

Vermont Cannabis Tax Guide

APRIL 2022

Please note (As of April 2022): The Vermont Legislature is considering changes to the laws underlying the materials discussed in this guide. The Department of Taxes will update this guide to reflect any changes to Vermont law. For the most up-to-date version, please check the Vermont Department of Taxes website.

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Introduction

Vermont allows and regulates the legal use of cannabis by adults. Specifically, Vermont requires distinct licensing for cannabis cultivation, retail sale, and manufacturing. There are several laws and regulations relating to the possession, use, and sale of cannabis that are beyond the scope of this guidance. A business should review the relevant chapters of Vermont law and consult with Vermont’s Cannabis Control Board before starting an operation.

Below are links to relevant information outside the scope of taxation available at the time of publication:

- [Vermont Cannabis Control Board](#)
- [Vermont Laws Relating to the Duty and Authority of the Cannabis Control Board](#)
- [Vermont Laws Related to the Production and Sale of Cannabis](#)
- [Vermont Regulations Related to the Production and Sale of Cannabis](#)
- [Vermont Laws Related to Civil Penalties for Illegal Consumption](#)

The remainder of this guidance relates to taxes owed by businesses that are legally allowed to produce or sell recreational cannabis or cannabis products in Vermont. Therefore, for purposes of this guidance, it is assumed that a business is licensed and in compliance with all other laws relating to cannabis production and sale.

Taxes Owed by Cannabis Businesses

This guidance addresses common tax issues related to cannabis cultivation, cannabis sold at retail, and cannabis used in manufacturing. As noted above, Vermont regulates all three activities. Some tax types may not apply to all types of cannabis businesses.

The following Vermont taxes potentially apply:

- Cannabis Excise Tax
- Sales and Use Tax
- Property Taxes
- Vermont Income Tax

Some businesses that cultivate cannabis can make use of the Current Use Program to reduce property taxes but with limitations that are described in the section of this guide, [Current Use Program - Enrollment of Cannabis Cultivating Operations](#).

Important: A retail business must first obtain a license from the Cannabis Control Board (CCB) before registering for a cannabis excise tax account with the Department of Taxes. The CCB will require the applicant to show that they are in “good standing” with Vermont tax laws as part of licensure. The applicant can request good standing certification from the Department of Taxes by sending an email to TAX.ComplianceSupport@vermont.gov. Please include the business name and ID (SSN or FEIN) in the body of the email and include “Good standing request for Cannabis license” in the subject line. A retail business will need both a license from the CCB and tax accounts with the Department of Taxes before it can commence business.

Registering a Business with the Vermont Department of Taxes

Before commencing business, Vermont law requires a business to register with the Department of Taxes to ensure the necessary tax accounts are set up. A business can register for multiple accounts at the same time and registration is free. The [Department of Taxes Business Center](#) provides information and tools to help businesses get started.

Cannabis retailers and integrated licensees need to register for both cannabis excise tax and sales and use tax. If a business already has a sales and use tax account, it does not need to register for a second sales and use tax account when registering for the cannabis excise tax. Note that a business will first need a license number issued by the Cannabis Control Board to register for a cannabis excise tax account. If a business plans to hire employees, it will also register for a Vermont withholding tax account. A meals and rooms tax account is not necessary unless the business also offers rooms or sells meals unrelated to cannabis.

After registration, the Department of Taxes will provide licenses for cannabis excise tax and sales and use tax which must be prominently displayed at the place of business. Please note that a cannabis excise tax license can be revoked by the Cannabis Control Board for failure to comply with Vermont laws and regulations.

CREATE A NEW ACCOUNT: To register for the necessary tax accounts, click the [Sign Up](#) link on the [myVTax home page](#).

