ROYSE PARTNERS

Supporting U.S. innovation across the cannabis supply chain.

Royse Partners works with operators, manufacturers, engineers, laboratories, and technology teams across the broader cannabis ecosystem to uncover and support eligible R&D. We help you identify qualifying work, assemble the documentation and compliance support behind it, and deliver accurate credit calculations so the process is simple and straightforward for your team.

2026 R&D TAX CREDIT GUIDE

FOR THE CANNABIS INDUSTRY

80% of eligible U.S. businesses do not know they qualify for the R&D credit.

6-20% of your business's R&D costs can be claimed back with the credit.

6-20% in federal R&D tax credits remain unclaimed every year.

CANNABIS R&D TAX LANDSCAPE

The cannabis industry faces a unique tax landscape with unrealized savings opportunities. Despite industry-specific limitations at the federal level, cannabis and cannabis-adjacent companies still have significant access to Research and Development ("R&D") tax credit benefits.

Section 280E Impact on R&D Credit

How a business interacts with the cannabis plant dictates credit availability. Federal R&D credits remain restricted for plant-touching ("core cannabis") operators under IRC Section 280E. A company's interaction with the cannabis plant determines credit eligibility. Federal R&D credits remain restricted for plant-touching ("core cannabis") operators under IRC Section 280E. However, many states have decoupled from 280E and allow state-level R&D credits for qualifying plant-touching activities.

Businesses that do not handle cannabis ("ancillary") can access both federal and state R&D credits when their activities meet standard R&D criteria.

One Big Beautiful Bill Act Cuts Section 174 Red Tape

In July 2025, Congress passed the H.R.1 - One Big Beautiful Bill Act, eliminating the five-year amortization requirement for domestic research under Section 174. Beginning in 2025, U.S. R&D expenses may be immediately expensed, with accelerated treatment for remaining 2022 - 2024 amounts.

This change allows cannabis and ancillary businesses to recover R&D investments faster and reinvest in innovation with greater confidence.

GET A FREE ESTIMATE

See what your work could qualify for online, in minutes:

hydrosupply-co.com/tax-credits-rebates

01. CORE CANNABIS BUSINESSES

Licensed operators can access state R&D credits in states that decouple from 280E, such as California and Colorado. These programs allow qualified research costs to generate state-level tax savings even when federal credits are not available. The specific opportunities vary by state, so eligibility is driven by where the business operates and how each state treats cannabis for income-tax purposes.

02. ANCILLARY BUSINESSES

Companies that support the cannabis industry without handling the plant directly can claim both federal and state R&D credits under standard rules. Their eligibility is the same as any other technology, manufacturing, or engineering business, since 280E does not apply. This often creates a straightforward path to capturing credits for product development and technical work.

Examples of Core Cannabis R&D Activities

Cultivation & Agriculture
- New strain development or trait improvement
- Testing light, nutrient, or irrigation variables
- Propagation or pest-management optimization

Extraction & Refinement
- Solvent, temperature, and pressure optimization
- Purification and distillation process tuning
- In-process controls for potency and purity

Formulation & Product Development
- Edible, topical, and concentrate formulation
- Emulsion and bioavailability improvements
- Dosing and delivery design

Examples of Ancillary R&D Activities

Software & Automation
- Compliance, tracking, and inventory systems
- Sensor and IoT development for facility control
- Automation and workflow integration

Engineering & Sustainability
- Energy-efficient climate/lighting systems design
- Hardware prototyping and material testing
- Engineering architectural layouts for grow facilities

Product & Device Design
- Vape pens, cartridges, and accessory design
- Equipment durability, thermal, and airflow testing
- Manufacturability and safety improvements

KEY BENEFITS OF THE CREDIT

$1 for $1 Tax Reduction

Qualified R&D expenses generate a direct credit that reduces federal or state tax liability.

Retroactive Claims

Businesses can amend their prior year returns 3 to 4 years back to recover unclaimed federal or state R&D credits.

Payroll Tax Offset

Qualified small businesses (QSBs) can apply up to $500,000 of R&D credits each year to offset payroll taxes.

CLIENT SUCCESS STORIES

Indoor Cultivator & Distributer
Total R&D Spend: **$3.4 Million**
Total Credits Earned: **$908,000**
in CA State R&D Tax Credits

Software Development Company
Total R&D Spend: **$1.2 Million**
Total Credits Earned: **$132,000**
in Federal R&D Tax Credits

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