DEPARTMENT OF REVENUE

INDIVIDUAL INCOME TAX
CORPORATE FRANCHISE TAX
Cannabis Expense Subtraction

February 4, 2019

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 319 (Chamberlain) As Proposed to be Amended (SCS0319A-1)

	Fund Impact			
	F.Y. 2020	**F.Y. 2021**	**F.Y. 2022**	**F.Y. 2023**
	(000's)			
General Fund	($200)	($200)	($200)	($200)

Effective beginning with tax year 2019.

EXPLANATION OF THE BILL

Current Law: Federal law prohibits a business from claiming any expense as a deduction from federal taxable income, if the business consists of trafficking in controlled substances such as cannabis. Minnesota conforms to federal law.

Proposed Law: The bill would allow the subtraction from Minnesota taxable income of expenses incurred in the business of providing medical cannabis, for entities registered in Minnesota to do so. The subtraction would also be allowed in determining alternative minimum taxable income.

REVENUE ANALYSIS DETAIL

- Entities registered to provide medical cannabis must file annual independent audit reports with the Minnesota Department of Health. Only two such entities are allowed and there are currently two. Both are registered as limited liability companies.
- The public audits filed with the Department of Health show that one of the entities experienced net losses in all years it has been in operation. The other entity had positive net income for 2017 only. Both companies do show positive gross revenue and therefore under current law have positive taxable income.
- Using average expenses reported on the public audits over the past three years, their projected operating expenses are expected to be about $2,400,000 per year. The impact of the subtraction could vary depending on the amount of future expenses and on the tax situation of the underlying shareholders.
- Tax year impacts are allocated to the following fiscal year.

Number of Taxpayers: If the number of entities registered to provide cannabis does not change, two taxpayers would be affected in tax year 2019.

Minnesota Department of Revenue
Tax Research Division
www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx