The Synergistic Benefit Mechanism of Medical and Recreational Marijuana: Economic Gains of Cannabis Taxation based on US Federal Law for Corporate Governance and Sustainability

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Abstract

Purpose: Marijuana legalization is brought about by the demands of people as social utility either for medical or recreation consumption. It is essential that the control of cannabis fulfills the goals of corporate governance and sustainability. This paper aims to measure the profitability of marijuana taxation over a time period as trend analysis of economic gains.

Methodology: The socio-legal taxation of marijuana in the United States follows a descriptive research design. The beneficial gains of marijuana as medical use created this substance to be controlled under contract law transactions. The removal of cannabis in US Pharmacopeia modified the tort law restriction for legalization of marijuana as recreational consumption. The recreational cannabis taxation together with medical marijuana state taxes are essential to fulfill the 4 pillars of corporate governance and sustainability for strengthening constitutional rights. The legalization of marijuana through votes of the people repeals the criminal punishments imposed by federal law to advocate the synergistic concepts of economic theory.

Findings: State tax theory creates voluntary principles in transactions together with trend analysis in prices and demands of people resulting to efficiency in mutual gains through lessening the value of participation under a harmful environment. Hence, Pigouvian tax follows the public welfare of medical marijuana and common revenue of recreational cannabis diminishes the overall costs of social consumption. Federal laws control marijuana usage through Pigouvian taxes of medical use with lessened participation in externalities and common revenue in cannabis consumption, as a legalization process of other states in reinstating tort law for business purposes, while still enforcing criminal penalties to remaining states, in compliance with US federal laws, not in favor of medical and recreational marijuana use. The economic theory supports the legalization of medical and recreational cannabis use through taxation as profitable gains by allowing voluntary market transactions of marijuana as fulfillment to corporate governance and sustainability for more allocation of public funds. From 2002 to 2018, medical and recreational cannabis users increased to 70% of social utility through lessening the value of participation, a win-win in efficiency of economic design. In 2010, marijuana taxation generated $8.7 billion as federal public funds, with accompanied criminal penalties to other states.

Recommendations: Economic theory is a conceptual design supporting the beneficial gains of legalizing marijuana via taxation. This economic design promotes fair responsibility of market gains while still in strict compliance of enforcing criminal punishments to violators. The people’s votes for legalization of marijuana taxation indicates that this economic policy has come by choice in a particular state as constitutional right of either a medical opinion or business ethics. However, cannabis is deemed to be a substance subject for criminal liabilities, similar to other patent drugs under taxation as well. Hence, it is suggested to create artificial intelligence using authorless works for clinical trials and other relevant studies subject to patent law of marijuana use, as advocacy of public welfare and safety since voluntary transactions are apparent harmful environment.

Keywords: Medical Marijuana, Recreational Marijuana, Common Revenue, Pigouvian Tax, Economic Theory
1.0 INTRODUCTION
Cannabis, also known as marijuana, is a drug that existed from at least 5,000 years ago. The marijuana utilization as consumable is documented throughout its history for several purposes, such as, for medicinal herb, religious custom, and recreational designs. By the early 20th century, marijuana was deemed as a criminal offense throughout majority of the world. In the last 3 decades, marijuana gained acceptance as revival for public consumption in the United States and most other countries. This is supported by an increasing number of states adopting either medicinal or recreational as marijuana legalization. On November 5, 1996, Proposition 215 was approved by votes of people in California, being the first state to legalize marijuana as medical use. As to date, it has been legalized for medical usage in California and 23 other states and many US territories.¹

Marijuana liberalization is a current and debatable public health policy that resulted on the manner of communities’ lifestyle based on their constitutional rights. Cannabis is the most widely consumed controlled substance in the United States with 16% of Americans reported its usage on 2018, and 45% reported its consumption as needed on occasional use. Under federal laws, marijuana use remains to be illegal, and some states began to pass laws for marijuana legalization under medical use in 1996, and in 2020, 35 states and Columbia District adopted those laws. Legal approval for medical marijuana is reforming public opinions concerning marijuana’s health and legal risks and changing the acceptance of residents based on casual usage of marijuana.²

