Press Release

Federal Taxation of Cannabis: A Primer

PAULINA ENCK | AUGUST 30, 2021

Despite 18 states having "legalized" recreational cannabis use, marijuana remains illegal under federal law. This discrepancy creates several policy challenges, particularly with respect to taxation, observes AAF's Director of Fiscal Policy Gordon Gray. As taxpayers are required to report all income – even from illegal sources – this legal disparity creates challenges for owners of cannabis businesses, including lack of access to banks, paying taxes in cash, and lacking the ability to use standard business deductions.

An excerpt:

> *The lawful cannabis industry faces numerous regulatory hurdles that makes even good-faith compliance with the law a challenge. For example, even though cannabis dispensaries cannot deduct employee wages against their taxes, they nevertheless must comply with minimum-wage laws. While these businesses must pay taxes, they are largely unbanked due to regulatory hurdles that prevent such businesses from accessing banking and other financial services. Without bank accounts, these businesses must make tax payments in person, in cash, at regional IRS offices. Indeed, former Secretary Mnuchin testified in 2020 that the IRS had to construct cash rooms to accommodate these payments.*

Read the analysis