



[HF 2650](#) – Business Expense Deductions, Medical Cannabidiol (LSB5498HV)
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Fiscal Note Version – New

Description

[House File 2650](#) allows a medical cannabidiol manufacturer and a medical cannabidiol dispensary to deduct business expenses from individual income tax or corporate income tax.

The Bill is retroactively effective to January 1, 2021, for tax years beginning on or after that date.

Background

[Section 280E](#) of the Internal Revenue Code disallows any deductions or tax credits to the net income of any taxpayer for any amount paid or incurred for businesses and activities associated with trafficking in controlled substances under Schedules I and II of the [Controlled Substances Act](#), which includes extracted cannabidiols.

Iowa Code chapter [124E](#) was enacted in 2017 Iowa Acts, [chapter 162](#) (Medical Cannabidiol Act), and allows licensed dispensaries to provide cannabidiols for medical purposes as administered by the Department of Health and Human Services (HHS). As of October 2023, the [program](#) has authorized approximately 18,100 active patient cardholders for medical cannabidiol products from Iowa's licensed dispensaries.

Assumptions

- Gross income for individuals and corporations from the production and sale of medical cannabidiol is equal to gross sales from Iowa's medical cannabidiol dispensaries. Data on taxable sales of medical cannabidiol from dispensaries comes from HHS monthly [reports](#).
- The Iowa Department of Revenue estimates that business expenses in the production and sale of medical cannabidiol will be the same as average levels of business expenses for other Iowa corporations, or 28.9% of gross income.
- The effective tax rate for impacted individual and corporate taxpayers is assumed to be as follows for each tax year:
 - Individual income taxpayers:
 - Tax year (TY) 2021 — 5.9%
 - TY 2022 — 5.9%
 - TY 2023 — 5.0%
 - TY 2024 — 5.0%
 - TY 2025 — 4.7%
 - TY 2026 and after — 3.9%
 - Corporate income taxpayers:
 - TY 2021 — 9.8%
 - TY 2022 — 9.8%
 - TY 2023 — 8.4%
 - TY 2024 — 7.1%
 - TY 2025 — 6.4%
 - TY 2026 and after — 5.5%

- The number of active registration cards for medical cannabidiol issued to patients in TY 2024 and beyond will remain the same.
- Medical cannabidiol taxable sales in TY 2024 through TY 2029 are estimated to increase by 2.0% annually.
- There is no available information on the ownership structures of cannabidiol dispensaries. This **Fiscal Note** assumes that dispensary ownership is divided equally between corporations and pass-through entities (with individual owners), and 50.0% of the fiscal impact will occur against the corporate income tax and 50.0% will occur against the individual income tax.
- The [income surtax for schools](#) is a local option tax that is based on a taxpayer's Iowa income tax liability. Law changes that lower Iowa income tax liability also lower the amount of income surtax owed by any taxpayer subject to the surtax. For this projection, the surtax is assumed to equal 2.5% of State individual income tax liability.
- TY 2021 through TY 2024 combined will impact FY 2025. For other tax years, all tax year impacts are assumed to occur in the subsequent fiscal year.

Fiscal Impact

The individual income tax rate changes in House File 2650 are projected to decrease State General Fund revenue by the following amounts:

- FY 2025 = \$900,000
- FY 2026 = \$200,000
- FY 2027 = \$200,000
- FY 2028 = \$200,000
- FY 2029 = \$200,000
- FY 2030 = \$200,000

The decrease in tax liability is also projected to decrease the statewide local option income surtax for schools by the following amounts:

- FY 2025 = \$9,000
- FY 2026 = \$2,000
- FY 2027 = \$2,000
- FY 2028 = \$2,000
- FY 2029 = \$2,000
- FY 2030 = \$2,000

Sources

Iowa Department of Revenue
Iowa Department of Health and Human Services
Legislative Services Agency analysis

/s/ Jennifer Acton

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The fiscal note for this Bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
