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delivery licenses, and micro-business licenses. The grow, club, and delivery ...

Craig Smalley • Mar. 06, 2018

I have been specializing in cannabis for a long time. I have had cannabis clients everywhere in the U.S. that it is legal on the state level. The problem with that is that you need to learn all the different state laws. For instance, if you own a dispensary in Nevada, you can't own any other establishment. So, much for the CHAMPS ruling^[1]. So, I learned all I could about California Cannabis Laws, and I try to stick with clients in that state. The reasons are varied.

In January, California went recreational, and they did it right. They offer several licenses. They offer grow licenses, dispensary (club as it is called there) licenses, delivery licenses, and micro-business licenses. The grow, club, and delivery licenses are self explanatory. However, the micro-business license is awesome.

First of all the license allows the holder to grow, dispense, transport, and have a club. So, if you think about it, you control the cost of the grow, and transport. Not to mention the price to the end consumer. You can completely undercut your competition.

When it comes to taxation, the grow is pretty much all cost of goods sold (COGS), with a twist. Most grows are small, and can't house their products. You simply open a management company, which doesn't conform to Section 280E, to house the cannabis. Edibles, wax, and CBD oil is popular, so you outsource the process to a packager, who takes your cannabis, and turns it into the other stuff. Since edibles, wax, and CBD are competitive, you open another non Section 280E company, who's purpose is to get the brand name of your cannabis products out. The grow, and club pay the management company for storing the cannabis, the branding company for branding the edibles, wax and CBD. Which all pump up COGS. The salaries of the

owners are paid out of either offshoot. A word of caution here. The management

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Outside of the recreational licenses you can get, you can also get a medical license. With a medical license, you are given access to the latest medical cannabis, which usually contains more THC[2].

Recreational cannabis is not all sunshine, lollipops, and rainbows in California. The taxes on recreational cannabis is crazy. The growers have to pay a tax on the flower[3], and the trim, which is what edibles are made out of. Then of course there is a tax when you purchase at the club, unless it is medical.

The Trump Administration has yet to give their position on cannabis. However, the Attorney General, "receded" the Cole Memo (which means nothing), and says he will enforce federal drug laws. So, what Sessions is saying is that there are about eight million companies in cannabis today. Does he really think the Drug Enforcement Agency (DEA), can raid all of these places? I mean we can't find the IRS, but we are going to throw money at this nonsense?

I am in Florida, and let me tell you how backwards Florida is. In 2014, the legalization of marijuana was on the ballot. In Florida, you have to receive 60% of the vote for a measure to pass. It won 58%. So, the legislature took it upon themselves to legalize a low THC cannabis called Widow's Peak. There were 25 companies that were issued licenses. In 2016, marijuana was on the ballot again, and passed with 74% of the vote. What did the legislature do? They created a monopoly. Those same 25 license holders were grandfathered in, and allowed to open 25 dispensaries each. There were hearings and lobbying. So the State opened eleven more licenses, with one that has to be given to a minority.

It is still illegal to carry minimal amounts of cannabis without having a license. To get a license is next to impossible.

Speaking of licenses, I think that I am the only person that has a California Medical

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because I attended UCLA, a leader in studying cannabis. They are studying the medicinal use, a way for people to come off opioids, and other things. I have to say, it helped the pain, but I hated the side effects. Obviously, the slowing down, euphoria, and other things are why people take cannabis, but its not for me.

There are so many opportunities in avoiding Section 280E. Especially in California. Other states have so many rules, that it makes it hard to obtain a license. Also, one thing I want to point out. I talk to a lot of people in cannabis. You have the white collar investors, who try to tell me that the name of their company has nothing to do with cannabis, so they opened a normal bank account. I just imagine the face of the teller that has to count the cannabis smelling cash, and see how quick they get shut down. However, a majority of this business is rooted in the black market. To be in this business you need to know your clientele.

[1] Californians Helping Alleviate Medical Problems (CHAMPS) v Commissioner which the Tax Court ruled that there could be two businesses under one roof.

[2] The psychoactive substance in marijuana that produces a “high”

[3] The Bud

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