

**In person Testimony, 1/31/2023, HF 100 Bill- State and Local Government Finance and Policy Committee**

**Jake Haneman, Business Owner:**

**Bootlegger Brewing Kombucha (est 2015), 14607 Felton Ct, Ste 112, Apple Valley, MN**

(N/A Beverage Brew/Package/Distribute- MN, IA, SD, ND, WI, IL, and expanding)

**Auroch Canning (est 2022), 14607 Felton Ct, Ste 112, Apple Valley, MN**

(Brew, Co-packing/Canning N/A and Hemp Beverages for MN, WI, MA, NY, LA)

**25 years experience in medical, defense and food manufacturing**

**Addressing concerns with:**

- The removal of the distinction between legal hemp and cannabis derived cannabinoids for taxation and production.
- The Edible cannabinoid product handler endorsement- Article 1, Section 7, Subdivision 3 (a), 3 (d) , Lines 24.1-24.4 and lines 24.21 through 21.24
- Manufacturer Operations- Section 24, Subdivision 1 (a) and 1 (b)

**Article 1, Section 7, Subdivision 3 Edible cannabinoid product handler endorsement.** (a) Any person seeking to manufacture, process, sell, handle, or store an edible cannabinoid product, other than an edible cannabinoid product that has been placed in its final packaging, must first obtain an edible cannabinoid product handler endorsement.

Article 1, Section 7, Subdivision 3 (d) The edible cannabinoid product handler endorsement must **prohibit the manufacture of edible cannabinoid products at the same premises where food is manufactured**

**Sec. 24. [342.25] CANNABIS MANUFACTURER OPERATIONS.**

**Subdivision 1. All manufacturer operations.** (a) **Cannabis manufacturing must take place in an enclosed, locked facility that is used exclusively for the manufacture of cannabinoid products**, creation of hemp concentrate, or creation of artificially derived cannabinoids except that a business that also holds a cannabis cultivator license may operate in a facility that shares general office space, bathrooms, entryways, and walkways. (b) Cannabis manufacturing must take place on equipment that is used exclusively for the manufacture of cannabinoid products, creation of hemp concentrate, or creation of artificially derived cannabinoids.

### **Summary of current requirements referenced above:**

- Hemp and cannabis are no longer considered separate. How will the IRS classify a hemp-based cannabinoid vs. a cannabis cannabinoid if it's produced on the same equipment and in the same facility as cannabis?
- Obtaining an edible cannabinoid product handler endorsement is required for all cannabinoid processing or manufacture except for final retail packaged sales.
- The endorsement prohibits the manufacture of edible cannabinoid products both in the same facility and on the same equipment where food is manufactured.

### **Impact if not amended:**

- Minnesota **will lose.**
  - **Loss of Minnesota businesses currently in production.**
  - **Loss of Minnesota's internal and exported manufactured hemp products.**
  - **Loss of Minnesota tax dollars.**
  - **Loss of lower taxes and benefits of working with low dose hemp.**
- **Much if not all in-state manufacturing of hemp derived cannabinoid products would need to stop immediately**, either indefinitely or until new equipment, facilities, employees and state/city business certifications are complete (months/years). Many of these facilities process more than hemp. Much of the packaging/processing done in the food and beverage industry utilizes co-packing or off-site processing due to the high cost of equipment, facilities, industry expertise and certifications required to run and maintain these specialized high complexity operations.
- Out of state manufacturers who do not have this restriction will fill in the gap and provide cannabinoid products from out of state to the Minnesota market.
- If the IRS chooses to lump all cannabinoids based on the current bill's framework as cannabis (which is illegal) then the entire supply chain in producing the end sale to the consumer is subject to 280e taxes.
- 280e taxes means the taxable basis of a business is no longer at the bottom of the Profit and Loss statement (Net Operating Income) but rather Gross Profit. Putting unknowing business establishments like restaurants and bars in the 280e tax bucket if they choose to sell low-cannabinoid products.
- 280e tax makes it nearly impossible for cannabis businesses to generate a profit. Maintaining the current supply chain of low-cannabinoid hemp products ensures that the great people of Minnesota who are participating today will still have a profitable business and that those who wish to enter the market are allowed to do so, creating an equitable marketplace for all.

## Summary of Issues

- Removal of the distinction between hemp derived cannabinoids and cannabis derived cannabinoids forces companies already in business to be handled as a cannabis company .
- There are numerous Minnesota businesses in operation under the farm bill, that have been producing edible and non-edible cannabinoid products in conjunction with non-cannabinoid products using state and federal food safety guidelines.
- Much of the packaging/processing done in the food and beverage industry utilizes co-packing or off-site processing due to the high cost of equipment, facilities, industry expertise and certifications required to run and maintain these specialized high complexity operations.
- Current MN co-packers are providing services for both in-state and out of state companies.
- If passed as is, this would force Minnesota businesses already providing these mixed manufacturing services to:
  - Halt all operations, including current active contracts operating legally under the farm bill, and
  - Either stop production indefinitely
  - **OR** purchase duplicate equipment, identify new facilities, hire employees, obtain state/city re-certification etc. Which, even at the smallest level is hundreds of thousands of dollars in investment and months to years before able to realize full production capability. This is supported by existing examples in other legal states where this type of requirement exists.
  - Out of state manufacturers who do not have this restriction will fill in the gap and provide cannabinoid products from out of state to the Minnesota market since retailers are not required to maintain separation.

## Proposed amendments:

- Maintain the ability to use hemp cannabinoids for production and taxation (lower potency edible products)
- Food handling requirements **CURRENTLY EXIST for dealing with potentially deadly allergens** in food and other production facilities, which can be leveraged to develop safe and maintainable cannabinoid manufacturing.
- Maintain tax benefits for producing hemp derived products.
- **KEEP CANNABINOID PRODUCTION AND MANUFACTURING IN MINNESOTA.**
- **KEEP JOBS IN MINNESOTA**
- **KEEP TAX DOLLARS IN MINNESOTA**

# Contact Info

- Jake Haneman
- Bootlegger Brewing/Auroch Canning
  - 14607 Felton Ct, Ste 112, Apple Valley, MN 55124
- Email [jake@bootleggerkombucha.com](mailto:jake@bootleggerkombucha.com), [jake@aurochcanning.com](mailto:jake@aurochcanning.com)
- Phone 763-312-0177