

Can the Cannabis Tax Revolt Force Reform?

The Cannabis Tax Revolt: Can an Industry Under 280E Pressure Win Its Fight Against the IRS?

A Legal Industry With 38,000 Licensees and Billions in Unpaid Federal Taxes

Across the United States, roughly 38,000 licensed cannabis businesses struggle under the weight of federal tax law. As of this summer, 11 of the largest operators collectively owed more than \$2.3 billion in federal income tax—an amount driven largely by the punishing effects of Internal Revenue Code Section 280E.

Smaller companies aren't faring any better. According to longtime tax experts in the sector, many are financially underwater and face tax burdens so extreme that compliance is nearly impossible.

In response, the industry's frustration has reached a boiling point.

An increasing number of licensed operators large and small are filing federal tax returns asserting they do not owe the full amounts assessed by the IRS. With an unknown but significant number of companies refusing to pay, many insiders say a "cannabis tax revolt" is now underway.

The question is whether it will succeed.

U.S. Tax Revolts Throughout History: Lessons for Today

Tax rebellions are not new in America. And history suggests they rarely end in victory for taxpayers.

The Whiskey Rebellion (1791–1794)

The country's first major tax revolt emerged when western Pennsylvania farmers refused to pay a federal tax on distilled spirits, meant to help pay off Revolutionary War debt. President George Washington ultimately led troops to suppress the uprising.

Only two leaders were convicted, and both were later pardoned yet farmers continued quietly resisting the tax until its repeal in 1802.

The Irwin Schiff Movement

In the late 20th century, tax protester Irwin Schiff gained a massive following by claiming the federal income tax was unconstitutional. Thousands filed returns saying they owed nothing. The IRS spent years fighting the movement before shutting it down. Schiff died in federal custody.

By 2003, the IRS reported 5,000 "Schiff-style" returns claiming over \$56 million in unpaid taxes.

The “Black Inheritance Tax Refund” Scheme

In the 1990s, thousands filed fraudulent returns claiming refunds tied to mythical reparations. The IRS mistakenly paid out over \$30 million before cracking down and publicly labeling the scheme a fraud.

The Common Thread

Large-scale tax resistance movements in the U.S. have always ended the same way: The government wins, and taxpayers pay.

That history casts a long shadow over today’s cannabis tax revolt.

What Would Victory Look Like for Cannabis Operators?

Unlike prior tax rebellions, many cannabis businesses are not seeking to eliminate their entire tax bill—they are seeking partial relief or workable settlements.

The Harborside Settlement: A Misunderstood Precedent

Many in the industry point to the 2022 settlement between the IRS and California operator Harborside, where the IRS agreed to accept far less than the \$22 million it claimed the company owed.

But the full story is less promising:

- Harborside demonstrated it could not pay the full amount without shutting down and laying off workers.
- The settlement included bi-annual adjustments, meaning if Harborside ever became profitable, the IRS would recapture a significant share of its revenue. The company later part of StateHouse Holdings eventually went bankrupt. For most operators, this is not a path to true relief.

The Hope for Retroactive 280E Reform

Some believe marijuana rescheduling or a Supreme Court challenge to federal prohibition could retroactively overturn 280E liabilities.

But Treasury has historically opposed retroactive tax law changes, which would undermine the entire “voluntary compliance” foundation of the U.S. tax system.

Retroactive relief remains unlikely.

Could a Settlement Program Save the Industry?

Another theory is that the IRS could create a voluntary settlement program, similar to the 2023 Employee Retention Credit (ERC) settlement, in which taxpayers repaid 85% of their improper refunds without penalties.

But for cannabis companies, especially MSOs with nine-figure liabilities, repaying 85% of assessed taxes is impossible.

Many could not survive it.

A Revolt Without Precedent

America has never seen a tax revolt where:

- compliance would bankrupt an entire industry,
- liabilities were created by a single punitive provision (280E), and
- federal law directly contradicts state legalization.

In that sense, the cannabis tax revolt is unique and the outcome remains uncertain.

Why The Revolt Is Unlikely to Win But May Influence Policy

While history suggests taxpayers rarely win outright, these rebellions have sometimes contributed indirectly to future policy changes.

- The Whiskey Rebellion did not eliminate the tax immediately, but the excise tax was repealed within a decade.
- Irwin Schiff's movement did not topple the income tax, but it forced the IRS to modernize enforcement and public education.
- The Black Inheritance Refund scandal led to stronger fraud prevention systems.

Similarly, the cannabis tax revolt likely won't erase 280E obligations but it may add pressure for future federal reform, especially as legalization, rescheduling, or descheduling gain momentum.

The Most Likely Outcome: Cannabis Businesses Will Still Have to Pay

Despite the growing defiance, tax experts believe the IRS will ultimately enforce payment—through:

- liens
- levies
- seizures
- asset forfeiture
- payment plans
- negotiated settlements

Whether through compulsion or compromise, most operators will eventually pay something.

The IRS has rarely backed down from enforcing tax law, especially at scale.

A First-of-Its-Kind Revolt with an Uncertain Endgame

The cannabis tax revolt stands apart from every historical example:

- It affects tens of thousands of state-licensed businesses.
- It centers around a punitive tax code section (280E) acknowledged even by some policymakers as outdated.

- Compliance would financially devastate much of the industry.
- The revolt is occurring while federal policy is openly shifting toward reform.

Yet despite its uniqueness and despite the industry's growing desperation—history provides a sobering reminder:

Tax revolts do not end with taxpayers winning.

What this revolt may achieve, however, is political pressure, awareness, and momentum for reform that Congress has long avoided.

Whether that will be enough remains to be seen. For more information contact at info@cannabisriskmanager.com

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