Since 1961, countries from the United Nations drug conventions have signed the prohibition on adult marijuana use based on assumptions of serious harm to users without any medicinal designs. Critics of this policy have debated that the adverse effects of marijuana are overestimated with underestimated medical benefits. This prohibition on cannabis usage has probability studies for the reduction of its prevalence and marijuana duration use in young adults, although these gains are accompanied with costs. These comprises the expenditures of enforcing criminal law against marijuana offenders and producers and studying the adverse effects of marijuana to young users based on criminal conviction of police attention. In some periods, marijuana users have been incarcerated to more often, have suffered the burdens of its adverse effects and stigma of acquiring criminal record based on police arrest that have disproportionately affected their poor benefits of ethnic minorities.³

The legal cannabis industry in the United States is working simultaneously towards rapid development. In October of 2022, 37 states and 4 US territories have legalized cannabis for medical intent. Moreover, 19 states, as well as Columbia District and Guam, have legalized cannabis in recreational usage. States have the authority to decide the conditions and manner of marijuana tax implementation at both medicinal and recreational purposes.⁴ This study aims to measure the profitability of legalizing both medical and recreational cannabis use via taxation designs.

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2.0 METHODOLOGY

Legal History of Marijuana Taxation

Marijuana has a long legal history and traditions of using it both in medicinal and recreational purposes.\(^5\)

<table>
<thead>
<tr>
<th>TIME/PÉRIODE</th>
<th>ACTIVITIES</th>
</tr>
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<tbody>
<tr>
<td>28(^{\text{th}}) century BC</td>
<td>Asian tradition takes part in highlighting the attempts of Chinese Emperor Shen Nung to establish the advantages of cannabis use as marijuana was known to possess powers of remedy in various conditions such as malaria, gout, rheumatism, and “absent-mindedness.”</td>
</tr>
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<td>1611</td>
<td>The settlers of Jamestown introduced marijuana, also termed as hemp, to North America, and during the entire colonial period, hemp fiber was an essential export.</td>
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<td>1840</td>
<td>A surgeon named W.B. O’Shaughnessy first employed cannabis in Western medicine practice while he was working at British East India company. He documented cannabis to have good antispasmodic, anti-inflammatory, analgesic, and anticonvulsant properties.</td>
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<tr>
<td>1840</td>
<td>A French psychiatrist named Jacques-Joseph Moreau facilitated marijuana breakthroughs as appetite inducer, headache suppressant, and sleep aid.</td>
</tr>
<tr>
<td>1850</td>
<td>Cannabis was included in the US Pharmacopeia and was prescribed to treat ailments such as nausea, labor pain, and rheumatism.</td>
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<tr>
<td>1914</td>
<td>The Harrison Act passage defined marijuana use as a crime resulting to passing of laws prohibiting the use of marijuana under non-medical intents by individual states such as Texas and California.</td>
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<td>1937</td>
<td>The US Congress passed the Marijuana Tax Act as a criminalizing process for marijuana offenders.</td>
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<tr>
<td>1941</td>
<td>Cannabis was removed from the US Pharmacopeia based on recognition that the drug has no longer medicinal value.</td>
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<tr>
<td>1951</td>
<td>The Boggs Act and Narcotics Control Act augmented cannabis possession and distributed its penalties resulting to mandatory prison enforcement decisions.</td>
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<tr>
<td>1970</td>
<td>The US Drug Enforcement classified cannabis under Schedule I drugs due to its current lack of medical use although with a high potential for substance abuse.</td>
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<tr>
<td>1986</td>
<td>The Anti-Drug Abuse Act was passed restoring mandatory minimum penalties and augmenting federal penalties for both marijuana possession and distribution.</td>
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<tr>
<td>1996</td>
<td>California became the first state to control marijuana as a form of relegalization for public use with cancer, AIDS, and other serious illness.</td>
</tr>
<tr>
<td>November 2012</td>
<td>California rejected to legalize recreational marijuana under proposition 19.</td>
</tr>
</tbody>
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The passage of Washington’s Initiative 502 and Colorado’s Amendment 64 were the first states in the US to pass marijuana use as recreational law.