From there, businesses can:

- Register as a new taxpayer
- Add myVTax access for an existing Vermont tax account
- Register as an accountant, attorney, or third-party tax professional to access client accounts
- Activate an account using a myVTax Access Code

EXISTING ACCOUNT HOLDERS: Businesses with a myVTax account can register for the Cannabis Excise Tax (or any tax account) by logging in and navigating to [I Want To](#), then [Add Another Account](#) under Access Management.

Cannabis Excise Tax

Vermont applies a fourteen percent (14%) excise tax on the retail sale of cannabis and cannabis products. This includes food or beverages that contain any cannabis or cannabis product ([see the cannabis excise tax glossary for definitions](#)). Cannabis retailers and integrated licensees are required to collect the excise tax from purchasers at the time of a taxable sales transaction. These are the only two types of businesses allowed to make retail sales of cannabis.

Retail purchasers of cannabis and cannabis products are responsible for paying cannabis excise tax. The business making the sale is responsible for collecting the tax and remitting it to the Department of Taxes. This means the individuals responsible for the business are personally and individually responsible for the tax if it is not correctly paid or collected. In the case of corporations and similar entities, personal liability extends to any officer or agent of the entity. A business will also incur penalties and interest when tax is not correctly collected or remitted.

Note that buying or selling cannabis for resale (such as a sale from a cultivator to a retailer) is not subject to cannabis excise tax because the transaction is not a retail sale.

When a business collects cannabis excise tax, it holds the tax in trust for the State of Vermont. This means the tax must be always accounted for separately from other receipts.

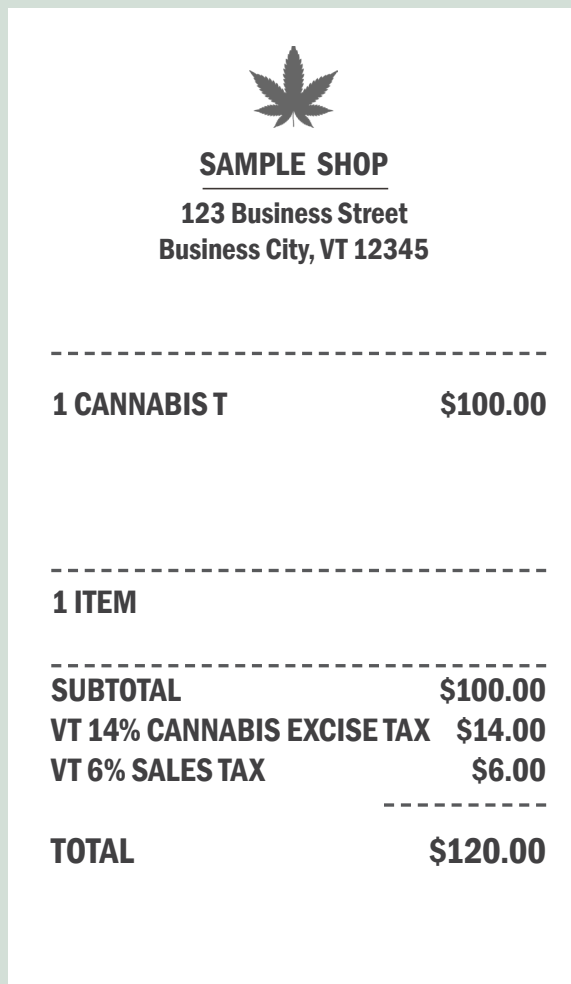
A business is allowed to refund tax when it allows a general return of the product. In this case, no retail sale would have taken place. It may also refund or credit any tax erroneously, illegally, or unconstitutionally collected. The business must keep clear records of the reason for any refunds of tax for at least three years.

HOW CANNABIS EXCISE TAX AND SALES TAX ARE CALCULATED


Both cannabis excise tax and sales tax are calculated on the product price only. The combined tax rates on retail sales should be twenty percent (20%) of the pre-tax sales price, or twenty one percent (21%) if there is also a local option tax in the municipality where the sale occurs. Cannabis excise tax must be separately itemized from the general sales tax on the receipt provided to the purchaser.

