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House Bill 351: Income Tax—Subtraction Modification-Expenses of Medical Cannabis Grower, Processor, Dispensary or Independent Testing Laboratory
POSITION: FAVORABLE

Chairwoman Atterbeary, Vice Chairman Washington and esteemed members of the Ways and Means Committee. My name is Warren Lemley, I'm President of Peake ReLeaf, an independently owned and operated medical cannabis dispensary in Rockville and I strongly support House BIll 351.

I support this bill because as a licensed business in the State of Maryland I think it is only appropriate to have the same ability to deduct standard business expenses as any other business in Maryland.

State licensed cannabis businesses are prevented from deducting expenses from Federal and State taxes because our industry sells, grows and manufactures a schedule 1 substance even though the State of Maryland has approved our business licenses to treat the patients of Maryland with this vital form of medication.

Independent dispensaries have different circumstances than growers, processors, vertically integrated licensees and multi state operators. Growers, processors and vertically integrated licensees are able to write off more of their expenses because their businesses and employees manufacture or grow cannabis products as opposed to simply selling a "schedule 1 substance" to patients. The archaic tax code 280E prevents deductions concerning the "sale" of any schedule 1 substance aside from costs of goods sold but it doesn't prevent all the deductions in manufacturing or growing the substance. 18 states, Washington D.C. and Guam have currently legalized adult use and 36 states and 4 territories have legalized medical cannabis.

Some may point to an increase in revenue to show this industry doesn't need support but that doesn't reflect reality for many medical cannabis dispensaries. Revenue is unevenly shared by wholesalers and dispensaries who must manage high operation and labor costs, while many of us offer many benefits for staff to continue to be a competitive employer in this economy. Dispensaries must keep prices low for patients with aggressively low margins to stay competitive. Higher revenue comes with larger tax expenditures and without enough profit and good planning this can be detrimental to their overall success at the end of the fiscal year.

There is a larger tax burden on smaller independently owned and operated dispensaries in Maryland and that is why it's so important to pass this legislation to support small businesses. The inability to deduct expenses has led and will continue to lead to more small independent businesses being acquired by larger vertically integrated licensees or multi state operators. This legislation isn't only about helping the local Maryland cannabis industry. It is about providing businesses in the State of Maryland a fair place to operate a business and the licenses the State awards. That is why I respectfully encourage a favorable report on House Bill 217.

Respectfully Submitted,
Warren Lemley
President, Peake ReLeaf

The States I have listed below have already enacted similar legislation:

- California for personal income taxpayers beginning with the 2021 tax year, matching a deduction for corporate income taxpayers;
- Hawaii for corporate and personal income taxpayers beginning with the 2016 tax year;
- Louisiana for corporate income taxpayers beginning July 1, 2019;
- Maine for corporate and personal income taxpayers beginning with the 2018 tax year;
- Michigan for corporate and personal income taxpayers beginning with the 2019 tax year;
- Minnesota for corporate and personal income taxpayers beginning with the 2019 tax year;
- Montana for corporate and personal income taxpayers beginning with the 2017 tax year;
- New Mexico for corporate and personal income taxpayers beginning June 29, 2021;
- Oregon for corporate and personal income taxpayers beginning with the 2016 tax year; and
- Vermont for corporate and personal income taxpayers beginning with the 2022 tax year.