



The GreenWave Buzz

"MORE" TAX REQUIRED TO RID THE (IRS) SNAKE IN THE "GRASS"

KEY POINTS:

- With two full years of public company disclosures, we provide a detail analysis that suggests a minimum federal excise tax of 10% upon the end of federal prohibition.
- The MORE Act currently includes a 5% excise tax (with a gradual increase to 8% over three years) which we believe is insufficient to replenish lost 280E tax revenues particularly as the IRS continues to scrutinize cannabis businesses for additional payments.
- We examined all publicly traded Multi State Operators (MSOs) with audited financial statements and a market capitalization in excess of \$1 Billion.
- Our review accounts for 10% and 18% of total U.S. cannabis retail sales in 2019 and 2020 with 280E tax collections of approximately \$1.4B and \$1.9B respectively.

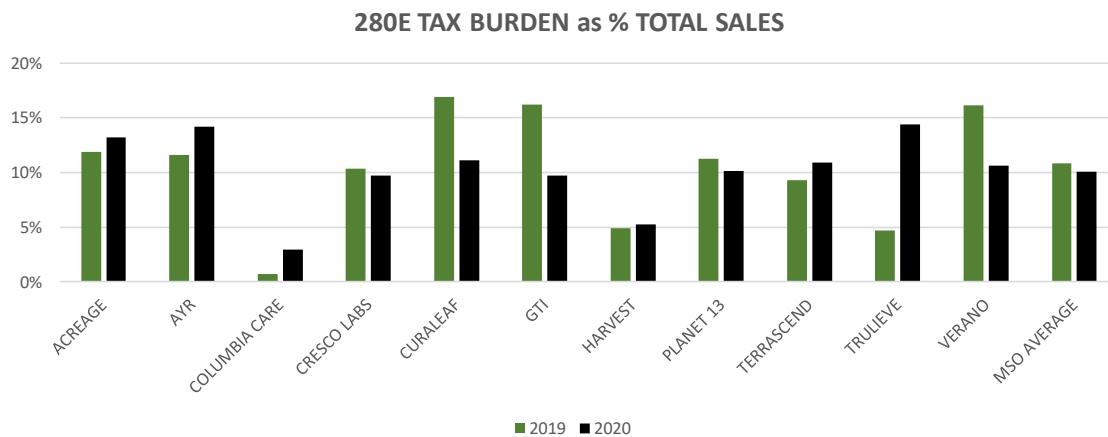
In last year's election voters in 5 states passed ballot initiatives to legalize cannabis, prompting several remaining state governments to accelerate similar reform measures. With these recent actions, and with cannabis legal in 36 states (18 of which provide for adult use), the Federal government has stepped up its efforts to end prohibition. Senate Majority Leader Chuck Schumer, along with other Democratic leaders signaled a plan to merge the STATES and MORE Acts into one comprehensive bill that would legalize cannabis.

As we have indicated in the past, there are numerous inefficiencies and added costs associated with operating a cannabis business under the shadow of federal laws. Most significant of these is the excessive tax burden of 280E (correspondingly a source of revenues for the IRS).

Among other components of the MORE Act is provision for a federal excise tax of 5% (amended for a gradual increase to 8% over three years). In theory, collections from this tax would replace the revenues from 280E. In a prior [GreenWave Buzz](#), we analyzed the potential excise tax necessary to replenish the government lost revenue from a repeal of 280E. Now, with two full years of public company disclosures, we have greater visibility on the numbers and provide an updated analysis below.

In our analysis, we conclude a 10% excise tax could serve as a replenishment of lost 280E revenues. However, as we have all too commonly witnessed with overly aggressive taxation at the state level, an additional tax of this magnitude will likely lead to a more competitive illicit market. This dynamic between federal, state, and local sales taxes remains a key factor in the competitiveness of the legal and illicit markets. Accordingly, we maintain the view that state revenue forecasts may not be achievable

due to the inevitable quantum of the federal excise tax and the need to adjust state and local sales taxes accordingly.



Source: GWA estimates; company public filings

Our Assumptions and methodology:

	\$ Millions	
	2019	2020
TOTAL U.S. RETAIL SALES	\$ 12,900.0	\$ 19,100.0
MSOs REVIEWED		
TOTAL REVENUES	\$ 1,236.8	\$ 3,347.4
% TOTAL	10%	18%
TOTAL 280E TAX	\$ 133.8	\$ 337.9
THEORETICAL EXCISE TAX	11%	10%
TOTAL U.S. ESTIMATED 280E TAX	\$ 1,395.54	\$ 1,928.19

Source: GWA estimates, Company Filings

- Publicly traded MSOs with a market cap > \$1B with audited financial statements; we account for 10% and 18% of total U.S. cannabis retail sales in 2019 and 2020 respectively.
- Some MSOs have provided a wholesale/retail revenue split; we recognize that wholesale would not be subject to the same excise tax as retail so our methodology considers one firm's wholesale product supplies another business's retail channel.
- For those companies that have net income, we subtract the amount of tax that would ordinarily be paid based upon an effective tax rate of 27% (21% Fed; 6% State Average) from the reported tax provision (current portion). To this end, for those companies with net income and reporting under IFRS, we exclude from this calculation the income statement impact of changes in the fair value of its biological assets.
- We also consider, the IRS could assess additional 280E payments as it continues to scrutinize cannabis businesses and thus in theory, a greater excise tax would be required.