EXAMPLE WITHOUT LOCAL OPTION SALES TAX

A sale of cannabis with a retail sales price of \$100.00 must include an itemized receipt that separately lists \$14.00 (14%) of cannabis excise tax and \$6.00 (6%) of sales tax. The total price of the transaction would be listed as \$120.00 (100 + 14 + 6).



A sample receipt for a cannabis sale without local option tax. The receipt is for 'SAMPLE SHOP' at '123 Business Street, Business City, VT 12345'. It shows a purchase of '1 CANNABIS T' for \$100.00. Below this, it lists '1 ITEM'. The subtotal is \$100.00. Taxes are listed as 'VT 14% CANNABIS EXCISE TAX \$14.00' and 'VT 6% SALES TAX \$6.00'. The total is \$120.00.

	
SAMPLE SHOP	
123 Business Street Business City, VT 12345	

1 CANNABIS T	\$100.00

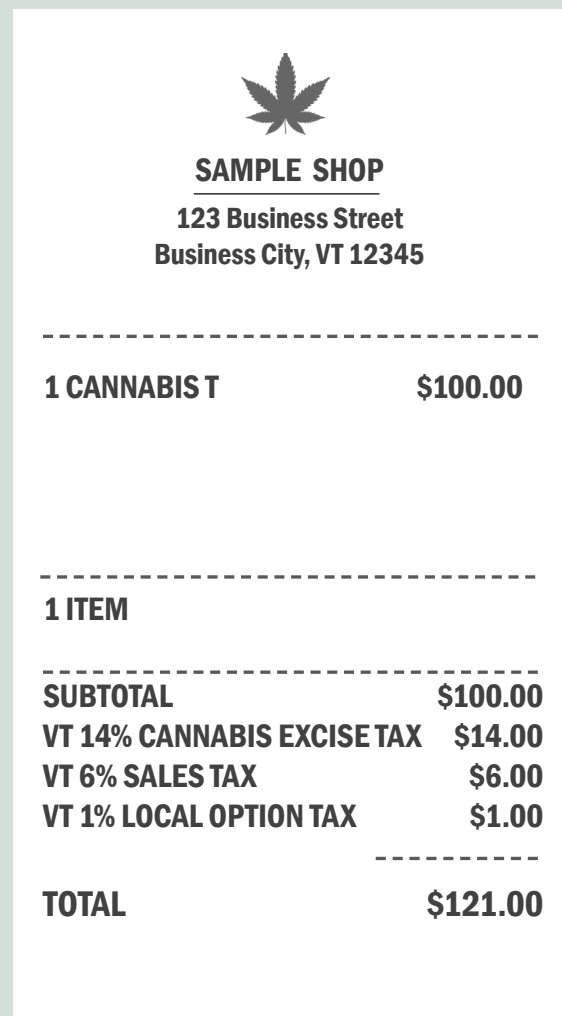
1 ITEM	

SUBTOTAL	\$100.00
VT 14% CANNABIS EXCISE TAX	\$14.00
VT 6% SALES TAX	\$6.00


TOTAL	\$120.00

EXAMPLE WITH LOCAL OPTION SALES TAX

If the municipality where the \$100.00 sale takes place has a local option tax, add \$1.00 (1% of the sale price). There is no local option tax on the cannabis excise tax portion of the sale. While cannabis excise tax and sales tax must be itemized on the invoice, sales tax and local option tax may be itemized (6% + 1%) or combined (7%). The total price of the transaction would be listed as \$121.00 (100 + 14 + 6 + 1) or (100 + 14 + 7).



