

TAX AND BUSINESS ISSUES FACING THE MARIJUANA INDUSTRY

I. TAX CONSIDERATIONS -- FEDERAL

1. IRC § 280E

- a. Why do we have 280E?
- b. Relationship to IRC § 162 (ordinary and necessary business expenses)
- c. How does it work.

IRC § Sec. 280E states:

No deduction or credit shall be allowed for any amount paid or incurred during the taxable year in carrying on any trade or business if such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of Schedule I and II of the Controlled Substances Act) which is prohibited by Federal law or the law of any State in which such trade or business is conducted.

Schedule I includes: (a) opiates; (b) opium derivatives (e.g., heroin; morphine); and (c) hallucinogenic substances (e.g., LSD; marihuana (a/k/a marijuana); mescaline; peyote). See §812 of the Comprehensive Drug Abuse Prevention and Control Act of 1970 21, U.S.C. §801-971 (1970), (“Controlled Substance Act” or “CSA”)

2. COST OF GOODS SOLD DEFINITION - SEE EXHIBIT A

IRS § 280E disallows any deduction for ordinary and necessary business expenses for CANNABIS businesses. Cost of Goods sold is not considered an expense, but rather an adjustment taken into account in arriving at gross income. Thus, IRC § 280E denies a taxpayer any deduction for any amount paid or incurred in the year in carrying on any trade or business if such trade or business consists of trafficking in controlled substances.

3. ORDINARY AND NECESSARY BUSINESS EXPENSES.

IRC § 162, ordinary and necessary business expenses, are items such as advertising, automobile, legal and professional, insurance, supplies, rent, wages, and taxes.

It may be possible to claim some ordinary and necessary business expenses if you are operating a separate business that is not subject to IRC § 280E. Californians Helping to Alleviate Med. Problems, Inc. v. Commissioner, 128 T.C. 173, 182 (2007). In CHAMPS case, the Tax Court used a facts and circumstances test that relied heavily on the specific facts in that case. The facts that the taxpayer provided caregiving services separate from its dispensary activities, and “those services are substantially different from the [taxpayer’s] provision of medical marijuana.”

The court defined trafficking as “to engage in commercial activity: buy and sell regularly.” Webster’s Third New International Dictionary 2423 (2002).

Rupp v. Commissioner, 103 T.C.M. (CCH) 1594, 1598, 2012 T.C.M. (RIA) 2012-108 provides nine factors for use in determining whether the two undertakings share a close relationship to one another.

Olive v. Commissioner, 139 T.C. 19 (2012), affirmed on appeal, 792 F.3d 1146 (9th Cir. 2015) – denied that items sold incident to marijuana trafficking constituted a separate business not trafficking in a controlled substance. TC allowed COGS of approx. 75% based on expert testimony.

U.S. v. Marin Alliance for Medical Marijuana, Case No. 3:98-cv-00086-CRB (Filed 11/19/15). Held that the U.S. Dept. of Justice could not enforce an injunction against a medical marijuana dispensary operating legally under CA State law because of a prohibition in the 2015 U.S. Budget against the DOJ using any funds to enforce the Controlled Substances Act against a state legal actor.

EXAMPLES OF 280E EXPENSES

- Employee wages (and wage expenses) for the retail store
- Employee Benefits
- Executive and Owner Wages
- Security
- Rent for retail
- Advertising

- Store Utilities
- Store Insurance
- Store Improvements

Caveat: Allocation is possible to both non-cannabis activities and non-trafficking.

4. RECORD KEEPING REQUIREMENTS IN GENERAL AND IRS AUDITS OF CANABIS ACTIVITIES

Taxpayers are required keep adequate records (IRC § 6001, Reg. § 1.6001.1(a)).

The most likely type of IRS audit is a field audit. This type of audit is detailed and can be lengthy. They will generally involve individual, business, partnership, etc. for multiple years and all related issues and entities.

The IRS has the power to inspect the taxpayer's place of business. Must be reasonable. (IRC § 7605(a), Treas. Regs. 301.7605-1 (3)(ii)). The cannabis industry is currently a project of the IRS. More specialized agents are involved that know the industry. The IRS does not have the right to conduct the audit in the taxpayer's place of business.

