



NEW YORK STATE SENATOR

Luis R. Sepúlveda

Senator Sepúlveda Celebrates Passage of Bill Permitting Tax Deductions for Cannabis Businesses

RUSKING PIMENTEL June 8, 2023

| ISSUE: **CANNABIS, CANNABIS LEGALIZATION**

Albany, NY - Senator Sepúlveda is thrilled to announce the successful passage of Senate Bill S7508, a significant legislative achievement that enables tax deductions for businesses involved in the sale, production, or distribution of cannabis products. This bill, titled "An act to amend the administrative code of the city of New York, in relation to permitting certain tax deductions related to the sale, production, or distribution of cannabis products," focuses on fostering a fair and equitable business environment for the cannabis industry.

The purpose of this bill is to allow authorized taxpayers engaged in the adult-use cannabis or medical cannabis market, as permitted under New York's Cannabis Law, to deduct their business expenses when calculating taxable income. Currently, federal tax regulations, specifically section 280E of the Internal Revenue Code (IRC), disallow deductions for expenses incurred in the trade or business of trafficking controlled substances classified under Schedule I and II, including adult-use cannabis products and medical cannabis. However, this bill seeks to rectify this discrepancy and bring tax fairness to cannabis businesses in New York City.

Under the provisions of the bill, a new paragraph is added to the Administrative Code of the City of New York, specifically section 11-506, to allow a deduction under the unincorporated

business tax (UBT) equal to any federal deduction disallowed by section 280E of the IRC. Additionally, amendments are made to sections 11-602 and 11-652 of the Administrative Code to permit deductions under the general corporation tax (GCT) and the business corporation tax (BCT), respectively, in the same manner.

New York's Cannabis Law has opened the doors for licensed individuals and entities to participate in the sale, production, and distribution of adult-use cannabis products. Furthermore, registered organizations are authorized to engage in the sale, production, and distribution of medical cannabis. However, despite compliance with state laws, these businesses face the burden of being unable to deduct their ordinary and necessary expenses at the federal level due to the constraints imposed by section 280E of the IRC.

The City of New York recognizes the importance of fostering a thriving and equitable cannabis industry. By aligning with New York State's corporation tax laws, which allow deductions for business expenses related to the distribution and production of adult-use cannabis products, this bill ensures that cannabis businesses operating in New York City can also benefit from fair tax treatment. The modification to the UBT, GCT, and BCT allows for the deduction of expenses disallowed at the federal level, reflecting the legitimacy and economic potential of the cannabis sector.

Senator Sepúlveda expresses deep gratitude to the Legislature for their support in passing this crucial bill. "By permitting tax deductions for cannabis businesses, we are fostering a more inclusive and supportive environment for this emerging industry," said Senator Sepúlveda. "This legislation promotes fairness and acknowledges the value of the cannabis sector in driving economic growth and job creation within our communities."

The successful passage of Senate Bill S7508 signifies New York's commitment to creating a thriving and equitable cannabis industry. Senator Sepúlveda looks forward to the positive impact this legislation will have on businesses and communities across the state.