

Subject Income and corporate franchise tax; allowance of trade or business expense deductions for manufacturers of medical marijuana

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Overview

This bill allows companies manufacturing medical marijuana under Minnesota licenses to subtract their trade or business expenses (e.g. rent, employee wages, utilities, and so forth) in computing taxable income used in calculating Minnesota individual income tax and corporate franchise taxes. As amended, the bill would allow this subtraction to be taken for purposes of calculating the alternative minimum tax as well.

Effective date: Tax year 2019.

Background: Federal law (section 280E of the Internal Revenue Code), which Minnesota law incorporates by reference, disallows deductions for amounts “paid or incurred ... in carrying on any trade or business [that] consists of trafficking in [Schedule I or II] controlled substances” as defined by federal law. Since marijuana is a Schedule I controlled substance, this provision prevents medical marijuana businesses from deducting their business expenses, such as rent, wages paid to employees, and so forth. Under guidance provided by the Internal Revenue Services (following the legislative history of section 280E), this does not prohibit deductions for the cost of goods sold. This bill would allow companies that are licensed by the state of Minnesota to produce medical marijuana to subtract the expenses disallowed under section 280E in computing Minnesota income or corporate tax.

Summary

Section	Description
1	Disallowed section 280E expenses; individuals. Provides an individual income tax subtraction for a medical marijuana manufacturer’s business expenses.
2	Disallowed section 280E expenses; corporations. Provides a corporate franchise tax subtraction for a medical marijuana manufacturer’s business expenses.

Section	Description
3	Alternative minimum tax; individuals. Allows a subtraction under the individual alternative minimum tax for the subtraction in section 1.
4	Alternative minimum tax; corporations. Allows a subtraction under the corporate alternative minimum tax for the subtraction in section 2.



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