Examination Techniques include third party contacts, (note taxpayers can request a written list of who has been contacted and taxpayer interviews: taxpayers are not required to be present at an initial interview with the IRS. Taxpayer Bill of Rights, IRC § 7521(c).

The IRS gathers information from many sources. The background information that the IRS requests in the initial interview are:

- Sources of all income
- Method used to comply with I.R.C. § 280E
- Bookkeeping, recordkeeping and point of sales systems
- Information provided to return preparers and bookkeeper
- Access to cash
- Accounting controls and safeguards
- Size and location of cultivation and sales facilities
- Transportation and storage practices, equipment and locations
- Responsibility for preparing the tax return
- Cash on hand (cash hoard)

- Method used to manage cash
- Bank accounts, bank records and documents
- Safety deposit box location and contents
- Assets owned, bought and sold
- Note and account payables/receivables
- Ownership information and entity formation documents

Cost of Goods Sold - IRS cannabis audits is to determine and enforce compliance with I.R.C. § 280E. Because marijuana is a Schedule 1 Controlled Substance under Federal law, cannabis business deductions are limited to COGS under Section 280E. The key to any 280E issue is the distinction that can be drawn between the deductible COGS and non-deductible business deductions.

Allowable COGS: this is dependent on the type of activity you conduct and the CPA involvement is critical from the very beginning of the business. The other accounting concepts to become familiar with are direct and indirect production costs, inventory accounting, and the Uniform Capitalization rules.

Badges of Fraud (used for both civil and criminal fraud) - the IRS generally requires significant unreported income along with structuring, false documents, false representations under penalties of perjury, or some combination of fraudulent behavior. The "badges of fraud" include:

- Understating income
- Maintaining inadequate records
- Implausible or inconsistent explanations of behavior
- Concealment of income or assets
- An intent to mislead which may be inferred from a pattern of conduct
- Lack of credibility of the taxpayer's testimony
- Filing false documents
- Dealing in cash

II. TAX CONSIDERATION -- CALIFORNIA

1. DEDUCTIONS AND CREDITS

Individuals— Medical marijuana businesses operating under personal income tax law may deduct cost of goods sold (COGS). However, you are not allowed to deduct business expenses. See Revenue and Taxation Code Sections and 17201(c) and 17282

Corporations – Business entities operating under corporation tax law are allowed to deduct COGS, as well as business expenses. (Includes eligible entities electing to be taxed as a corporation, non-profit organizations, and collectives). See Revenue and Taxation Code Section 24436.1

Tax Credits – Businesses may be eligible to generate tax credits, as long as they meet the specific requirements for the particular credit. The tax credits of a business that operates as a cooperative or collective generally do not flow through to the members.

2. SALES & USE TAXES

- Sellers permit required for retailer Liabile – may or may not collect from customer and Consignment Sales
- Sales tax applies to: Sales of all Cannabis Products, Deliveries
- Does not apply to: Wholesale Sales Packaging – purchased for resale
Sale by growers and processors to a dispensary not subject to sales tax if provided with a valid and timely resale certificate.

a. Seeds

Purchases of seeds are generally taxable. However, tax does not apply to your purchases of seeds if you resell the seeds or resell the products grown from the seed, as part of your regular business activities.

b. Fertilizers

Tax does not apply to the sale of specified fertilizer to be applied to land or in foliar applications, provided the fertilizer is used to produce products for sale. All other sales of fertilizer are taxable.

c. Plants and Clones

Tax does not apply to the sale of plants and clones to you if they will produce products you will resell. You should give your supplier a timely valid resale certificate when purchasing the plant or clone. For more information on sales for resale see publication 103, Sales for Resale.

Sales of ornamental, flower and landscaping plants are generally taxable. For more information about these exemptions see Regulation 1588, Seeds, Plants, and Fertilizer.

3. PARTIAL SALES TAX EXEMPTION

Applies to the 5.5% general and fiscal recovery fund. Must provide completed Exemption Certificate prior to invoice for purchase.

