

# The Incalculable Benefits of Outsourcing CRB Payroll



## INTRODUCTION

In the dynamic landscape of the legal cannabis industry, where traditional banking is not yet a reality, licensed cannabis businesses face a unique set of challenges and opportunities. Compliance with strict regulations, navigating complex tax codes, and managing an evolving workforce are just a few of the hurdles that cannabis businesses face. One solution that has proven immensely valuable is the partnership between licensed cannabis businesses and professional payroll companies.

Securing a qualified payroll service to partner with is a critical business function incumbent on forward-thinking licensed cannabis companies. Using a professional payroll service aware of the nuances of the cannabis industry is a critical business function, providing several distinct advantages for Cannabis-Related Businesses (CRB):

1. Streamlined Compliance
2. Expertise in Wage and Hour Laws
3. Enhanced Security
4. Cost Efficiency
5. Focus on Core Operations

**Imagine** you operate a cannabis dispensary in Maryland, and it's payday. Employees swing by your general manager's office not to pick up a company check but a money order you've had him procure from one of three separate grocery stores. A competitor down the road pays her employees in cash stuffed in backpacks to be handed off at a rendezvous point not disclosed until the last moment. Both your business and hers keep armed security guards on site, especially watchful on paydays as employees leave the building with their wages or en route to retrieve their wages from the safe offsite location. You've heard the stories of armed robberies, kidnapping, and even murder in California, Colorado, and Washington state, and you want to keep your employees safe.

As unlikely as this cloak-and-dagger scenario seems, it plays out weekly all across the United States. Despite the security concerns, an estimated 70% of licensed cannabis-related businesses (CRBs) have "no relationship with a financial institution and thus use cash for all transactions, including salaries for employees."<sup>1</sup> As Geiger-Oneto et al. (2022) note, "Conflicting policy and regulatory structures have transitioned the marijuana industry into a legitimate economy and market, yet force individuals to participate in 'involuntary deviance' to survive."<sup>2</sup>

Normally, payroll companies track hours worked, calculate employee pay and distribute paychecks through direct deposit to the business' bank. In the U.S., however, when the company's product derives from the Cannabis plant, everything changes. Most banks don't want to hold accounts for CRBs since doing so could jeopardize their FDIC status, expose them to hefty fines and penalties, and/or expose them to forfeiture of assets deriving from what appears to be money laundering. Given the administrative overhead of complying with numerous federal regulations, it's no wonder banks are reticent to do business with CRBs, but without bank accounts, many CRBs must "operate as cash-only businesses and hold large amounts of currency on their premises, creating tempting targets for criminals looking for big scores."<sup>3</sup>

In the regulatory quagmire of the current legal cannabis industry, one solution that has proven immensely valuable is the partnership between licensed cannabis businesses and professional payroll companies. Steven Suissa of [SHS Payroll](#) notes that cannabis-friendly banks do exist, and securing a qualified payroll service to partner with one of these banks is a critical business function incumbent on forward-thinking licensed cannabis companies. In this article, we'll discuss five advantages of outsourcing payroll to an experienced cannabis industry payroll processor.

**“Our company’s accessibility allows us to work closely with our clients to ensure they’re always in compliance.” - Steven Suissa, President, SHS Payroll**

## **1. Streamlined Compliance**

The national cannabis industry is highly regulated, with each state imposing its own set of rules and regulations. Navigating this intricate compliance web can be daunting, especially for new companies. Suissa urges licensed cannabis businesses to retain a payroll company well-versed in the industry's nuances to ensure that they are compliant with all applicable local, state, and federal regulations. On the federal level alone, a reputable payroll processor will be aware of the implications of the Banking Secrecy Act for cannabis businesses, the requirement to file timely Suspicious Activity Reports (SARs) to comply with Financial Crimes and Enforcement (FinCEN) guidelines, and the need for accurate documentation of inventory tracking. Due to the opacity of cash transactions, CRBs are more likely than other businesses to be audited by the IRS. Penalties for noncompliance can include steep fines, withdrawal of the business license to operate, and even incarceration.

## 2. Expertise in Wage and Hour Laws

Wage and hour laws can be a minefield for businesses, with constantly changing regulations governing minimum wage, overtime pay, and employee classifications. Some businesses aim to simplify accounting by classifying bud-tenders or security guards as “1099” independent contractors when they technically meet the criteria for employees. The IRS can impose penalties for misclassifying workers’ status, whether done intentionally or not. Owens-Ott’s 2020 NIH study notes that an CRB’s “Certified Public Accountant must commit to acquiring and maintaining substantial specialized knowledge related to tax code section 280E, internal controls for a cash-only or cash-intensive business, and the workings of the cannabis industry under the current regulatory conditions.” <sup>4</sup>

