



SICPA

# SECURING CANNABIS TAX REVENUE

Presentation to: FTA Technology Exhibition &  
Conference

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Company: SICPA

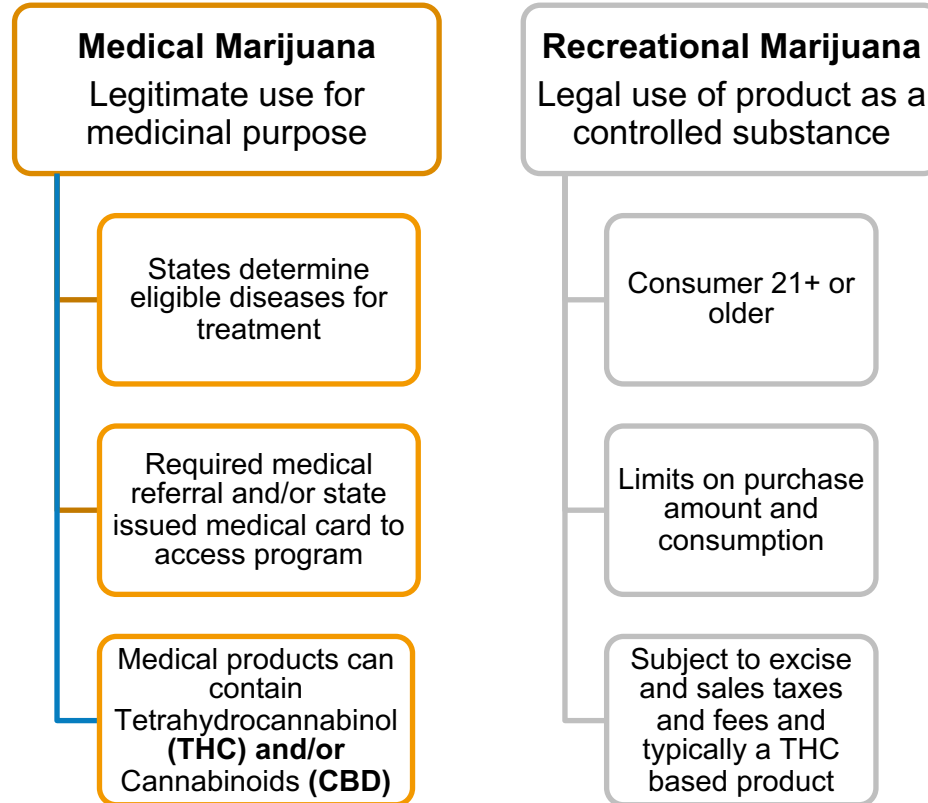
Date: 08 08 2018



# AGENDA

- 1. Where we are now**
- 2. Cannabis is Coming**
- 3. Challenges**
- 4. Solution**
- 5. Canada, eh?**

# MARKET OVERVIEW



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- Cultivating, processing, manufacturing, transporting, and dispensing can create a complex supply chain
- Types of products include:
  - Flowers (buds)
  - Oils
  - Lotions
  - Tinctures
  - Edibles (candy, cookies, etc.)
- Non-smokable forms are increasing market share
- Products manufacturers continue to find unique ways to deliver THC and CBD