Farm Equipment and Machinery:

- Sold to a qualified person
- Used at least 50% of the time in agriculture
- Includes (but not limited to) any tool, machine, equipment, appliance, device or apparatus used in AG.

Buildings – specifically designed for AG and used exclusively for AG.

Solar Power Facilities

Fuels

III. LOCAL TAX CONSIDERATIONS SEE EXHIBIT B

- Varies by local jurisdiction.
- General a gross receipts tax or a per square foot tax.
- Who decides?
- License type will determine the rate of tax.

IV. CHOICE OF ENTITY - LIABILITY PROTECTION AND GOVERNANCE ISSUES SEE EXHIBIT C

1. CORPORATION

- a. Mutual benefit Nonprofit (phase out in 2018)
- b. S Corporation vs. C Corporation Flow through tax treatment

2. LIMITED LIABILITY COMPANY (New PS audit rules REVIEW OPERATING AGREEMENT)

- a. Flow thru treatment
- b. Personal tax liability
- c. State tax issue

3. PARTNERSHIP (**LOOK OUT FOR NEW AUDIT RULES**)

- a. Flow through treatment
- b. Personal tax liability
- c. Personal liability

New partnership audit rules, (Bipartisan Budget Act of 2015); Subchapter K audit rules for partnerships.

4. LIABILITY PROTECTION ISSUES

- a. Alter ego and piercing the veil - -Losing the liability protection that the entity provides
- b. Respecting the formalities of the entity
- c. Thinly capitalized structure
- d. Books and records

5. GOVERNANCE ISSUES

- a. Entity chosen for each activity?
- b. Internal document review – Minutes, Resolutions and Contracts.
- c. Related Party Review.
- d. Interested Director and fiduciary duties.
- e. Arm's-length standard being used?

VI. RECOMMENDATIONS

- Collaborate with business attorney.
- Get CPA involved from the start.
- Organizational flow chart.
- Audit proof motivation.
- Review the business goals and activities regularly.

EXHIBIT A

SCHEDULE C AND FORM 1120

**SCHEDULE C
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)

**Profit or Loss From Business
(Sole Proprietorship)**

► **Information about Schedule C and its separate instructions is at www.irs.gov/schedulec.**
► **Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.**

OMB No. 1545-0074

2016
Attachment
Sequence No. **09**

Name of proprietor	Social security number (SSN)										
A Principal business or profession, including product or service (see instructions)	B Enter code from instructions <table border="1" style="width:100%; height: 20px; border-collapse: collapse;"> <tr> <td style="width:10%;"></td><td style="width:10%;"></td><td style="width:10%;"></td><td style="width:10%;"></td><td style="width:10%;"></td><td style="width:10%;"></td><td style="width:10%;"></td><td style="width:10%;"></td><td style="width:10%;"></td><td style="width:10%;"></td> </tr> </table>										
C Business name. If no separate business name, leave blank.	D Employer ID number (EIN), (see instr.) <table border="1" style="width:100%; height: 20px; border-collapse: collapse;"> <tr> <td style="width:10%;"></td><td style="width:10%;"></td><td style="width:10%;"></td><td style="width:10%;"></td><td style="width:10%;"></td><td style="width:10%;"></td><td style="width:10%;"></td><td style="width:10%;"></td><td style="width:10%;"></td><td style="width:10%;"></td> </tr> </table>										
E Business address (including suite or room no.) ► City, town or post office, state, and ZIP code											
F Accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ►											
G Did you "materially participate" in the operation of this business during 2016? If "No," see instructions for limit on losses . . . <input type="checkbox"/> Yes <input type="checkbox"/> No											
H If you started or acquired this business during 2016, check here . . . <input type="checkbox"/>											
I Did you make any payments in 2016 that would require you to file Form(s) 1099? (see instructions) . . . <input type="checkbox"/> Yes <input type="checkbox"/> No											
J If "Yes," did you or will you file required Forms 1099? . . . <input type="checkbox"/> Yes <input type="checkbox"/> No											

