



Chairman, Vice Chairman, and esteemed members of the Committee

Good morning, my name is Dr. Randy Shepard. I'm a Kansas resident and a proponent of the medical marijuana bill that's before you. Thank you for the opportunity to share briefly what I believe is an important message worthy of a few minutes of your time today.

About Me:

Professionally I serve as a fractional CFO (Chief Financial Officer) and tax strategist for small and medium sized businesses, including both cannabis and non-cannabis businesses. Over the past four years, I've enjoyed serving all areas of the medical marijuana industry. This includes the grow, the processing, the dispensaries, and transportation.

Over the past four years, I've worked closely with both growers, processors, and dispensary owners, and have spent countless hours educating them on the tax implications within their industry as well as providing financial and business advisory guidance as they've tried to navigate the complexities inherent within the taxation requirements for cannabis. I've also worked to aid and educate CPA's and tax attorneys who are associated with these cannabis owners in providing IRS tax guidance over what can and cannot be done. I've advised both cannabis owners, CPA's and attorneys concerning the many idiosyncrasies found within the IRS case laws which have overwhelming confused every single cannabis owner I've met thus far. To date, not one of them that I've met in both Oklahoma and Missouri has fully understood how it all works and how to make it work to their ultimate benefit. Taxation on a cannabis business requires an in-depth knowledge of both the IRS regulations that govern the industry as well as IRS case law.

In my position in serving as their CFO and tax preparer, I've carefully reviewed the laws, have studied IRS cases, and have completed numerous cannabis tax returns whether they be LLC's, Partnerships, S-corps, or C-corps. For many of them, I've become their non-equity partner, encouraging them, and helping them navigate the fuzzy maze of what can and cannot be done.

Potential Problem Facing Kansas:

I realize it is NOT the government's job to tell people how to run their business.

However, the medical marijuana business is NOT LIKE any other business we know. In a retail dispensary for example, many of the normal tax-deductible items like leasehold improvements, rent, payroll, repairs and maintenance, utilities, and the like are simply NOT legally deductible. While growers and processors have a little more room for tax deductible items via Section 1.471 of the Internal Revenue code for indirect costs, the troublesome fact that it's legal to operate a cannabis business on the state level, but illegal on the Federal level makes it hard to understand what is right and what is wrong. The tax laws are confusing, more so than in any other industry. This is why many CPAs are reluctant to enter into this industry. In the end, at least for Oklahoma and Missouri, it has left thousands of good people who've with enormous personal tax debts. This, in turn, has forced them out of business or worse – willing to negotiate with black marketeers for pennies on the dollar just to get out of the worrisome thought of owing the IRS a large debt.

Sadly, like Oklahoma and Missouri, many Kansans will want to get into the medical marijuana arena thinking they're going to get rich. Much like the gold rush of the 1800's, many enter (as one of my clients said) with rose- colored glasses anxious to get in on the action. However, what most of them will find out is that it is, in fact, a money-maker. They can and do earn large sums of money. But they simply don't understand how to budget and plan for things due to the complexities of the law. There is a large lack of knowledge and training for these owners.

Let me give you a typical example of what I'm trying to emphasize.

I had an Oklahoma dispensary that earned \$1,200,000 their first year in business. The married couple were excited. They were earning more money than they ever dreamed of making. But, their first seemingly successful year in business turned out to appear to them as a huge failure. By looking at the Example A below, you can understand why the initial appearance of success would ultimately lead to a feeling of failure and despair.

Example A:

Gross Income	\$1,200,000	
Cost of Goods Sold	\$ 600,000	
Net Income	\$ 600,000	- (This is what they are taxed on)
- Operational Costs	\$ 300,000	
=	\$ 240,000	
- Tax (Excise, Payroll, Sales)	\$ 168,000	
=	\$ 172,000	
- Tax (Fed & State Year End)	\$ 153,000	
Net Profit	\$ 19,000	

Meaning the owners would end up with 19,000 in profit but would be taxed personally on \$600,000. Their personal income that first year was \$36,000, which includes the net profit.