# CURRENT U.S. LANDSCAPE



## Recreational

AK, CA, CO, DC, MA, ME,  
NV, OR, VT, WA



## Medical

AR, AZ, CT, DE, FL, HI, IL,  
LA, MD, MI, MN, MT, ND,  
NH, NJ, NM, NY, OH, OK,  
PA, RI, WV



## Limited Medical

AL, GA, IA, IL, IN, KY, MO,  
MS, NC, SC, TN, TX, UT,  
VA, WY

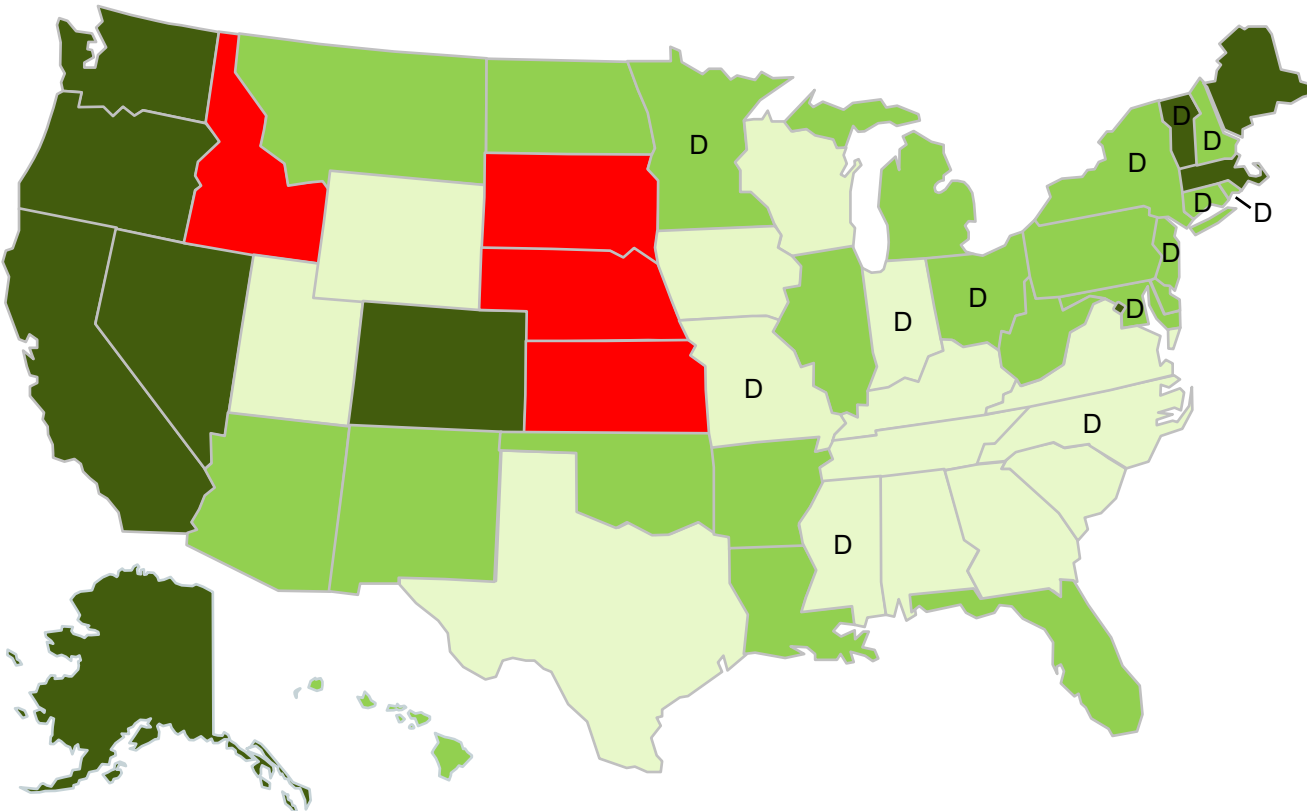


## Prohibited

ID, KS, NE, SD



## Decriminalized



# FEDERAL IMPLICATIONS



- Cole Memorandum
  - Rescinded
- Rohrabacher-Blumenauer Amendment
  - Amendment to the annual appropriations bill that prohibits DOJ from using federal funds to interfere with state-legal medical marijuana programs
  - Extended until September 2018
- FinCen
  - Provides guidance on banking regulations for cannabis market
- STATES Act
  - Ensures that each State has the right to determine for itself the best approach to marijuana within its borders
- Hemp Bill
  - Would legalize the industrial hemp industry in the U.S.
  - To be classified as hemp, a plant cannot contain more than 0.3% of THC