Discussion

State Marijuana Tax

The traditional wisdom has two distinct theoretical approaches for determination of the tax value to be applied for a specific transaction or behavior such as the so-called “Pigouvian” taxes and common revenue maximizing taxes. All taxes make the cost of a product to augment as inclusion and hence, on least theoretical basis, influence some consumers to divert for another product. Majority of voluntary transactions diminish the overall public consumption in general. The aim of common revenue maximizing taxes is to increase the revenue while diminishing transaction participation in least possible situations. Meanwhile, Pigouvian taxes are applied taxes to transactions that lessen overall public consumption, although they are commonly observed to be voluntary since its transactions generate externalities. In this scenario, lessening the transaction participation via taxes both increases revenue for the government and augments overall public consumption through participation reduction in a harmful agreement. Pigouvian taxes are deemed to be a win-win based on efficiency design.6

Federal Marijuana Tax

The common law is that the current taxing regime under § 280E of Tax Code, also known as Internal Revenue Code, is perceived to be an unreasonable policy, hence, it must be revoked or substituted with another taxing regime as alternative. Section 280E is a Tax Code provision that rejects cannabis sellers the capacity to subtract any common business expenditures, other than the worth of goods being sold, in measuring their taxable income. It effectively changes the marijuana business taxation into a gross (partial) receipt, as an alternative to income tax.7

Tax Theory of Marijuana Business

Contemporary tax policy theory is based on the very fundamental assumption sourced from classical economics. First, voluntary market transactions commonly raise public consumption. Second, raises in price commonly result in lessening demand as some clients at the margins replace matters for the agreement that subsequently become more costly. Third, raises in price brought by taxation vary from the augmented price brought by other sources, and hence, the lessening demand brought by price increment is inefficient due to reduction of overall public consumption. Fourth, some voluntary market transactions do not augment public consumption based on assumption of externalities. Fifth, in those Pigouvian taxes8 cases, public consumption may augment due to demand decline caused by price increment, which is observed to be a good trend that augments efficiency rather than lessening it.8

The Economic Theory of Taxation as Synergistic Gains

Figure 1: Number of Users by Substance Type Between 2002 and 2018

Figure 1 shows that from 2002 to 2018, the number of marijuana users augmented to nearly 70%.

The current state of marijuana uses for both medical and recreational intents in the US is highly argued. While it is categorized as an illegal drug federally, several states have opted to decriminalize or either legalize marijuana as medical or recreational purpose. Despite of restricted research on the effects of smoked marijuana, states are motivated for marijuana legalization due to profitable gains of its usage. In 2010, marijuana legalization was predicted that its consumption would produce $8.7 billion per annum of federal and state tax revenues and could further save more billions of dollars as profit of investment from marijuana regulation. In the first year of legalizing marijuana, its sales of cannabis in Washington state produced $70 million as tax revenue. Furthermore, the marijuana legalization is supported by residents of each state through votes.

Recreational marijuana is big business and an attracting new tax revenue source in the US. As of April 2021, recreational marijuana could be lawfully purchased in 11 states, and 7 more states had passed recreational laws for cannabis. In 2020, 9 states reported that their data in tax revenue from

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recreational marijuana was more than $1.6 billion. This revenue is sourced from excise taxes on recreational marijuana that are supplemented to general sales tax.11

3.0 CONCLUSION AND RECOMMENDATION

The profitability of legalizing marijuana both in medical and recreational usage via taxation would generate billions of dollars for fulfillment of the 4 pillars of corporate governance and creating public funds for promotion of sustainable development. Economic theory supports the cannabis taxation in exercising the rights of their people in every state to vote for the consumption of marijuana either as for medical or recreational purposes. The legalization of cannabis enriches the constitutional rights of their citizens by voting as social utility of value and demands. Moreover, it emphasizes their public welfare and safety rights as criminal penalties are still being enforced by the remaining states for compliance of federal laws.

This study is restricted to marijuana taxation, hence, other patent drugs with similar criminal activities have other regulations and policies subject to a different taxation. Hence, it is suggested to further promote public safety through artificial intelligence of authorless works for optimal patient safety of clinical trials.

REFERENCES


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