**“Payroll companies were not understanding the intricacies of cannabis payroll—how to compartmentalize the employees by department. The tax role for the cannabis industry can be quite complex. Certain things are deductible, some are not...(even) reporting the pay within a given department. You can get in a lot of trouble as a CRB if you’re not reporting properly.”**

As a Schedule I drug, cannabis falls under IRS Section 280E, which disallows the deduction of typical business expenses except for cost of goods sold (COGS) which (thankfully) can include wages for employees involved in inventory processes like curing and trimming. Since inventorial employees are classified and taxed differently from other customer-facing employees like bud-tenders or managers, staying current with the specifics of these employment laws is crucial. A payroll company specializing in the cannabis industry can help your business navigate these complexities, ensuring that employees are compensated fairly and legally, and that the business avails itself of all appropriate tax deductions. This mitigates the risk of costly legal disputes and fosters a positive work environment that attracts and retains skilled workers.

### 3. Enhanced Security

In addition to attracting violent crime, handling payroll in house can expose a cannabis business to digital security risks. SHS Payroll takes your data seriously, employing leading-edge security measures for its clients: encryption technologies, secure servers, and robust data backup systems not only to safeguard payroll information on a routine basis but also to recover it in case of natural disaster or other catastrophe. With the ever-present threat of data breaches, partnering with a payroll company like SHS can provide peace of mind that your financial information remains confidential and secure.

In 2023 alone, two major multi-state operating payroll companies exited the cannabis space, leaving hundreds of CRBs scrambling to pay their employees accurately and on time while searching for a reliable replacement—in some cases, with only 30 days' notice. SHS Payroll is not a massive conglomerate planning to monopolize the industry, but a reputable firm with no plans to leave. Forming a relationship with such an established local payroll processor provides two-way accountability—an additional layer of security.

**“As a payroll company, one of our fiduciary responsibilities is to verify that clients are real....We are close enough to visit them. We have clients in all 50 states, but our focus is the cannabis industry here in our backyard—Maryland, DC and Virginia. In the world of payroll, trust is extremely important. People want to work with people they know—to know where their payroll office is. In an industry where most payroll companies don’t even have offices anymore....  
How do you know who’s holding your data?”**

The cannabis business knows who is holding their data and distributing their funds; in turn, the payroll processor can drive down the street to verify that the cannabis business is a legitimate entity, not a shell company. In these days of predominantly remote access, “eyes on” matters.

## 4. Cost Efficiency

Though DIY'ing business operations works for small businesses and less fiercely regulated markets, outsourcing CRB payroll services to a specialized company is usually more cost-efficient. Managing payroll in-house can require significant time, effort, and resources, involving expenses related to hiring and training staff, acquiring payroll software, keeping up with regulatory changes, and remitting payments with 100% accuracy. CRBs who tried using QuickBooks or Gusto were promptly dropped once the payroll company saw their business' cannabis-related NAICS code.

**“Folks in the cannabis industry doing payroll tend to want to overcharge cannabis clients because they can. That’s something we don’t do. We look at our clients as people not opportunities to gouge people. I don’t believe in that. I believe treating clients fairly is extremely important, from a service perspective and a cost perspective.”**

Payroll companies typically offer scalable pricing models, allowing businesses to pay only for their needed services. This cost-effective approach can free up capital for other essential aspects of your cannabis business, such as expansion or research and development. Suissa explains that large multi-state payroll processing companies are tempted to overcharge cannabis businesses, taking advantage of an ostensibly lucrative captive market in need of such specialized services. Ideally, work with a hometown company with decades of experience, not a company that has jumped onto the Green Rush bandwagon without knowing what they are doing.

## 5. Focus on Core Operations

Avoiding steep fines would be reason enough to hire out payroll, but the most significant benefit of partnering with a payroll company is the freedom it affords business owners to focus on their core operations. Cannabis businesses need to navigate regulatory complexity like no other industry, and it is highly competitive. Success often hinges on innovation and adaptability. Outsourcing payroll allows business leaders to channel their time and energy into strategic growth initiatives, product development, and customer satisfaction. This, in turn, can lead to increased productivity and profitability, ultimately driving the success of the licensed cannabis business.

**“Payroll processing and tax filings are complex so letting the experts provide that service means one more task off your plate.”**

**In conclusion**, the value of professionally managed payroll services for a licensed cannabis business cannot be overstated. The benefits are substantial, from ensuring compliance with complex regulations to providing expertise in wage and hour laws, enhancing personnel and data security, and delivering cost efficiencies. Retire the backpacks and partner with an experienced payroll processing company—ideally, one you could stop by to visit in one afternoon. In so doing, you can enjoy peace of mind, streamline your business operations, and position your business for long-term success in the dynamic legal cannabis industry.



[www.shspayroll.com](http://www.shspayroll.com) | 301-710-0930

Mention CannabizMD for a no-cost set up and first payroll fees waived.



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