



Date: March 4, 2021
To: Oregon House Revenue Committee
From: Sally Alworth, Co-Founder, Luminous Botanicals
RE: Opposing HB2015

My name is Sally Alworth, and I am the co-founder of Luminous Botanicals, an OLCC-licensed cannabis and hemp processor based in Portland. We make tinctures, topicals, and capsules that are precisely dosed for easy therapeutic use. We are a local, independent small business with a payroll of six FTE. I am writing to oppose HB2015, which would increase the local sales tax on cannabis products from 3% to 10%.

As Beau Whitney from Whitney Economics has documented, cannabis consumers in Oregon are extremely price-sensitive. Mr. Whitney's research shows that for each 1% increase in sales tax, on average we see a 2% decrease in retail sales of cannabis, as consumers shift their purchasing back to the illicit market.

Cannabis retailers in Oregon are well aware of these statistics, and we expect that, if the local sales tax on cannabis products is increased, the retailers we work with will cut their prices so that they will not lose business as a result of the higher taxes. When retailers cut their prices, they pressure us to cut our prices as well. That would not be sustainable for our business.

It is already extremely difficult to survive as a small, independent cannabis business in Oregon. My business pays all of the normal taxes that any entrepreneur in Portland would pay – city, county, and state. In addition, we pay a number of taxes and fees that other companies don't have to bear -- \$5,000 to the OLCC to for a cannabis license, \$4,000 to the city of Portland for a Marijuana Business License, \$4,800 per year for the privilege of having the most basic business checking account at the only credit union that will work with us. And then, because of IRS code section 280e, when we calculate how much federal tax we owe, we are not allowed to deduct a whole range of normal expenses that other businesses claim – no sales or marketing, no administration or accounting, no maintenance or depreciation.

The end result of all of this is that in 2019, Luminous Botanicals paid 62.7% of our net income in taxes, leaving us almost nothing to use as cash reserves or to reinvest in building our business.

That was our situation in our best financial year ever. 2020 was one of our worst years ever. While sales of smokable cannabis were up significantly overall during the pandemic, sales of our types of products were down 25-30% in legal cannabis markets across the country. Due to the pandemic, we had to lay off staff and add costly additional safety measures to our business. Because our industry is state legal and federally illegal, we did not qualify for any forms of aid or debt relief, and so we absorbed all of the new safety costs ourselves.

For 2020, our total tax bill equals 217% of our net revenue. We owe more than twice in taxes than our business actually earned. I know that may be hard to believe; in no other business is it possible to end up with a tax bill higher than one's income. But IRS 280e was designed to be punitive and to discourage people from trafficking in Schedule I drugs.

At Luminous Botanicals, we do our very best to be good corporate citizens. The lowest starting wage at our company is \$19.00 an hour, a living wage in the city of Portland. We provide our employees with company-paid medical and dental insurance, as well as long-term and short-term disability insurance and three weeks of paid time off. We offer our employees a four-day work week, so that they can maintain some sense of work/life balance.

And our company is Sun+Earth Certified, meaning that we operate a chemical-free workplace, use only outdoor cannabis grown using regenerative organic techniques, and ensure that all of our non-cannabis ingredients are certified organic by the USDA or Oregon Tilth.

We simply cannot afford to drop our wholesale price in response to a sales tax increase. Oregon is rapidly becoming the kind of cannabis market where the only companies that can survive are large chains that raise significant venture capital or companies that sell out to multi-state operators. Please do not make it even harder for locally-owned, locally-run, craft cannabis businesses to survive in Oregon. Please do not adopt HB2015.