# WHAT'S GOING ON OUTSIDE THE U.S.?



## CANADA

- Recreational sales starting Oct 17<sup>th</sup>



## URUGUAY

- Legal cannabis expected to go from \$125M to \$776M by 2027



## AUSTRALIA

- Legal cannabis market is expected to increase 2,208% in 10 years



## PHILIPPINES

- Vote to legalize and regulate medical cannabis taking place this year



## ITALY

- Expects sales of \$1.2Bn by 2027



## POLAND

- Legalized medical cannabis in 2017



## GERMANY

- “Leader of the European cannabis market” – Forbes
- Number insurance reimbursements related to cannabis grew from 500 to 13,000 in less than one year



# TAX COLLECTION ON CANNABIS

- Tax and Fee Collection represents significant additional revenue
  - Nevada - \$55m in first 10 months of legal program
  - Colorado – \$247M in CY 2017 on >\$1,5B in sales
  - Oregon - \$82M in FY 2018, more than \$11m in local taxes
  - Washington - \$319m in FY 2017 (\$113m more than Liquor) on \$1.3b in sales
  - Alaska - \$11m in FY 2018
- In general, these numbers are increasing
  - Alaska - \$1.2m in June FY2018, Washington - \$29.4 in Oct 2017.
- Some potential headwinds as wholesale and retail prices may decline

# US CANNABIS TAX POLICY

- Issues facing legal states:
  - Competition from non-sanctioned sources
  - Large tax differentials between states
  - Cross-border shopping
  - Unlicensed operators avoiding taxes

## ***Alaska***

\$50 per oz/flower, \$15 per oz/stems and leaves on wholesale

## ***California\****

\$9.25/\$2.75/\$1.29 on wholesale, 15% Excise on retail sale, 7.25% Sales Tax

## ***Oregon\****

17% Excise on retail sale

## ***Washington***

37% Excise on retail sale

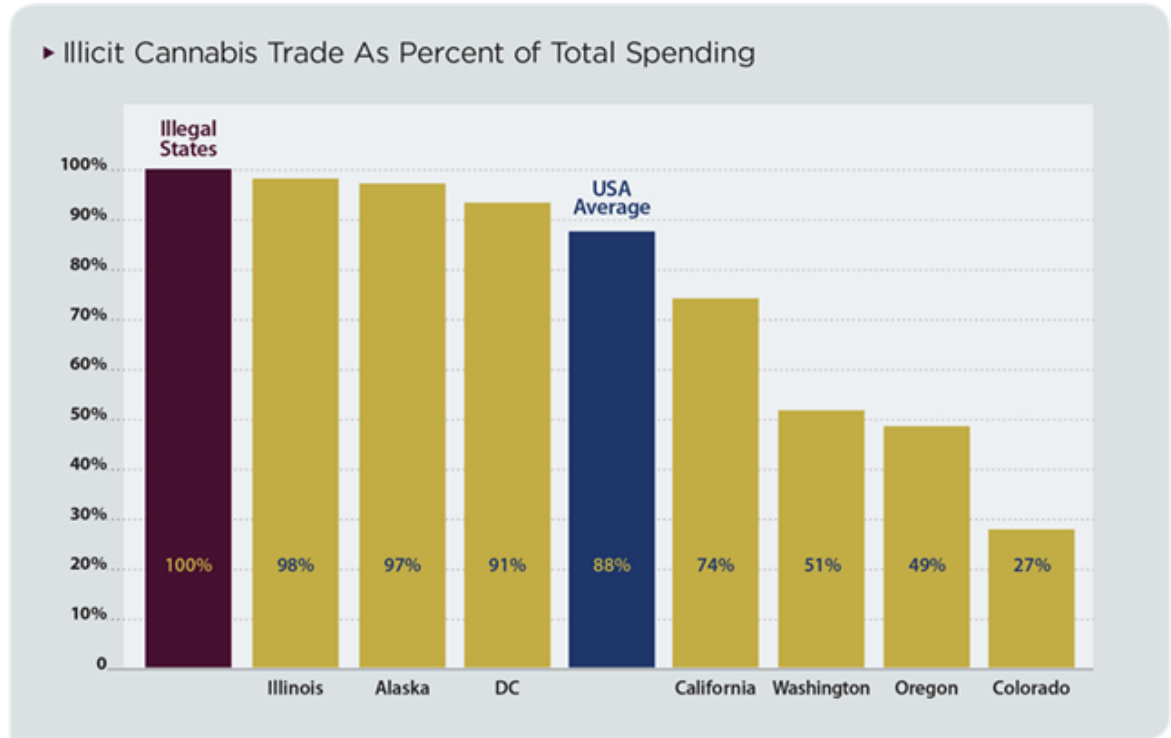
## ***Colorado\****

15% Excise on wholesale, 10% Excise on retail sale, 2.9% Sales Tax

***\*States with local option taxes***

# REVENUE CHALLENGE FROM BLACK MARKET

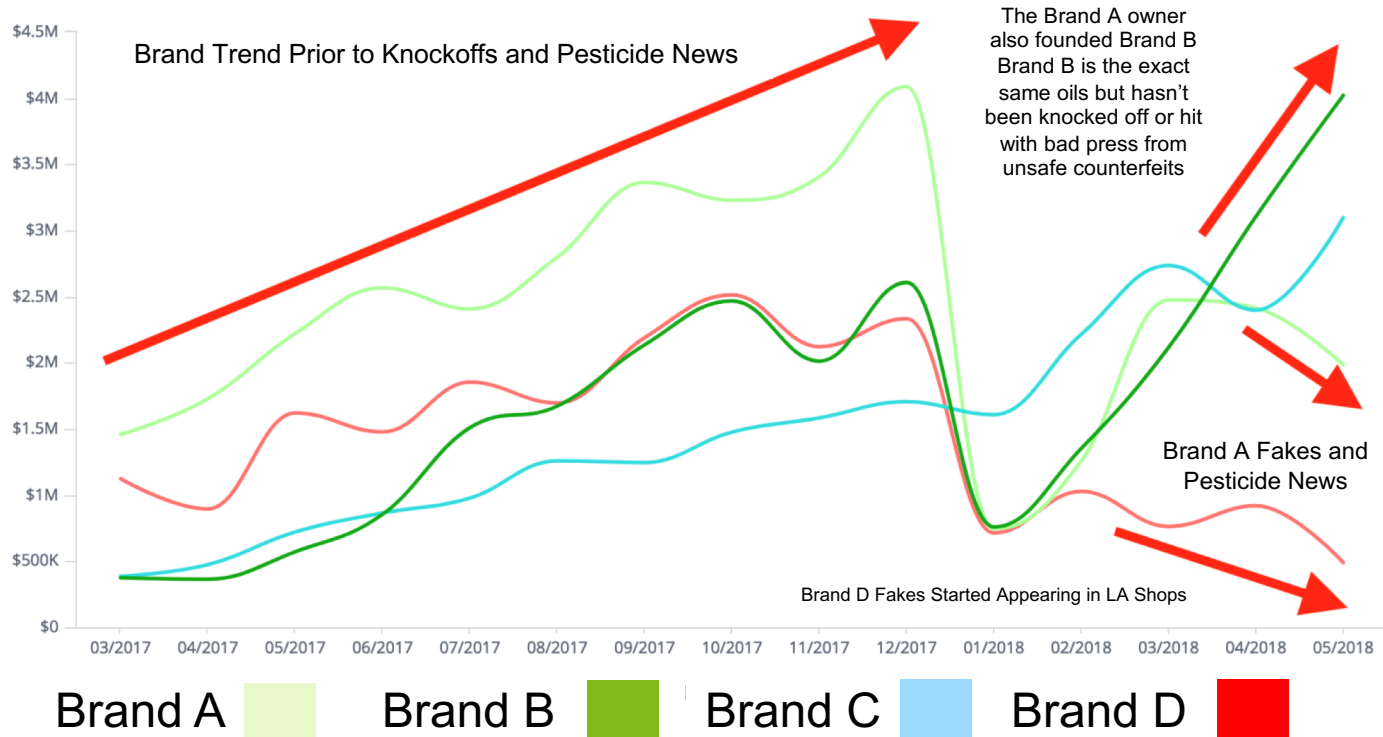
- Issues facing legal states:
  - Black market intrusion/diversion
  - Difficulty reconciling medical cannabis with taxed recreational product
  - Cross-Border Purchasing and diversion