Part I Income

1 Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked . . . <input type="checkbox"/>	1		
2 Returns and allowances	2		
3 Subtract line 2 from line 1	3		
4 Cost of goods sold (from line 42)	4		
5 Gross profit. Subtract line 4 from line 3	5		
6 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6		
7 Gross income. Add lines 5 and 6	7		

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8 Advertising	8			18 Office expense (see instructions)	18		
9 Car and truck expenses (see instructions).	9			19 Pension and profit-sharing plans	19		
10 Commissions and fees	10			20 Rent or lease (see instructions):			
11 Contract labor (see instructions)	11			a Vehicles, machinery, and equipment	20a		
12 Depletion	12			b Other business property	20b		
13 Depreciation and section 179 expense deduction (not included in Part III) (see instructions).	13			21 Repairs and maintenance	21		
14 Employee benefit programs (other than on line 19)	14			22 Supplies (not included in Part III)	22		
15 Insurance (other than health)	15			23 Taxes and licenses	23		
16 Interest:				24 Travel, meals, and entertainment:			
a Mortgage (paid to banks, etc.)	16a			a Travel	24a		
b Other	16b			b Deductible meals and entertainment (see instructions)	24b		
17 Legal and professional services	17			25 Utilities	25		
28 Total expenses before expenses for business use of home. Add lines 8 through 27a	28			26 Wages (less employment credits)	26		
29 Tentative profit or (loss). Subtract line 28 from line 7	29			27a Other expenses (from line 48)	27a		
30 Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions). Simplified method filers only: enter the total square footage of: (a) your home: _____ and (b) the part of your home used for business: _____ . Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30	30			27b Reserved for future use	27b		
31 Net profit or (loss). Subtract line 30 from line 29. • If a profit, enter on both Form 1040, line 12 (or Form 1040NR, line 13) and on Schedule SE, line 2. (If you checked the box on line 1, see instructions). Estates and trusts, enter on Form 1041, line 3. • If a loss, you must go to line 32.	31						
32 If you have a loss, check the box that describes your investment in this activity (see instructions). • If you checked 32a, enter the loss on both Form 1040, line 12, (or Form 1040NR, line 13) and on Schedule SE, line 2. (If you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on Form 1041, line 3. • If you checked 32b, you must attach Form 6198. Your loss may be limited.				32a <input type="checkbox"/> All investment is at risk.			
				32b <input type="checkbox"/> Some investment is not at risk.			

▶ Information about Form 1120 and its separate instructions is at www.irs.gov/form1120.

A Check if: 1a Consolidated return (attach Form 851) <input type="checkbox"/> b Life/nonlife consolidated return <input type="checkbox"/> 2 Personal holding co. (attach Sch. PH) <input type="checkbox"/> 3 Personal service corp. (see Instructions) <input type="checkbox"/> 4 Schedule M-3 attached <input type="checkbox"/>	TYPE OR PRINT	Name _____ Number, street, and room or suite no. If a P.O. box, see instructions. _____ City or town, state, or province, country, and ZIP or foreign postal code _____	B Employer identification number _____ C Date incorporated _____ D Total assets (see instructions) \$ _____ E Check if: (1) <input type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input type="checkbox"/> Address change
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Income	1a	Gross receipts or sales			
	b	Returns and allowances			
	c	Balance. Subtract line 1b from line 1a			
	2	Cost of goods sold (attach Form 1125-A)			
	3	Gross profit. Subtract line 2 from line 1c			
	4	Dividends (Schedule C, line 19)			
	5	Interest			
	6	Gross rents			
	7	Gross royalties			
	8	Capital gain net income (attach Schedule D (Form 1120))			
	9	Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)			
10	Other income (see instructions—attach statement)				
11	Total income. Add lines 3 through 10				

Deductions (See instructions for limitations on deductions.)	12	Compensation of officers (see instructions—attach Form 1125-E)			
	13	Salaries and wages (less employment credits)			
	14	Repairs and maintenance			
	15	Bad debts			
	16	Rents			
	17	Taxes and licenses			
	18	Interest			
	19	Charitable contributions			
	20	Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562)			
	21	Depletion			
	22	Advertising			
	23	Pension, profit-sharing, etc., plans			
	24	Employee benefit programs			
	25	Domestic production activities deduction (attach Form 8903)			
	26	Other deductions (attach statement)			
	27	Total deductions. Add lines 12 through 26			
	28	Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11.			
	29a	Net operating loss deduction (see instructions)			
	b	Special deductions (Schedule C, line 20)			
c	Add lines 29a and 29b				