A sample receipt for a cannabis sale with local option tax. The receipt is for 'SAMPLE SHOP' at '123 Business Street, Business City, VT 12345'. It shows a purchase of '1 CANNABIS T' for \$100.00. Below this, it lists '1 ITEM'. The subtotal is \$100.00. Taxes are listed as 'VT 14% CANNABIS EXCISE TAX \$14.00', 'VT 6% SALES TAX \$6.00', and 'VT 1% LOCAL OPTION TAX \$1.00'. The total is \$121.00.

	
SAMPLE SHOP	
123 Business Street Business City, VT 12345	

1 CANNABIS T	\$100.00

1 ITEM	

SUBTOTAL	\$100.00
VT 14% CANNABIS EXCISE TAX	\$14.00
VT 6% SALES TAX	\$6.00
VT 1% LOCAL OPTION TAX	\$1.00

TOTAL	\$121.00

FILING A RETURN

Retailers and integrated licensees are required to file a cannabis excise tax return on or before the 25th of every month for sales made in the preceding calendar month. **For example, a return for sales in June must be filed by the 25th of July.** This is done through the myVTax portal, using the instructions provided when the business was registered with the Department. The tax is remitted electronically at the time the return is filed. If a business needs additional support with this process, it should contact the Department at (802) 828-2551 and tax.business@vermont.gov before filing.

A retailer or integrated licensee is required to keep accurate records showing all transactions subject to cannabis excise tax for at least three years. The records are subject to inspection by the Department of Taxes at all reasonable times during normal business hours.

BUNDLED TRANSACTIONS INVOLVING CANNABIS AND CANNABIS PRODUCTS

A retail sale of two or more distinct and identifiable products for one nonitemized price is considered a “bundled transaction.” It is also a bundled transaction when cannabis or a cannabis product is provided free of charge with the required purchase of another product. A business must consult with the Cannabis Control Board before bundling cannabis and cannabis products with other items to determine whether a bundle is allowable.

Generally, a retail sale of a bundled transaction that includes cannabis or a cannabis product is subject to the cannabis excise tax on the entire sales price of the bundled transaction. This is true even when the bundle includes some products that are not subject to cannabis excise tax.

Exception: If allowed by the Cannabis Control Board, a business can avoid applying cannabis excise tax to nontaxable items in a bundle only when it can identify by “reasonable and verifiable standards” the portion that is not subject to tax. The business must consistently maintain accurate records of all transactions. Any discounts applied to the bundle must be attributed to the products that are not subject to cannabis excise tax.

EXEMPTIONS TO THE CANNABIS EXCISE TAX

Vermont allows some limited exemptions to the cannabis excise tax. A business must keep detailed records of any exemptions allowed for at least three years.

A sale is exempt from cannabis excise tax if it is (1) made by a licensed medical cannabis dispensary and (2) made only to a registered qualifying patient or through a registered caregiver.

A sale is also exempt if Vermont lacks the authority to impose tax on a purchaser. This could occur if the State or federal government makes a purchase and in some other rare occasions.

When Vermont Sales and Use Tax Applies

Vermont imposes sales tax on the retail sale of tangible personal property at a rate of six percent (6%). Cannabis and cannabis products are tangible personal property and therefore subject to sales tax. Further, Vermont law mandates that the sales tax exemption for food does not apply to cannabis and cannabis products (even when cannabis products are contained in food).

A seller must collect sales tax at the time and place of a sale. Sales tax is destination-based, meaning the tax is applied based on the location where the buyer takes possession of the item or where it is delivered.

Businesses are responsible for collecting sales tax from their customers and then filing and remitting the tax to the State.

Cannabis businesses themselves may pay sales and use tax on items purchased for their business. Integrated licensees should note that sales and use tax exemptions for agriculture generally do not apply to cannabis cultivators. The exemption for agricultural machinery and equipment does not apply when the item is used for cannabis cultivation (unless the item is used to produce another crop for seventy five percent (75%) or more of the time). The exemption for agricultural supplies does not apply, unless the supply is a product that is always exempt without regard for how it is used.

