OREGON DEPARTMENT OF REVENUE **Interoffice Memo**

Date: June 3, 2015

To: Senator Ferrioli

From: Jim Bucholz, Director

Subject: Early availability of recreational marijuana through medical dispensaries

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Issue: Can the Department of Revenue facilitate the early implementation of the retail sale of marijuana through existing medical marijuana dispensaries? If so, how and when?

OPTION ONE

Transitional tax administered by Department of Revenue (DOR) with handoff to OLCC for long-term administration of tax on recreational marijuana once OLCC has a tax system in place.

The Department of Revenue could implement a rudimentary but practical means to accept tax payments from a small number of medical dispensaries that choose to avail themselves of the "opt-in" provisions. This would allow dispensaries to sell recreational marijuana before the OLCC has the retail store locations available. We would do this in our existing legacy system that is being replaced with GenTax. This solution would provide only limited functionality and wouldn't be able to provide much more than basic data such as total receipts and distributions.

By October 2015, (or at least four to six weeks from the time legislation passes), we believe we could have this process in place in our legacy system to bank marijuana tax payments and also adopt temporary emergency rules, if needed.

Collection of the tax by medical dispensaries could begin as early as the time the first dispensaries are certified to sell the recreational marijuana. The tax could be paid by the dispensary to the department as soon as the last day of the month following the close of the calendar quarter. If July 1, 2015 was chosen as the start date, then the first dispensaries authorized to sell could collect the tax and remit it with a very basic tax return no later than October 31, 2015.

DOR could administer the transitional tax until the OLCC has its inventory tracking system in place and operable, estimated currently to be October 2016.

If this option is chosen, the DOR would need to limit the tax payments to be in the form of non-cash bankable funds including ACH credit, until our partners at the State Treasury are able complete their work on the acceptance of cash for M. 91 purposes generally. We would like some flexibility in this area so we could begin accepting cash as soon as the process was established.

When OLCC has its system in place, the DOR would transition administration of the tax to the OLCC. Option one substantially limits the introduction of risk to DOR's major IT project that is replacing the department's core systems. This IT project is halfway through the second of four phases and currently significantly overlaps with the M. 91 implementation timeline.

OPTION TWO

Transitional tax administered by DOR with DOR maintaining the long-term administration of the tax at DOR and not OLCC.

Much like option one, the Department of Revenue could implement a rudimentary but practical means to accept tax payments. We would need the same flexibility and concerns addressed in Option One.

However, because the DOR would maintain the long-term administration of the tax, and we are currently in the middle of a major IT project to replace our tax return processing systems, we would consider working with our vendor, FAST Enterprises, to negotiate a service delivery model that could accommodate a 2016 transitional tax as well as the long-term administration of the tax. We do not believe we could have a service delivery model within our new system for a transitional tax that would begin in 2015, although we would be mindful of needs for the new system as we develop the transitional tax.

The department could implement the transitional tax in our current Legacy system which would result in data needing to be converted to the new system if we have the long-term administration of the tax. We could divert staff from the current phase two rollout of the personal income tax to develop and build this new system, however that introduces significant risk to the success of the current IT project, and it wouldn't meet the timeline proposed for the early implementation.

More likely and to mitigate risk to the personal income tax program, we would consider running the transitional tax through our legacy system until the DOR could implement the new marijuana tax program with our rollout three programs available in the fall of 2016. This would be the same timeline as OLCC currently is proposing where the first retailers would be licensed in October 2016. Retail licensing beginning in October 2016 would result in the first tax returns being due in January 2017 assuming a quarterly filing. The OLCC licensing timeline works well with our core system replacement project.

We would need to consult with OLCC during 2016 to develop rules around sharing of information from OLCCs inventory control system (seed to sale tracking) so we know how much tax should be being paid.

Early estimates from the vendor for implementing a long term administrative solution within GenTax are in the neighborhood of $1 million, with annual maintenance fees of approximately $100,000.

CC: Senator Burdick, Co-chair of Joint Committee on Implementing M. 91
Rep. Lininger, Co-chair of Joint Committee on Implementing M. 91
Vince Porter, Governor's Office