Source: The ArcView Group, The State of Legal Marijuana, 5<sup>th</sup> Edition

# CASE STUDY – IMPACT OF COUNTERFEITING

Top Brand Sales by Month

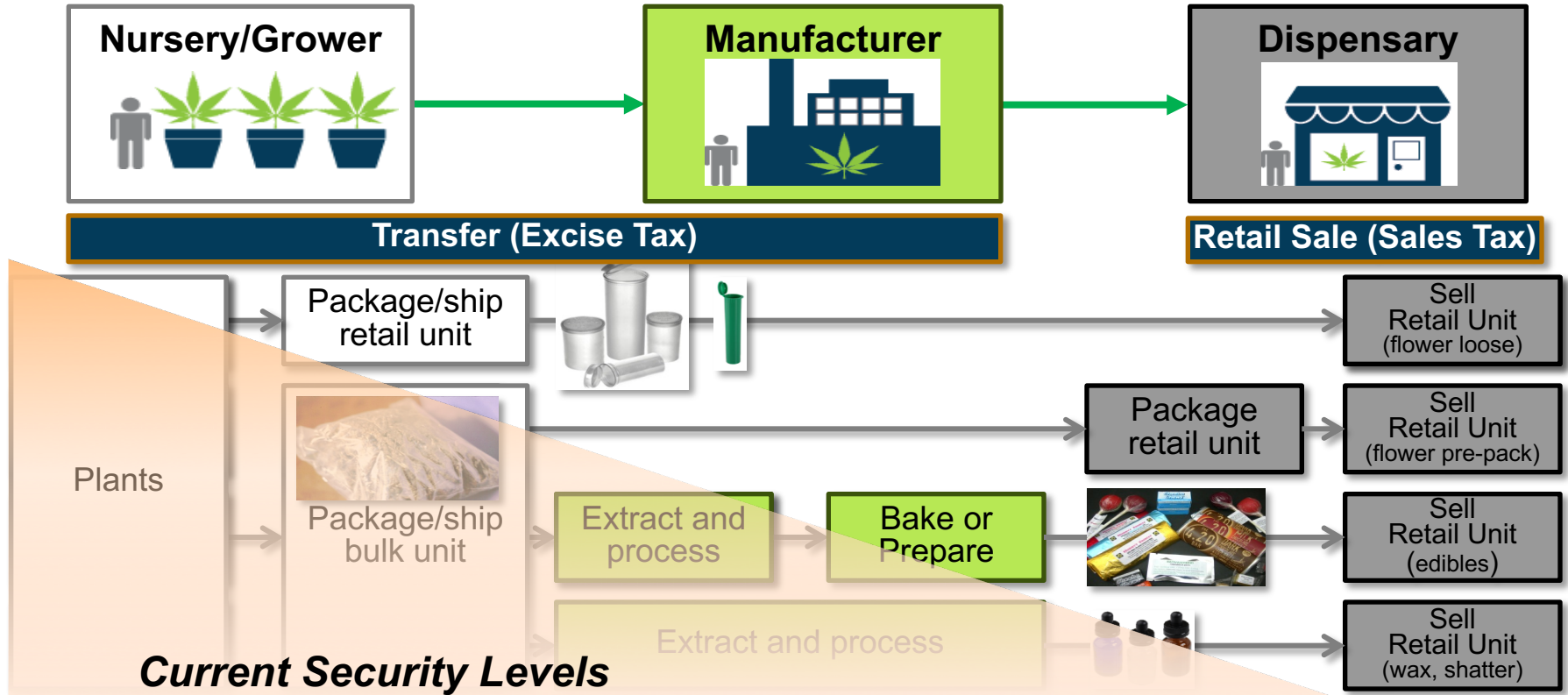


# SECURING THE PRODUCT IS **KEY**

- Current control models tend to focus on plants; security of the product falls away as you move toward point of sale
- **Retail unit products** are where adverse events (tainted, untested, untaxed) are most immediately felt (e.g., when consumers use them)
- **Secure** product marking/serialization enables confirmation of tax collection on units of purchase and can be tied to supply chain data to enable regulatory and consumer interrogation



# SOLUTION COVERAGE



# SECURE UNIQUE IDENTIFIERS

## SECURE UNIQUE IDENTIFIER



Utilizes Banknote Grade Security to prevent unauthorized duplication