However, there is a solution. One that can help these owners find success and still provide compliance to the state of Kansas and bring in enormous amounts of revenue.

I've seen first-hand that when these owners come to a full understanding of exactly "how" the financial and tax implications work in their businesses, and if they have the support of those who fully understand these issues, they can thrive and be long-term revenue producers for the state of Kansas.

So, if I may, let me provide a simple solution:

Potential Solution For Kansas:

The difference, in my opinion, is knowledge. Over the years, we've all learned and agree with that adage – knowledge is power. While serving as a CFO for several cannabis operations, and after having provided insight and training to cannabis owners into how the financial and tax requirements work has made all the difference in the world for those I've worked with.

I am proposing that this committee seriously consider requiring training for the owners of these cannabis businesses PRIOR to them seeking licensure from the Alcohol and Cannabis Control Department. This would allow the owners to take off the rose-colored glasses and see exactly what's involved in the industry on a financial and tax level - a level that means the difference between going broke for the owners and losing revenue for the state.

Already within the Bill, you are requiring training for the employees of Kansas dispensaries. If employees MUST be required to be trained, why wouldn't you offer training for those who lead these employees and own these businesses?

There are numerous benefits in providing training – for both the state of Kansas as well as for and the cannabis owners.

Here are a few benefits for Kansas cannabis owners and the state:

- 1) **A real understanding of what's at stake.** Since the industry is both legal and illegal, it's confusing to all cannabis owners and many CPA's. The training would provide them insight into whether to move forward or not. And if they do move forward, they are able to come into the industry with a greater awareness and understanding of how to make their business successful, remain compliant with the state of Kansas, and keep revenue coming in.
- 2) **Accurate bookkeeping and reporting.** The IRS has reported they earn at least 6 times more revenue from a cannabis audit than from any other industry. This is due to the lack of knowledge on the owner's part of exactly "how" to keep track of income and expenses or find qualified help with the bookkeeping and taxes. The Inspector General of the Western Division of the IRS classified the cannabis business as "low hanging fruit" for gaining revenue for the department. (Source is verifiable)
- 3) **Mitigates owners from seeking illegal "work-arounds."** Sadly, many cannabis owners, at the advice of an uninformed CPA or attorney or one of their peers, often seek illegal workarounds. This would have an enormous impact on revenue for the state of Kansas.

I had to correct one attorney in Oklahoma who advised many of her cannabis clients to use these workarounds. Once I showed her case law as to the illegality of her advice, she immediately withdrew those recommendations. Keep in mind this is a complicated subject. Workarounds cost the state millions of dollars.

- 4) **The training provides a working “model” of how to accurately navigate the “legal and illegal” aspect of the business.** This would keep these owners compliant with the state as well as insure ongoing revenue for the state.
- 5) **Awareness of FinCen regulations.** Nearly all cannabis owners are ignorant of the Bank Secrecy Act and the need to report to FinCen within 15 days of receiving \$10,000 in cash. From my view, most cannabis owners are guilty of this infraction. Unbeknown to them, this infraction can lead to huge fines and possible criminal charges...simply due to ignorance on their part. And since most CPA's do not deal with a “cash-only” business, they aren't necessarily catching the need to inform their clients of this requirement.

I would also highly recommend you consider not only training for first-time licensure candidates, but also **provide on-going annual training** for these owners as a requirement of maintaining licensure. Again, like that adage – “You can't expect what you don't inspect.” I believe the training for these owners would be greatly appreciated. That is not only my suggestion but also an agreed upon consensus from each one of my cannabis clients.

Let me conclude by offering my knowledge and whatever service I can provide to the great state of Kansas so that our state can be a national leader of a new era of medical marijuana requirements that other states see, like, and are anxious to adopt as “best practices.”

Sincerely,

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