USE TAX

The Vermont Use Tax is a six percent (6%) tax that applies when a seller does not charge sales tax on a taxable item in Vermont. While it is unlikely that use tax will come into play in the regulated retail sale of cannabis, it may come up for businesses selling and purchasing other non-cannabis products.

Sales tax and use tax work together to create the same tax result whether a vendor collects sales tax or not. Therefore, use tax has the same rate, rules, and exemptions as the sales tax. A purchase is subject to use tax in the following situations when sales tax was not already paid to Vermont.

- The buyer takes possession of the item in Vermont.
- The buyer has the item delivered to Vermont from a vendor not required to collect tax.
- The buyer purchases the item outside of Vermont and then brings it into Vermont to use.

Businesses themselves may owe use tax on their business purchases. This occurs when no Vermont sales tax was charged or paid at the time of making a purchase of taxable goods, such as office supplies or other items for business use.

A business will report and pay use tax when it files its own sales and use tax return. An individual buyer is required to pay any use tax owed to Vermont when they file their personal income tax return.

Sales Tax Topics for Retailers

SALES TAXABILITY OF ITEMS SOLD

As stated above, cannabis and cannabis products are subject to sales tax when sold at retail. Other similar products, such as products that include hemp or CBD, are subject to sales tax [unless an exemption applies](#).

Cannabis is not subject to sales tax when sold by a licensed medical cannabis dispensary to registered qualifying patients directly or through their registered caregivers. [Please refer to the cannabis excise tax glossary for definitions](#) of cannabis and cannabis products.

FOOD ITEMS WITH CANNABIS

Food with cannabis is always subject to sales tax under Vermont law, but never subject to meals tax. This is true even when cannabis food items are intended for immediate consumption.

FILING A SALES TAX RETURN

A cannabis business must [register to collect sales and use tax](#) before filing a return. Note that a license number from the Cannabis Control Board is required when registering. The business can file sales and use tax returns and remit the tax collected using the myVTax filing site. Cannabis businesses are required to file electronically.

Separate Sales Tax Revenue for Cannabis Sales

When filing a sales tax return, a business will need to report sales of cannabis and cannabis products separately from other taxable items, such as merchandise. This is because Vermont law requires cannabis revenue to be used for the specific purposes of education and substance misuse prevention. The myVTax filing process will direct cannabis retailers to break out sales of cannabis products on a separate schedule accompanying the main sales and use tax return.

LOCAL OPTION TAX

In addition to the state-imposed sales and use tax, a business may be required to collect and remit a one percent (1%) local option tax imposed by some Vermont municipalities. A municipality may choose to levy a local option tax on meals and alcohol, rooms, and/or any items subject to sales tax. Cannabis is subject to local options sales taxes but not local option meals tax.

Local option tax is destination-based. A business should always calculate the local option tax as one percent (1%) of the taxable (net) sales for each local option town.

BUNDLED TRANSACTIONS

Follow the directions in the cannabis excise tax section for bundled transactions. Sales tax will apply to all transactions subject to the cannabis excise tax. Further, if any item in a bundle is not subject to cannabis excise tax, it may nonetheless be subject to sales and use tax if it is tangible personal property and is not otherwise exempt from the sales tax.

Sales Tax Topics for Manufacturers

Cannabis product manufacturers and hemp product manufacturers may purchase certain supplies, machinery, equipment, and monitoring devices that are used in the manufacturing process without paying sales tax on those items. The information below explains the sales tax exemption for manufacturing. Additional information can be found on the Department of Taxes website.

Hemp is not considered cannabis under Vermont law. Nonetheless, the explanation below also applies to products made from hemp.

Use a [Vermont Form S-3M exemption certificate](#) when claiming a manufacturing or packaging exemption during a purchase.

