



Dear Sir or Madam,

We are writing on behalf of the Executive Officers, Board of Directors, and Members of the New Jersey Cannabis Industry Association in regards to the proposed additions to the New Jersey Revenue Statutes, §54A:5-1 and §54:10A-4, attached to this correspondence. The proposed changes seek to decouple New Jersey from Federal §280(E) for gross income tax and corporate income tax calculations. This would allow cannabis business owners to deduct ordinary and necessary expenses in the same manner as their non-cannabis counterparts.

The New Jersey Cannabis Industry Association is a nonprofit trade association dedicated to advancing the legalization of cannabis, through sensible policy, responsible growth, and development of New Jersey's cannabis industry. The Federal provisions contained in §280(E) present an immense challenge to the cash flow of cannabis operations in the United States. Cannabis business owners do not receive a tax benefit for any of their operating expenses due to cannabis' status as a federally controlled substance. Deduction provisions under the tax code are, in part, designed to encourage business and to incentivize spending behaviors. By removing this incentive from the business landscape for cannabis enterprises, they derive no benefit from this principle and are operating at a dramatic disadvantage. This deters them from reinvesting the funds and growing the business. In addition, these businesses are forced to retain cash to satisfy their Federal tax liabilities which could be three times higher than a typical business tax bill. This inequitable concept will either inadvertently encourage noncompliance, will stifle the growth of cannabis operations, or will prevent these businesses from success in the industry. This outcome is not consistent with the long-term goal of sustainable tax revenues.

This unjust burden of Federal tax creates a tremendous barrier to market entry. Consequently, early-stage, small businesses with an increased need for cash will struggle to survive and compete with established operators, who will be able to squeeze margins to create high capital requirements and limit new market participants. If New Jersey chooses to follow this Federal provision, it appears to send the message that existing operations may consume the entirety of the market share cultivated within our State. We are hopeful for the development of a market that is ripe with diversity in operators' backgrounds, expertise, and level of experience. We therefore support the promotion, rather than the deterrence, of start-up business in New Jersey, and will continue support small business operators in the existing competitive climate. Parties seeking to participate in the New Jersey market will benefit immensely from the relief provided by the attached amendments to our Revenue Statutes, regardless of size.

The potential issues associated with New Jersey applying Federal 280(E) do not align with the New Jersey Cannabis Industry Association's mission to develop a diverse and sustainable cannabis industry in our state. We hope that passing of this much anticipated legislation creates a rich, interconnected economic ecosystem for small businesses and local operators. We believe that the proposed revenue statutes will assist to accomplish the aforementioned vision by reducing the entry barriers created by punitive tax policy. In addition to our support, we've included as an attachment a position paper released by the National Cannabis Industry Association addressing the unjust Federal tax burden on State-legal cannabis businesses, for your review.

We thank you for your attention and consideration in the matter. Please do not hesitate to reach out to us for further questions.

Sincerely,

Dara Servis, Executive Director
New Jersey Cannabis Industry Association