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Marijuana While We Do Your Taxes?

Marijuana and taxes have a delicate relationship. Yet one tax preparation business in New York may have managed to combine marijuana with the inevitable process of doing your taxes. Let's see, we'll do your taxes while you, er, relax.

The owner and three employees of [420 Multi Services Inc.](#) of the Bronx were arrested for allegedly dealing marijuana out of the business. And that could mean this peas and carrots combination will pass from the scene. Meanwhile, some observers tout the benefits of legalizing marijuana and taxing it.

Indeed, Colorado collected \$2 million in taxes from marijuana in only one month. That's not bad. Others note the huge industry problems with taxes. [Section 280E](#) of the tax code denies even legal dispensaries tax deductions so they have to pay tax on their gross, not their net income. "The federal tax situation is the biggest threat to businesses and could push the entire industry underground," the [leading trade publication](#) for the marijuana industry reported.



Medical marijuana Acapulco gold (Photo credit: Wikipedia)

The tally is now up to [20 legal medical marijuana states and D.C.](#) Add to that the states that now allow recreational use. Voters in Colorado and Washington voted to legalize marijuana. More than a few voters probably feel disenfranchised.

You could say the same about voters in the 20 states that legalized medical marijuana. But in the feds' view, regardless of state legality, marijuana is a controlled substance and illegal under federal law. The IRS says it has to enforce the tax code passed by Congress.

Returning to the Bronx 420 tax office, it doesn't appear that they were very clandestine about their operation. See [420 Multi Services, Tax Prep Company, Raided For Alleged Marijuana Dealing](#). Maybe they should have picked a different name. The number 420 on the tax preparation company's sign is a [common reference to marijuana](#).

The NYPD found seven baggies with two ounces of weed [according to a complaint](#) obtained by the New York Daily News. The owner, Michael Thomas, was arrested, as were three of his employees.

One answer to the tax problem has been for dispensaries to deduct expenses from other businesses distinct from dispensing marijuana. If a dispensary sells marijuana and is in the separate business of care-giving, the care-giving expenses are deductible. If only 10% of the premises are used to dispense marijuana, most of the rent is deductible.

Given the documented medical use of marijuana and state laws, you might think the feds would respect state law and states' rights. You might also assume that the sizable federal and state taxes to be collected from the industry would be a prize. Oddly enough, though, the tax law discriminates so badly against the industry that it has had to virtually go underground. Add to that the fact that many banks are reluctant to allow even legal marijuana businesses to open accounts in their institutions.

The tax issues here are clearly no joke. Consider that Harvard Law School offers ['tax planning for marijuana dealers'](#). Perhaps this fact suggests that the industry has really arrived.

You can reach me at Wood@WoodLLP.com. This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.