees/2019-20-annual-fee-schedule-d/>

<sup>48</sup> “Liquor Enforcement Division Fee Schedule.” *Colorado Department of Revenue.* Jan. 1, 2019.

[https://www.colorado.gov/pacific/sites/default/files/Fee%20Schedule%2001-01-2019\\_2.0.pdf](https://www.colorado.gov/pacific/sites/default/files/Fee%20Schedule%2001-01-2019_2.0.pdf)

<sup>49</sup> Maine Revised Statutes. Title 28-A: Liquors. <http://www.mainelegislature.org/legis/statutes/28-A/title28-Ach0sec0.html>

<sup>50</sup> “Different Types of Alcoholic Beverage State Licenses (ABCC).” *Mass.gov.* <https://www.mass.gov/service-details/different-types-of-alcoholic-beverage-state-licenses-abcc>

<sup>51</sup> “Manufacturer and Wholesale License Types.” *Michigan Department of Licensing and Regulatory Affairs Liquor Control Commission.* [https://www.michigan.gov/documents/CIS\\_LCC\\_mwtypes\\_32085\\_7.pdf](https://www.michigan.gov/documents/CIS_LCC_mwtypes_32085_7.pdf); “Retail Liquor Licenses.” *Michigan Department of Licensing and Regulatory Affairs Liquor Control Commission.* [https://www.michigan.gov/documents/cis\\_lcc\\_mlccpub2\\_150372\\_7.pdf](https://www.michigan.gov/documents/cis_lcc_mlccpub2_150372_7.pdf)

<sup>52</sup> “Liquor Taxes and FAQs.” *State of Nevada Department of Taxation.*

[https://tax.nv.gov/FAQs/Liquor\\_Taxes\\_\\_FAQ\\_s/](https://tax.nv.gov/FAQs/Liquor_Taxes__FAQ_s/)

<sup>53</sup> “License Types.” *Oregon Liquor Control Commission.*

[https://www.oregon.gov/olcc/LIC/docs/license\\_types.pdf](https://www.oregon.gov/olcc/LIC/docs/license_types.pdf)

<sup>54</sup> “Applicant FAQs.” *Washington State Liquor and Cannabis Board.* <https://lcb.wa.gov/licensing/applicant-faqs>

## PART 5

# CONCLUSIONS

Marijuana license fees are justified as necessary to cover the costs of application review and industry enforcement. Yet Colorado brings in more than enough in fees to cover the costs of enforcement—not to mention tax revenue. Further, it is not clear that all marijuana enforcement programs are truly necessary. Programs funded by marijuana taxes and fees, while touted as benefits of legalization, can be detrimental when fees reduce entry in the industry and keep many in the black market.

Further, marijuana fees are much higher than most alcohol license fees in each respective state. If alcohol license programs can be funded with much smaller fees, perhaps marijuana programs could be as well. In order for reasonable fees to be charged, policymakers must provide detailed budgeting to justify licensing fees.

Unfortunately, the fees discussed in this brief do not document all the fees that potential entrepreneurs must pay. With extremely limited access to bank financing, the marijuana industry remains open only to those with independent wealth or who have access to non-bank financing.

# ABOUT THE AUTHOR

**Allie Howell** is a research intern at Reason. Previously, she was a Burton C. Gray Memorial intern at Reason and an economic policy intern at the Manhattan Institute. Allie has been published on Economics21.org, the Foundation for Economic Education, and *Reason*. She is a recent graduate of Hillsdale College where she majored in economics and mathematics. Allie is a student at Notre Dame Law School.

