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Testimony by Alex Krasnomowitz, CPA
Senate Budget and Appropriations Committee

CPAs Support Bill (S340) Eliminating Tax Law Treating Cannabis Company Owners like Criminals

Thank you, Honorable Chairman Sarlo, for providing the New Jersey Society of CPAs the opportunity to testify today. My name is Alex Krasnomowitz and I'm the leader of the NJCPA's Cannabis Interest Group.

Since its legalization, the cannabis industry has generated tremendous interest amongst many of our clients. So much interest, in fact, that one of our largest and most active committees is now our Cannabis Interest Group.

Cannabis business owners, most of them already struggling financially, have run up against an unfair tax provision treating them like illegal drug traffickers. S340, with an important amendment to remove its current cap of \$15 million in gross receipts, would eliminate this provision for all cannabis companies.

What the bill does is decouple cannabis businesses from Internal Revenue Code Section 280E. In a nutshell, Section 280E prohibits any company illegally engaged in drug trafficking from deducting business expenses on personal or corporate income tax returns. Deducting business expenses is, of course, critical for a company to be profitable.



New Jersey still “piggybacks” 280E, thus taxing cannabis business owners like drug dealers, including those who operate in the medicinal space. Since cannabis is still illegal on a federal level, this may make sense for federal taxes, but it’s irrational and unfair in New Jersey where cannabis is legal.

Because the federal government doesn’t allow cannabis businesses to deduct business expenses, there is already a tremendous barrier to market entry and success. Preventing business expense deductions on a state level compounds this problem. If lawmakers want a prosperous cannabis industry, with businesses participating and thriving, then New Jersey needs to decouple from 280E.

The bill as currently drafted only decouples for companies with less than \$15 million in gross receipts. We strongly believe that this cap should be amended out, as it was in the Assembly companion bill. Such a cap hurts the entire industry, big and small. You can’t have a successful industry if certain sectors are in poor financial shape.

Thank you for considering our views on this bill.