Bringing the cash crop into the financial mainstream

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BY JIM GONZALEZ
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Despite Proposition 64's clear mandate to end adult cannabis prohibition in California, a significant hurdle remains: how to legalize banking services for the newly legalized industry.

Cannabis is a multibillion-dollar cash-only business in our state, which invites money laundering, tax evasion and armed robberies.

Federal rules prohibit banks and credit unions from extending banking services to the cannabis businesses, despite legal recognition under California law.

California Treasurer John Chiang is taking steps forward towards resolving this cannabis banking dilemma, for which he should be commended.

In a letter of congratulations to President-elect Donald Trump, Chiang urged Trump to provide guidance to California regarding the direction the federal government will take regarding the cannabis industry in California and other states that have legalized medical and recreational use of cannabis.

Chiang also has convened the Cannabis Banking Working Group, made up of experts from the industry, banker, state taxation agencies, regulators and law enforcement to address what he called "the dangerous, disruptive disconnect between state law and federal law."

Board of Equalization Chairwoman Fiona Ma also has stepped forward. Calling the cannabis industry the "largest shadow economy in California," Ma rightly points out that granting it banking access "would facilitate compliance and bring millions of dollars into our economy."

Resolving the banking conundrum could significantly reduce the presence of cash in California's legal cannabis industry, and facilitate the requirement, written into the law, that products be tracked from cultivation to sale.

Here's my recommendation: Chiang should seek legislation to establish a new account. Call it the Treasurer's Cannabis Revenue Account. It would become the depository for the proceeds from legal sales of cannabis.

Proceeds from sales could be deposited in individual entrepreneurs' accounts, registered with the treasurer. Deposits, either by check or cash, could be made via secure bank cards at state facilities.

From the Treasurer's Cannabis Revenue Account, the state would deduct sales and use taxes, and income and corporate taxes. The remaining money would belong to the individual business people who participate.

Businesses could draw on surplus revenues from their individual accounts each month, and be issued a state check or receive electronic funds transferred by the state of California.

To further reduce the presence of cash, purchases and sales of cannabis could be conducted using a Treasurer's Cannabis Revenue Account transaction card, similar to an ATM card, which could be made available to customers as well as businesses.

Such a proposal is similar to Ohio's "closed loop" system for the cannabis industry, authorized as a part of Ohio's medical marijuana law, HB 523.

If fully implemented by September 2018, Ohio's Department of Commerce would allow patients and registered caregivers to put funds into special accounts at state agencies or state-run stores, and in turn use money from these accounts to purchase medical marijuana.

As provided in Ohio's HB 523, the closed loop may include record keeping and accounting that identify all parties to cannabis transactions.

The goal of the Ohio legislation included preventing revenue from flowing to criminal enterprises, limiting diversion of marijuana projects out of state, and barring distribution to minors.

None of this will be easy. Any bold thinking will be subject to attack by those who are unalterably opposed to legal cannabis. But with the leadership of the treasurer's office, California's cash crop could become part of the financial mainstream.

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