

Reginald Byron Jones-Sawyer, Sr. 59th Assembly District



AB 37 – Tax Deductions for Cannabis Businesses

SUMMARY

AB 37 would allow legal cannabis businesses to deduct ordinary and necessary business expenses from their state taxes.

BACKGROUND

Federal income taxes are based on a fairly simple formula: start with gross income, deduct business expenses and then pay taxes on that amount.

Business expenses that businesses can deduct are rent, salaries, employee benefits, utilities, payments to contractors, marketing, repairs and office expenses.

Section 280E of the Internal Revenue Code forbids businesses from deducting ordinary business expenses from any gross income that derives from the “trafficking” of Schedule I or II substances, as defined by the Controlled Substances Act.

In California, the state’s personal income tax law conforms to Section 280E. This means that unlike other businesses, cannabis businesses filing taxes as sole proprietors or as partnerships cannot deduct ordinary and necessary business expenses from their state taxes.

As a result, legal cannabis businesses are taxed on their gross income and often pay tax rates that are 70% or higher, compared to other California businesses. This has the effect of limiting the growth of a new industry and deterring increased job creation.

THIS BILL

By exempting commercial cannabis activity from Section 280E, this bill would allow the deduction of business expenses under the state’s Personal Income Tax Law for cannabis trades and businesses.

SUPPORT

California Cannabis Industry Association (Sponsor)
Rural County Representatives of California

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