

Arkansas Medical Cannabis Initiated Act (AMCA)

Administrative Implementation

The AMCA is an initiated act certified for the 2016 ballot that would authorize medical cannabis products in the State of Arkansas sold by Non-for-Profit Compassionate Care Centers (NCCC), with Cannabis Testing Labs verifying potency of the cannabis, and administered primarily by the Department of Health. The AMCA allows for hardship cultivation of marijuana plants for qualified patients more than 20 miles from the nearest NCCC.

Administrative Analysis

Because there are limited banking services available under Federal law to marijuana businesses, the NCCCs and Labs will be cash-based businesses creating potential administrative difficulties.

- Payment of taxes cannot be made online through the ATAP system. Only the Central Revenue Office accepts cash for payment of taxes. This includes sales and withholding taxes.
- Additional audit staff and audits are required for primarily cash-based businesses necessitating additional audit staff, expenses, and audit procedures.
- Cash based return payments may require additional security and secure facilities.

Tax Administration Analysis

Under the AMCA, sales of medical cannabis will be subject to state and local sales taxes which may create uncertainty or regulatory difficulty because of the different statutory schemes.

- The AMCA limits taxation on medical cannabis to “regular” state and local sales taxes potentially preventing a tax rate that would generate sufficient revenue to administer the program.
- The AMCA only requires records to be kept for one year, while tax audits generally cover a three to six year period.
- Applicability of certain sales tax standards and exemptions are unclear on the production and sale of cannabis.
- Applicability of certain state income tax standards and exemptions are unclear on the production and sale of cannabis.
- Cannabis sales will need to be reported separately from the sale of paraphernalia and related items sold by NCCCs to ensure the special revenue provisions of the AMCA are followed.
- Estimated costs for DFA to administer - \$635,000 to \$993,000 (See DFA AMCA 4)

Budget Analysis

The additional costs required to administer a program such as the AMCA may not be accounted for in the AMCA’s special revenue designations.

- The AMCA generates special revenue solely for the Department of Health.
- The costs associated with the administration of the taxes required by DFA are not covered by any revenue in the AMCA.
- The actual revenue to be generated is unclear and it is possible that 18 to 24 months would pass before estimated annual revenues of \$2,487,544 are received. (See DFA AMCA 2 & 3)
- The special revenue provision for the subsidy program under the Department of Health if sales tax revenue on medical cannabis exceeds costs to administer is unclear.
- Estimated revenue available to ADH - \$2,176,000 (See DFA AMCA 2)
- Estimated cost for ADH to administer - \$3,343,135 to \$6,954,205 (See DFA AMCA 2 & 4)

The Arkansas Medical Cannabis Act

The Initiated Act would levy all state and local sales taxes on the sale of Cannabis. The Act provides that no special taxes will be added to the sale of medical cannabis.

Tax revenues received shall be distributed as special revenues to the Department of Health

	Annual Revenue Impact
TOTAL Estimated Revenue Gain at 6.5%	\$ 2,487,545
---State Central Services (2,2%)	\$ 54,726
---Constitutional Officers (1.0%)	\$ 24,875
Sales Tax Revenue for Distribution	\$ 2,407,943
Less Constitutional Levies	
---Conservation Tax (.125% Sales Tax)	\$ 46,307
---Highway Fund (.5% Sales Tax)	\$ 185,226
Remaining Revenue for the Dept of Health	\$ 2,176,410

Estimated DFA Costs				
AMCA	Annual	One-Time	Total	Initial Deficit
Low	\$ 619,241.20	\$ 16,000.00	\$ 635,241.20	\$ (635,241.20)
High	\$ 967,668.90	\$ 26,000.00	\$ 993,668.90	\$ (993,668.90)
Estimated ADH Costs				
AMCA	Annual	One-Time	Total	Initial Deficit
Low	\$ 1,467,135.00	\$ 1,876,000.00	\$ 3,343,135.00	\$ (1,166,724.57)
High	\$ 4,014,205.00	\$ 2,940,000.00	\$ 6,954,205.00	\$ (4,777,794.57)
				Total Deficit
			Low	\$ (1,801,965.77)
			High	\$ (5,771,463.47)

	Medical Marijuana Selling State	Medical Marijuana Sales	State Population (2015)	Average Marijuana Sales per Capita
	Maine	\$ 23,600,000.00	1,329,328	\$ 17.75
	New Jersey	\$ 8,300,000.00	8,958,013	\$ 0.93
	Nevada	\$ 37,918,768.27	2,890,845	\$ 13.12
	Rhode Island	\$ 22,000,000.00	1,056,298	\$ 20.83
	Illinois	\$ 27,600,000.00	12,859,995	\$ 2.15
	New Mexico	\$ 46,601,845.96	2,085,109	\$ 22.35
	Total Sales	\$ 166,020,614.23		
	Average Marijuana Sales per Capita of the 6 States			\$ 12.85
	Arkansas Population - 2015 Census			2978204
	Average Marijuana Sales per Capita			\$ 12.85
	Estimated Arkansas Medical Marijuana Sales			\$ 38,269,921.40
	Estimated Arkansas State Sales Tax Revenue at 6.5%			\$ 2,487,544.89
	Reference: Medical Marijuana Statistical Data Compilation			

Estimated Administration Cost of AMCA

Numbers are preliminary and draft.

Division	One-Time High	One-Time Low	Annual High	Annual Low
<u>DFA Audit</u> 6-11 Employees	\$ 22,000.00	\$ 12,000.00	\$ 780,466.20	\$ 435,560.20
<u>DFA Legal</u> 1 New Attorney	\$ 2,000.00	\$ 2,000.00	\$ 93,897.70	\$ 90,376.00
<u>DFA Admin</u> 2 New Employees	\$ 2,000.00	\$ 2,000.00	\$ 93,305.00	\$ 93,305.00
<u>ADH</u> 23-63 New Employees	\$ 2,940,000.00	\$ 1,876,000.00	\$ 4,014,205.00	\$ 1,467,135.00

		Low	High
	<u>Annual</u>	\$ 2,086,376.20	\$ 4,981,873.90
	<u>One Time</u>	\$ 1,892,000.00	\$ 2,966,000.00
AMCA-Admin, Audit, Legal	<u>Annual</u>	<u>One-Time</u>	Total
Low	\$ 619,241.20	\$ 16,000.00	\$ 635,241.20
High	\$ 967,668.90	\$ 26,000.00	\$ 993,668.90
AMCA - ADH	<u>Annual</u>	<u>One-Time</u>	Total
Low	\$ 1,467,135.00	\$ 1,876,000.00	\$ 3,343,135.00
High	\$ 4,014,205.00	\$ 2,940,000.00	\$ 6,954,205.00