PROPERTY USED IN PROCESSING CANNABIS INTO CANNABIS PRODUCTS AND HEMP INTO HEMP PRODUCTS

Processing cannabis into food products qualifies as “food processing,” which is a type of manufacturing that qualifies for a sales tax exemption. Processing hemp into hemp products qualifies as “industrial processing,” which is also a type of manufacturing that qualifies for a sales tax exemption.

Not all items used in manufacturing qualify as exempt. Carefully apply the following tests to determine whether a particular item qualifies for the manufacturing exemption.

Failing to meet one part of a test means that the item is subject to tax.

MANUFACTURING SUPPLIES TEST

To qualify, an item must be (1) tangible personal property, (2) used in the manufacturing process, (3) have a useful life of less than one year, and (4a) become an ingredient or component part of tangible personal property for sale, or (4b) be consumed or destroyed or lose its identity in the manufacture of tangible personal property for sale.

MANUFACTURING MACHINERY AND EQUIPMENT TEST

To qualify, the item must be: (1) machinery or equipment, (2) used or consumed directly in manufacture, (3) used or consumed exclusively in manufacture, (4) used to manufacture tangible personal property, machinery, equipment, parts, or supplies for use in the manufacturing process, and (5) used during the manufacturing process.

MANUFACTURING MONITORING DEVICE TEST

To qualify, an item must be: (1) used during the manufacturing process and (2a) used to monitor manufacturing machinery and equipment, or (2b) used to monitor the product. Cameras installed for the purposes of facility security, and which do not directly monitor the product itself, do not qualify and are subject to tax.

THE MANUFACTURING PROCESS

The manufacturing exemption only applies to supplies, machinery, equipment, and monitoring devices used in the manufacturing process. The manufacturing process is defined as beginning with the first production process and ending with the initial packaging of the product. Anything used outside of that process is subject to tax.

For example, any collecting, weighing, testing, or cleaning that occurs before the first production cycle is not part of the manufacturing process. Equipment for storage that takes place before production is also not covered by this exemption. Likewise, any cleaning, secondary packaging, loading, delivery, or transportation of finished goods that follows initial packaging is not part of the manufacturing process. Initial packaging is the stage in the process where the product is in the form in which retail consumption occurs. For cannabis and hemp products, initial packaging concludes when the cannabis product is sealed in a container used for retail consumption.

QUALITY CONTROL TESTING

Quality control testing is generally considered part of the manufacturing process. The manufacturing exemption applies to supplies, machinery, equipment, and monitoring devices used in the manufacturing process.

PACKAGING EXEMPTION

A sales tax exemption is available for a manufacturer or distributor to purchase packing, packaging, or shipping materials used on tangible personal property for sale.

FUEL USED IN MANUFACTURING EXEMPTION

A fuel dealer should know when to collect sales tax on fuel deliveries and what exemptions may apply. They will need a manufacturer's help in determining specific uses and appropriate tax treatment. The Department of Taxes advises that taxpayers use separate meters or fuel storage tanks to easily distinguish taxable and exempt uses. If that is not practical, a taxpayer may also determine the percentage of floor space used primarily for qualified purposes and allocate usage according to the resulting percentage, provided floor space accurately reflects fuel usage.

Income Tax

FILING A VERMONT RETURN

The type of Vermont income tax return filed for a cannabis business depends on how the business is structured. Any business that engages in activity in Vermont is required to file and pay income tax.

- Sole Proprietorships: Personal Income Tax Return
- Subchapter S Corporations: Business Income Tax Return
- C Corporations: Corporate Income Tax Return
- Limited Liability Company: Returns Vary Depending on Circumstances

CONFLICT WITH FEDERAL INCOME TAX LAW

Federal law prohibits cannabis businesses from taking deductions and exemptions as most taxpayers would because cannabis is a prohibited substance under federal law.

Vermont allows normal deductions and exemptions for cannabis businesses. This means that a business will have to recalculate federal income for purposes of filing Vermont returns. A business will have to create a mock (or “pro forma”) federal tax return and submit it with their Vermont tax return. A cannabis business should submit a Vermont income tax return using the recalculated federal information.