Can be visibly customized to provide unique graphic ***proof of Santa Barbara origin***

Can be utilized to secure plant, lots, ***and individual cannabis products***

## RFID TAG



Utilized Radio Spectrum to provide unique signature

Generic only

Only utilized with plants and lots, provides no individual product marking

## BARCODE DATA MATRIX



Open, interoperable by design, not secure and easily duplicated

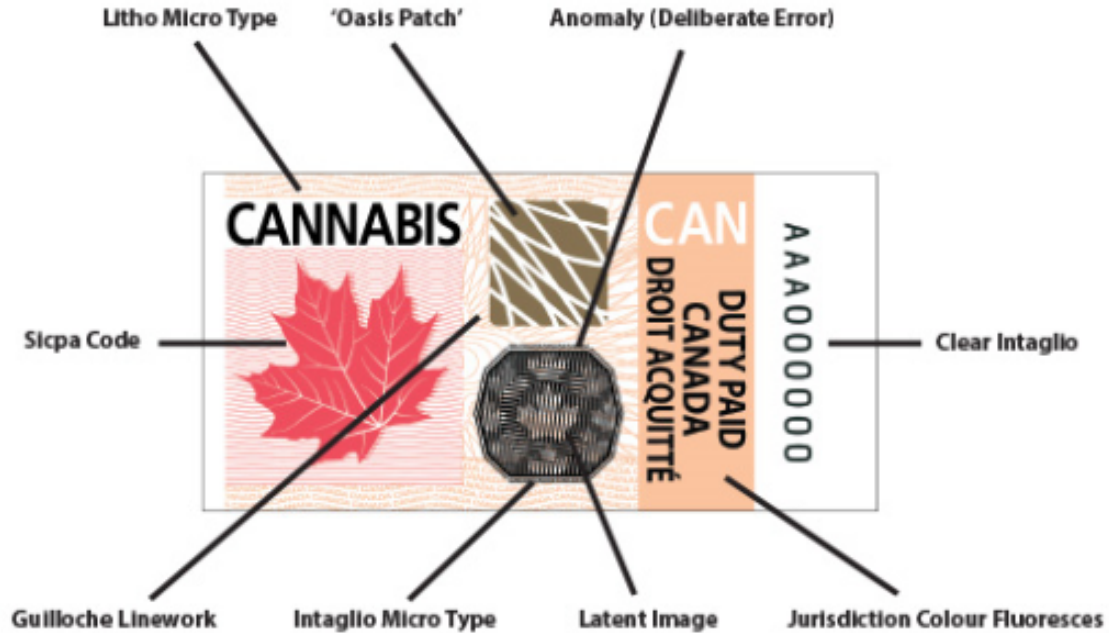
Cannot provide visible differentiation

Can be placed on anything





# CANADA'S CANNABIS TAX STAMP



# SUPPORTING FEDERAL AND PROVINCIAL NEEDS

- Visible differentiation for each province
- Proof of tax compliance
- Provides banknote-grade secure, unique serialization for each cannabis product