Tax, Refundable Credits, and Payments	30	Taxable income. Subtract line 29c from line 28. See instructions			
	31	Total tax (Schedule J, Part I, line 11)			
	32	Total payments and refundable credits (Schedule J, Part II, line 21)			
	33	Estimated tax penalty. See instructions. Check if Form 2220 is attached <input type="checkbox"/>			
	34	Amount owed. If line 32 is smaller than the total of lines 31 and 33, enter amount owed			
	35	Overpayment. If line 32 is larger than the total of lines 31 and 33, enter amount overpaid			
36	Enter amount from line 35 you want: Credited to 2017 estimated tax ▶	Refunded ▶			

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Sign Here ▶	Signature of officer _____	Date _____	Title _____
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May the IRS discuss this return with the preparer shown below? See instructions. Yes No

Paid Preparer Use Only	Print/Type preparer's name _____	Preparer's signature _____	Date _____	Check <input type="checkbox"/> if self-employed	PTIN _____
	Firm's name ▶ _____	Firm's EIN ▶ _____			
	Firm's address ▶ _____	Phone no. _____			

EXHIBIT B

SANTA ROSA TAX RATES AND ORDINANCE

Cannabis Business Tax

On June 6, 2017, the voters of Santa Rosa approved Measure D, implementing a Cannabis Business Tax for the City of Santa Rosa.

2017/2018 Tax Rates

(set by Council Resolution 2017-035)

Cultivation	2% of gross receipts (<i>not an option if vertically integrated</i>) or \$5 per square foot of cannabis cultivation
Manufacturing	1% of gross receipts
Distribution	0%
Retail	0% for Medical

Tax Schedule

2017 3rd Quarter: July 1 - September 30 (Tax due October 31, 2017)

2017 4th Quarter: October 1 - December 31 (Tax Due January 31, 2018)

2018 1st Quarter: January 1 - March 31 (Tax Due April 30, 2018)

2018 2nd Quarter: April 1 - June 30 (Tax Due July 31, 2018)

6-10.050. Tax Authorized. A cannabis industry tax is hereby imposed on every person who is engaged in cannabis business in the City as prescribed herein, from and after the effective date of a City Council resolution implementing the tax. It is unlawful for any person to transact or carry on any cannabis business in the City without paying, in accordance with this Chapter, the cannabis industry tax imposed by this section.

A. Tax on Commercial Cannabis Cultivation

1. There is hereby imposed on every person engaged in commercial cannabis cultivation in the City, an annual tax at a rate established by

resolution of the City Council which rate shall not exceed either \$25 per square foot of cannabis cultivation area or eight percent (8%) of annual gross receipts. The maximum square foot tax shall be adjusted annually each January 1st based on the year-over-year percentage change in Bureau of Labor Statistics San Francisco/Oakland/San Jose Consumer Price Index – All Urban Consumers (CPI-U) October to October comparison, or if such index is discontinued, a comparable successor consumer price index as determined by the City Council. The tax imposed under this Subsection (A)(1) shall be due and payable in installments as provided in Section 6-10.070 of this Chapter. The tax imposed under this Subsection (A)(1) shall not be implemented unless and until the City Council acts by resolution to do so.

