

# REPORT HIGHLIGHTS

## Report Highlights

Use of Marijuana Inventory Tracking Data  
Performance Evaluation, August 2019

Department of Revenue

### CONCLUSION

The Department uses a variety of data and analytical tools to monitor marijuana inventory and identify risks, such as the risk of diversion of marijuana outside the legal market, or the failure of businesses to report all taxable activities. The Department investigates and audits businesses based on its risk assessments to ensure compliance with marijuana-related laws and regulations and that all required marijuana sales and excise taxes are paid.

### KEY FACTS

- Medical and retail marijuana are both legal in Colorado; however, the retail marijuana market is the primary driver for overall industry trends:
  - The average number of marijuana plants being cultivated per month increased from about 704,000 plants in January 2016 to about 977,000 plants in December 2018.
  - Total combined marijuana sales increased by almost 400%—from \$307 million in Fiscal Year 2014 to more than \$1.5 billion in Fiscal Year 2018.
  - State tax revenues from marijuana increased by over 890%, from \$25.3 million in Fiscal Year 2014 to \$250.7 million in Fiscal Year 2018.
- A cornerstone of the State’s regulatory structure is a statewide “seed-to-sale” inventory tracking system, known as Metrc<sup>®</sup> (pronounced “metric”), that allows licensees and the Department to identify and account for all marijuana grown, processed, sold, and disposed of in the commercial marijuana market.
- The Department’s Marijuana Enforcement Division (MED) analyzes marijuana inventory tracking data from Metrc<sup>®</sup> to generate investigation leads and target its investigation activities. For example, MED uses inventory tracking data to establish industry norms for every step in the cultivation, harvest, and packaging process, and to identify those businesses that are outliers. MED also analyzes inventory tracking data to identify situations in which there may be a higher risk of diversion of marijuana out of the regulated market.
- The Department’s tax divisions analyze data from tax returns and Metrc<sup>®</sup> to target their tax compliance activities and ensure the accurate reporting and remittance of marijuana tax liabilities. For example, the Department’s Field Audit Section has audited approximately \$2.2 billion—or about 34%—of the nearly \$6.6 billion in combined marijuana transfers and sales subject to excise and sales taxes between July 1, 2015, and June 30, 2019.

### BACKGROUND

- Marijuana refers to the dried leaves, flowers, stems, and seeds of the *Cannabis sativa* or *Cannabis indica* plant.
- Marijuana contains chemicals called cannabinoids in varying ratios. THC is the more widely known cannabinoid because of its psychoactive effects creating a “high” in users.
- Through amendments to the Colorado Constitution, voters legalized the use of medical marijuana in 2000 and the use of retail marijuana in 2012.
- The Department of Revenue (Department) is the state agency responsible for the administration and enforcement of Colorado’s tax laws, as well as laws related to the cultivation, manufacture, distribution, sale, and possession of marijuana in Colorado.
- The transfer and sale of medical and retail marijuana are subject to state excise and sales taxes.

### KEY RECOMMENDATIONS

The Department should strengthen inter-divisional communication about marijuana-related compliance and enforcement activities by (a) establishing procedures that specify what information should be communicated between divisions, the frequency of the communication, and which personnel should have access to the information being communicated; and (b) re-instituting routine inter-divisional meetings to share information about issues and trends with individual marijuana businesses and the marijuana industry overall.

The Department agreed with these recommendations.