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June 20, 2018

The Honorable Mike McGuire  
Chairman of Senate Committee on Governance and Finance  
State Capitol, Room 408  
Sacramento, CA 95814

Re: Support for AB 1863 (Jones-Sawyer) – Tax Deductions for Cannabis Businesses, as amended May 08, 2018

Dear Chairman McGuire,

The San Francisco Chamber of Commerce, representing thousands of local businesses urges you to support Assembly Bill 1863 (Jones-Sawyer). This bill would allow legal cannabis businesses to deduct ordinary and necessary business expenses from their state taxes.

Under federal tax law, 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 substances. 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 and pay taxes based on their gross income.

Currently under state law, cannabis businesses organized as corporations can deduct ordinary and necessary business expenses from their state taxes. AB 1863 (Jones-Sawyer) would normalize the taxation treatment for corporate and sole proprietor/partnership, allowing all kinds of cannabis businesses to deduct ordinary and necessary business expenses from their state taxes.

We thank you for your consideration and urge your support for AB 1863 (Jones-Sawyer) when it is heard in the Senate Governance and Finance.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Lazarus", with a long horizontal flourish extending to the right.

Jim Lazarus  
Senior Vice President, Public Policy  
San Francisco Chamber of Commerce

cc: Assemblymember Reginald Byron Jones-Sawyer, Assembly District 59