2. **The City Council may by resolution, in its discretion, implement a tax rate lower than the maximum rates set forth in Subsection (A)(1) for all persons engaged in commercial cannabis cultivation in the City or establish differing tax rates for different categories of commercial cannabis cultivation.** For example, and without limitation, the City Council may set different tax rates for cannabis cultivation for medical or adult recreational use, or for indoor rather than outdoor or mixed light cultivation. The City Council may, by resolution, also decrease or increase any such tax rate from time to time, provided that the tax rate shall not, at any time, exceed the maximum tax rates established in Subsection (A)(1). An affirmative vote of at least five (5) members of the City Council is required for any tax increase resulting in a tax rate of over 5%. Tax rates shall be set for a minimum of a two (2) year term.
3. Persons subject to the tax imposed by Subsections (A)(1) and (A)(2) shall also register and pay the registration fee described in Section 6-10.060 of this Chapter, **but shall be exempt from paying the general business tax** required under Section 6-04.220 and 6-04.230 of the Santa Rosa City Code for any such cannabis business. A cannabis business not subject to the cannabis industry tax imposed by this Chapter is subject to the general business tax required under Sections 6-04.220 and 6-04.230 of the Santa Rosa City Code except as

otherwise provided by Chapter 6-04 of this Code or other applicable law.

B. Tax on Cannabis Manufacturers, Distributors, and Dispensaries

1. There is hereby imposed on every person engaged in a cannabis business in the City as a manufacturer, distributor or a dispensary an **annual tax at a rate established by resolution of the City Council which rate shall not exceed eight percent (8%) of annual gross receipts**. The tax imposed under this Subsection (B)(1) shall be due and payable in installments as provided in Section 6-10.070 of this Chapter. The tax imposed under this Subsection (B)(1) shall not be implemented unless and until the City Council acts by resolution to do so.
2. The City Council may by resolution, in its discretion, implement a tax rate lower than the maximum rate established in Subsection (B)(1) for all persons engaged in a cannabis business in the City as a manufacturer, distributor or a dispensary, or establish differing tax rates for different categories of cannabis business. For example, and without limitation, the City Council may set different rates for businesses serving medical or adult recreational use, or for different types of manufacturers, distributors or dispensaries. The City Council may, by resolution, also decrease or increase any such tax rate from time to time, provided that the tax rate shall not, at any time, exceed the maximum tax rate established in Subsection (B)(1). An affirmative vote of at least five (5) members of the City Council is required for any tax increase resulting in a tax rate of over 5%. Tax rates shall be set for a minimum of a two (2) year term.
3. Persons subject to the tax imposed by Subsections (B)(1) and (B)(2) shall also register and pay the registration fee described in Section 6-10.060 of this Chapter, but shall be exempt from paying the general business tax required under Section 6-04.220 and 6-04.230 of the Santa Rosa City Code for any such cannabis business. A cannabis business not subject to the cannabis industry tax imposed by this Chapter is subject to the general business tax required under Sections 6-04.220 and 6-04.230 of the Santa Rosa City Code except as

otherwise provided by Chapter 6-04 of this Code or other applicable law.

- C. **No further voter approval shall be required for the adoption or increase of a tax under the authority granted by this Section 6.10.050 of this Chapter, it being the intent of the People of the City of Santa Rosa to authorize such a tax up to and including the maximum rates set forth above whenever implemented by the City Council hereafter.**

EXHIBIT C

HYPOTHETICAL

1. Groucho, Harpo and Chico want to start a new family business, GHC Ltd. They plan to purchase a piece of real property in Northern CA to be used by a licensed medical cannabis grower. Harpo plans to contribute the bulk of the capital to the land purchase.

- What type of entity to use? LLC or corporation?
- Who should own the land?
- Profit/loss allocation to Harpo?
- What documentation should there be between the entities?
- Related party and arm's length pricing issues?
- 280E?

2. The same individuals are in the process of applying for the licenses to grow medical cannabis, and to operate a medical cannabis dispensary.

- What type of entity to use?
- Nontax issues such who can qualify for the license?
- What are the cross-ownership issues under the state licensing regime (vertical integration)?
- Who will make the improvements to the land?
- 280E issue?

3. Chico and Groucho plan to each contribute services to the grow operation.

- Entity to use?
- Services for an interest in a for profit operation?
- Value of those services?
- Tax consequences?
- Stock for future services?

4. They all plan to serve on the board of directors and play a role in the management of the operations.

- Are the wages deductible?
- Interested Director problems?

5. Can they sell the operation at some point down the road and the tax cost on that as well?

- Sale of an interest or the assets?
- Are investors interested in the operation, if so, what part?
- Enforcement of contract issues?