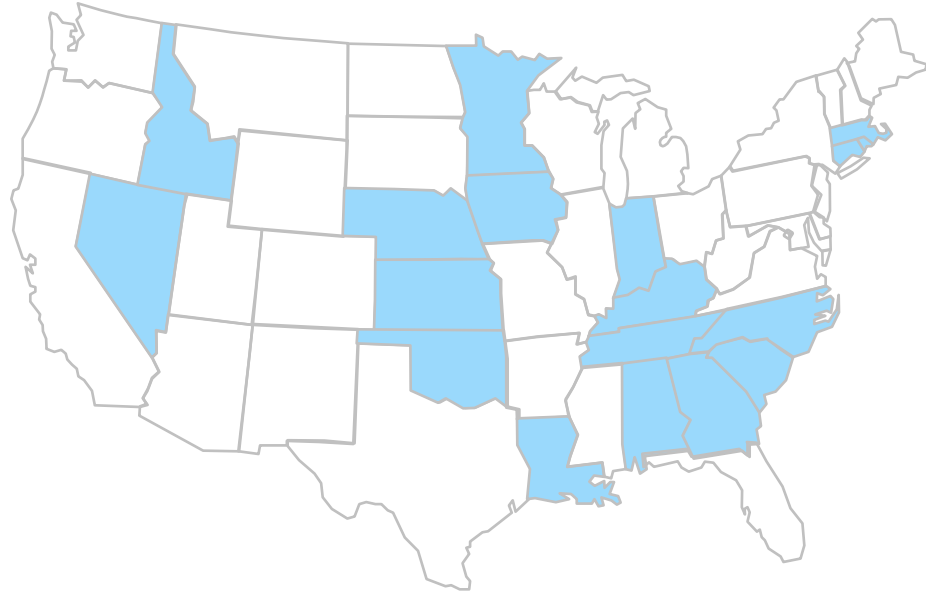
# CANNABIS TAX COMPLIANCE IN CANADA



- SICPA and Canadian Bank Note (CBN) are global leaders in working with governments to secure critical fiscal and regulatory infrastructure (banknotes, identity documents, alcohol and tobacco control, tax revenues)
- SICPA/CBN joint venture provides CRA with its current tobacco compliance solution and has been extended to include a cannabis stamp
- SICPA/CBN cannabis stamp will be placed on every legitimate cannabis product to ensure revenue realization while creating a foundation that can be leveraged to further outcomes in public health and public safety

# MARIJUANA TAX STAMPS

- Many States have the authority to enforce marijuana tax stamps
- The Marijuana Tax Stamp Law mandates that those who possess marijuana are legally required to purchase and affix state-issued stamps onto their contraband
- Failure to do so may result in a fine and/or criminal sanction



# ENABLING TAX COLLECTION ENFORCEMENT

- A proven method for collection of Excise Taxes, stamps enable on-the-spot tax verification **at the retail product level** (Revenue Reconciliation)
- Securely marking retail level products supports consumer purchases of legal, tested retail products (Public Health)
- Enable unambiguous identification of legal vs. illegal retail products (Public Safety)



# MOBILE BASED AUTHENTICATION

- Enable authentication that tax assessment trigger has been initiated in backend data reporting systems
- Confirmation of product pedigree, have product knowledge (dosage, health, and safety warnings), and provide feedback
- Confirm product sourcing and safety information (operator, testing results, health warning, recalled, etc.)



**Thank you for your time.**

**QUESTIONS?**

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