Current Use Program - Enrollment of Cannabis Cultivating Operations

The Department’s Division of Property Valuation and Review administers the [Current Use Program](#). Land and buildings that qualify for the Current Use Program are subject to property taxes at a reduced per acre “use value” rate. General information about the application process can be found on the Department of Taxes website.

SPECIAL RULES FOR CANNABIS CULTIVATION AND PROCESSING

Licensed cannabis cultivators may legally grow and cultivate cannabis without enrolling the land in Current Use. Using land and buildings enrolled in Current Use for cannabis cultivation entails some special rules.

Vermont law requires that agricultural land and buildings first be enrolled for some other qualifying use or uses, such as growing hay, cultivating non-cannabis crops, pasturing livestock, or some other allowable agricultural purpose. The exact requirements vary according to other factors, such as the amount of land to be enrolled and how it will be used. The main point to remember is that the land or buildings must be enrolled in the program before cannabis cultivation takes place.

Once enrolled, agricultural land and farm buildings that are used for cannabis cultivation or processing cannot be transferred to another owner. If a transfer takes place, the land and/or buildings cannot be enrolled in Current Use if they continue to be used for cannabis cultivation or processing.

Once enrolled in Current Use, cannabis cultivation, drying, or processing is limited to 1,000 square feet or fewer of agricultural land.

Additionally, any cannabis cultivation, drying, or processing must be done with a cultivator’s license issued by the Cannabis Control Board.

Resources

TAX RESOURCES

- [Certificate of Good Standing](#)
- [Current Use Program](#)
- [myVTax](#)
- [Register to Collect Sales Tax](#)
- [Sales and Use Tax Exemptions](#)

LAWS, RULES, AND REGULATIONS

- [Vermont Cannabis Control Board](#)
- [Vermont Laws Relating to the Duty and Authority of the Cannabis Control Board](#)
- [Vermont Laws Related to Civil Penalties for Illegal Consumption](#)
- [Vermont Laws Related to the Production and Sale of Cannabis](#)
- [Vermont Regulations Related to the Production and Sale of Cannabis](#)

CONTACT US

For additional information or assistance, please contact the Business Tax Section at tax.business@vermont.gov or call (802) 828-2551.

GLOSSARY

“Cannabis” includes:	(1) all parts of the plant <i>Cannabis sativa</i> L. (except the parts listed below as not included), (2) the seeds of the plant, (3) the resin extracted from any part of the plant, and (4) any compound, manufacture, salt, derivative, mixture, or preparation of the plant, its seeds, or resin. These items are always subject to sales tax.
“Cannabis products” includes:	(1) concentrated cannabis, (2) any product that is composed of cannabis and other ingredients and is intended for use or consumption, including edible products, ointments, and tinctures, and (3) vaporizer cartridges containing cannabis oil that is intended for use with a battery-powered device. These items are always subject to sales tax.
“Cannabis” does not include:	(1) the mature stalks of the plant and fiber produced from the stalks, (2) oil or cake made from the seeds of the plant, (3) any compound, manufacture, salt, derivative, mixture, or preparation of the mature stalks, fiber, oil, or cake, (4) the sterilized seed of the plant that is incapable of germination, and (5) hemp or hemp products. These items are subject to sales tax unless a sales tax exemption applies. Some common applicable exemptions are the exemption for food and food ingredients and the exemption for over-the-counter drugs (must have an FDA-issued drug label). The retailer must ensure that an exemption applies before selling a product without collecting sales tax.
A “Cannabis retailer” :	is a person licensed by the Cannabis Control Board to sell cannabis and cannabis products to adults 21 years of age and older for off-site consumption.
An “Integrated licensee” :	is a person licensed by the Cannabis Control Board to act as a cultivator, wholesaler, product manufacturer, retailer, or testing laboratory.