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The **C****nnabis** I N D U S T R Y



ACCOUNTING AND APPRAISAL GUIDE

Indispensable Resources on Taxation, Accounting, and the
Appraisal of Cannabis Related Intellectual Property and
Business Interests

S E C O N D E D I T I O N

STACEY D. UDELL
RONALD L. SEIGNEUR
BRENDA M. CLARKE

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To my husband, my parents, and my kids, Julia, Hannah, and Gabi – I love you and appreciate your patience, understanding and support. To Chris – there is no one I'd rather be all in with. Lastly to my HBK partners and team – I appreciate you.

Stacey D. Udell

To my wife Beverly and my family for their unending support as I chase projects like this that consume so much of my time. You mean the world to me.

Ronald L. Seigneur

This is dedicated to my family and friends, who support me in this and everything else I do. I am truly blessed to have the opportunities I've been given.

Brenda M. Clarke

We all want to give a big thank you to Chelsea Seigneur for getting us to the finish line and Rob Mejia for your meticulous editing.



The Cannabis Industry

Accounting and Appraisal Guide

These 77 words in the Internal Revenue Code define one of the biggest challenges currently facing cannabis businesses:

No deduction or credit shall be allowed for any amount paid or incurred during the taxable year in carrying on any trade or business if such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of schedule I and II of the Controlled Substances Act) which is prohibited by Federal law or the law of any State in which such trade or business is conducted.

26 U.S. Code § 280E - Expenditures in connection with the illegal sale of drugs

Dope

Mary Jane

Green

KGB

Weed

Schwag

Reefer

Cannabis

Hashish

Doobie

Ganja

Wacky Tabacky

Marijuana

Tea

Herb

Grass



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About The Authors

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Introduction

In March 2020, the world shut down due to COVID-19, but the cannabis industry got a boost when it was declared an essential business. Online ordering, curbside pickup, and delivery channels expanded which provided the general public more opportunities to spend government stimulus money on both alcohol and cannabis.

The cannabis industry continues to be one of the fastest growing industries in the United States and created one of the greatest entrepreneurial business opportunities of the 21st century. New Frontier Data reported sales in the state legal cannabis market of \$26.5 billion in 2021 and projected an 11 percent compound annual growth rate, reaching \$58 billion by 2030. As a point of reference, Starbucks sales were \$29.1 billion in its fiscal year ending September 30, 2021 and McDonalds global revenue was \$23.2 billion in 2021.

New Frontier Data also estimated 52 million adults will consume cannabis at least once in 2022 and this will increase to

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71 million people by 2030 representing four percent compound annual growth.

With so many states legalizing various aspects of cannabis, it isn't surprising that an October 2021 Gallup poll showed 68 percent of Americans supported legalizing cannabis, an increase from 60 percent in October 2016. This is compared to 2011 when 45 percent of adults favored legalization. 70 percent of American citizens have some form of legal access to medical or recreational cannabis in 2022. While public support is increasing, unfortunately politicians can't get past the politics to legalize or deschedule cannabis or at least create legislation allowing banks to service cannabis businesses without penalty.

While all of this is happening (or not happening) in the world, the cannabis industry continues to evolve. There are varying (and often conflicting) rules at the federal, state, and local levels. Jurisdictions have different licensing regulations and requirements and processes for holding licenses which vary significantly. Examples include limited license states to no caps on licenses, preference to social equity applicants, residency restrictions, and optout options for municipalities.

The complexities regarding this industry require the use of knowledgeable professionals who are adequately trained and familiar with industry trends and protocols. As Certified Public Accountants who work regularly with a wide range of businesses and clients, nothing has come close to the intellectual challenges we have encountered in this niche.

We added some new topics and new chapters– Advanced Accounting Topics (chapter 6) and Lost Profits (chapter 13) and new topics in this edition. New topics include accounting

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methods, seed to sale software, payroll providers, the Qualified Business Income Deduction, investment vehicles, and bankruptcy. Lastly, ten new court cases are included in Appendix B. We hope you enjoy and learn from the second edition of *The Cannabis Industry Accounting and Appraisal Guide*. We created this book to provide useful information about the unique financial aspects and intricacies related to businesses operating in the rapidly evolving regulated cannabis industry.

Stacey

Ron

Brenda