Tax Deductions under IRS Code 280e

As long as Cannabis is considered illegal under Federal Law, cannabis growers, processors, labs and dispensaries are prevented from taking the types of deductions for tax purposes that are standard operating procedures for all other types of businesses.

Irrespective of State regulations that have legalized cannabis cultivation and production the federal government is still vehemently opposed to supporting the industry.

As a result, any cannabis company that “touches the flower” cannot use accelerated depreciation, amortization or interest write-offs as a deductible expense on their financial statements.

IRS 280e states, provided that a cannabis company finances their equipment using a true lease, it can write off the entire lease payment against Cost of Goods sold. A true lease is a type of multi-year lease in which the lessor gives the lessee exclusive rights to use and possess property or equipment for a monthly fee over a specified period. Ownership rights of the asset do not automatically pass on to the lessee at the end of the lease term. Lessees will have the option to purchase the leased equipment for its fair market value. The net financial impact provides the lessee with a similar result to using depreciation, amortization and interest deductions. (See White Paper)

Sale-Leasebacks

Most cannabis companies have paid for their equipment using investor equity money and as much as 60% of all the cash raised is spent on equipment. Equity is the most expensive way to pay for equipment that is income producing. Recognizing this fact has led many of our clients to enter into sale-leasebacks where they sell their existing equipment to a leasing company for cash and can then immediately start to expense the payments.

Paying cash for cannabis equipment is often a mistake when a less expensive financing option is available.

End of Lease Options

With a true lease, lessees have several options available to them at the end of the lease:

- Purchase the equipment for its Fair Market Value
- Return the equipment and lease something new
- Extend the lease for further term.

Purchasing your equipment at lease end
If you are happy with your equipment and you do not need to replace it in the near future, it will make sense for you to buy it at the end of the lease. Although our leases are structured with Fair Market Value Purchase Options, we generally will cap the purchase price at 5% of the original funded amount.

Return the equipment and lease something new
Sometimes the equipment you originally acquired is no longer efficient for the amount of cannabis you are growing and processing. It may be time to choose some new equipment. Returning the existing leased equipment is easy and can be structured so you have no downtime.

Renew the lease for another term
It can make a lot of sense to consider extending the term of your lease for a further period. We do extensions in six month increments. You may not have the extra cash needed to complete a purchase, you may have your eyes on some better more efficient equipment but you are not quite ready to take that step, you may be consumed with the day-to-day stresses of running your business and not want any distractions. “If it ain’t broken, don’t fix it” is a common refrain. Let us know what your needs are and we will work with you to develop a great solution.