

IMPACT OF 280E

THE PREDATORY TAXING OF CANNABIS COMPANIES



Weed vs. Greed: How America Botched Legalizing Pot

"Amid collapsing prices, **the legal weed industry shoulders a tremendous tax burden** that its illicit competitors don't. **State taxes on retail sales are as high as 37%**. And although marijuana remains illegal under federal law, Uncle Sam still holds out his hand for a big cut; pot companies are not allowed to take most normal business deductions, leaving them with an effective **tax rate of 60% or more.**"

– Forbes

[Read the full article >>](#)

BUSINESS COMPARISON

NON-CANNABIS COMPANY SELLING CANDLES

25,000
CANDLES SOLD = **\$500,000**
FOR \$20/EACH

BILL OF MATERIALS (BOM):

COST OF GOODS (\$10/UNIT):



\$250,000 *TAX DEDUCTIBLE

ADDITIONAL EXPENSES (\$10/UNIT):



RENT



INSURANCE



PAYROLL

\$200,000 *TAX DEDUCTIBLE

TOTAL DEDUCTIBLE EXPENSES:

\$450,000

\$50,000 (TAXABLE INCOME)
x 21% TAX RATE = **-\$10,500**

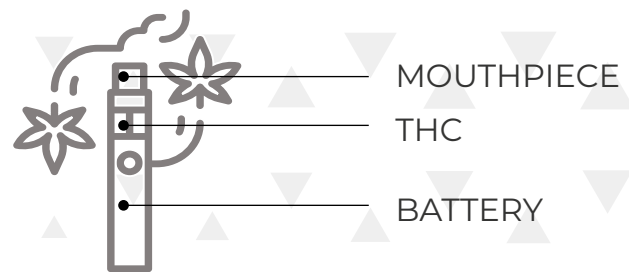
\$39,500 AFTER TAX PROFIT

CANNABIS COMPANY SELLING VAPE PENS

25,000
VAPE PENS SOLD = **\$500,000**
FOR \$20/EACH

BILL OF MATERIALS (BOM):

COST OF GOODS (\$10/UNIT):



\$250,000 *TAX DEDUCTIBLE

ADDITIONAL EXPENSES (\$10/UNIT):



RENT



INSURANCE



PAYROLL

\$200,000 *NOT TAX DEDUCTIBLE

TOTAL DEDUCTIBLE EXPENSES:

\$250,000

\$200,000 (TAXABLE INCOME)
x 21% TAX RATE = **-\$52,500**

-\$2,500 AFTER TAX PROFIT



Additional expenses are not tax deductible for cannabis companies because cannabis is considered federally illegal.

THE FACTS

This tax law causes legitimate operators to sell on the black market to prevent paying taxes. California, is the perfect example – in order to stay compliant, you have to break the law. California producers have to sell half on the black market in order to stay in business in the regulated legal compliant market.

TYPICAL PURCHASES CANNABIS COMPANIES CANNOT DEDUCT:



COMMISSION



INSURANCE



RENT



PAYROLL



MARKETING

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Cannabis companies cannot legally borrow from federal banks and are often presented with **exorbitant private loan interest rates as high as 30%**.

In fiscal year 2021,
Colorado collected
\$423.5 MILLION
in cannabis tax dollars.

Colorado Department of Revenue

The U.S. reported
\$25 BILLION
of cannabis sales in
2021 (increased by 40%
compared to 2020).

Seeking Alpha

COLORADO CANNABIS SALES

\$1,747,990,628
IN 2019

\$2,191,091,679
IN 2020

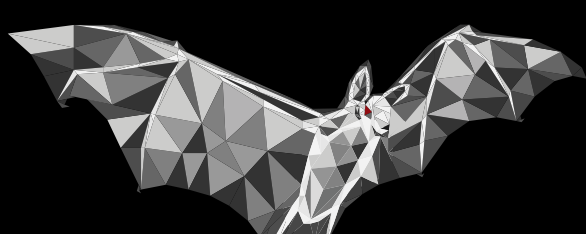
\$2,228,994,553
IN 2021

Colorado taxes cannabis products
7x MORE than alcohol.

Institute on Taxation and Economic Policy

Congress enacted Section 280E to prevent foreign cartels engaged in certain **ILLEGAL** activities from taking tax deductions or credits – except for cost of goods sold (COGS) – when determining gross income.

Cannabis businesses are tax-paying entities that are selling a plant, legal at the federal level, and positively contributing to America's economy under exploitative laws.



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