

Headline: Rescheduling Heralds a Cannabis Industry Renaissance

Author/ Byline: by Charles Aloviseti

Meta description:

Proposed cannabis rescheduling to Schedule III would end 280E once finalized, easing tax and operational burdens and boosting investor confidence.

Summary:

The wait may be nearing its end: cannabis rescheduling is formally underway. At a critical moment for the industry, President Trump has issued an executive order directing the Attorney General to pursue rescheduling cannabis from Schedule I to Schedule III under the Controlled Substances Act. While the process is not yet complete, and cannabis remains a Schedule I substance for now, the directive signals a potential turning point. And it could not have come at a more critical moment.

The “green rush” has long since ended, and capital has dried up. Companies built for an era of rapid growth and easy financing now struggle to survive. Against this backdrop, the move from Schedule I to Schedule III is the most significant development the industry could hope for. While the state-legal cannabis industry is still not fully compliant with federal law under Schedule III, the most punishing feature of federal law, Section 280E of the Internal Revenue Code, falls away overnight. Just as important, rescheduling sends the strongest signal yet that the federal government recognizes the legitimacy of a regulated cannabis market. Taken together, these changes have the potential to spark a cannabis industry renaissance.

Body:

The wait may be nearing its end: [cannabis rescheduling is formally underway](#). At a critical moment for the industry, President Trump has issued [an executive order](#) directing the Attorney General to pursue rescheduling cannabis from Schedule I to Schedule III under the Controlled Substances Act. While the process is not yet complete, and cannabis remains a Schedule I substance for now, the directive signals a potential turning point. And it could not have come at a more critical moment.

The “green rush” has long since ended, and capital has dried up. Companies built for an era of rapid growth and easy financing now struggle to survive. Against this backdrop, the move

from Schedule I to Schedule III is the most significant development the industry could hope for. While the state-legal cannabis industry is still not fully compliant with federal law under Schedule III, the most punishing feature of federal law, Section 280E of the Internal Revenue Code, falls away overnight. Just as important, rescheduling sends the strongest signal yet that the federal government recognizes the legitimacy of a regulated cannabis market. Taken together, these changes have the potential to spark a cannabis industry renaissance.

The End of 280E

Section 280E prohibits companies trafficking in Schedule I or II substances from taking ordinary business deductions. Unlike every other U.S. industry, cannabis companies could not deduct rent, payroll, or marketing. Their only allowance was the ability to deduct the cost of goods sold (COGS), a narrow carve-out rooted in constitutional concerns. The practical result was effective tax rates ranging from 70 to 90 percent. Operators survived only by cutting corners, pursuing aggressive filing positions, or falling behind on taxes.

If cannabis is ultimately rescheduled to Schedule III, this punitive regime would end. Cannabis operators would be able to deduct ordinary and necessary business expenses and potentially access tax benefits such as research and development credits and depreciation and amortization, like other industries. In short, they could plan taxes more conventionally.

Paradoxically, this would also introduce new complexity. For years, tax planning options were severely constrained. With 280E no longer applicable, operators would need to decide how best to deploy a full range of tax planning tools.

Relief, however, would not be retroactive. Many companies carry substantial unpaid tax liabilities from the 280E era. A September, 2025 [Wall Street Journal article](#) estimated that ten major U.S. cannabis companies owe about \$2 billion in federal taxes. These liabilities would not disappear with rescheduling. Absent unexpected IRS guidance, liabilities incurred while cannabis was classified as Schedule I would remain payable.

These obligations will drive restructuring if and when the rescheduling process proceeds. Some operators may sell distressed assets, while others may transfer clean assets not subject to IRS liens into new entities. In addition, complex structures created to mitigate 280E would become obsolete, prompting companies to unwind them. The combination of restructurings, simplification, and opportunistic acquisitions by better-capitalized investors could mark the beginning of a more active deal cycle.

Read: [Cannabis Rescheduling Explained](#)

A Message to the Market

Rescheduling is not only about reducing tax rates. It also sends a powerful message to financial institutions and markets about the federal government's acceptance of the state-legal cannabis industry. Many banks and payment processors have long avoided the sector, citing anti-money laundering laws and enforcement risk. Rescheduling would not change those statutes, and cannabis remains federally illegal. Only congressional action, such as passage of the SAFER Banking Act or complete descheduling, would provide comprehensive protection.

Still, a move to Schedule III would materially alter risk perceptions. For many financial institutions and investors, the likelihood of federal enforcement would appear significantly diminished, shifting the cost-benefit analysis toward engagement.

For public companies, this shift matters. Combined with the cash flow improvements that would follow the end of 280E, rescheduling could meaningfully improve sector outlooks. Valuations have languished for years amid skepticism that federal policy would evolve. If 280E is eliminated, effective tax rates would normalize and cash flow would improve. With better fundamentals and prospects for further reform, equity and debt capital would be more likely to follow. While this would not constitute legalization, the federal government's signal alone could be sufficient to attract institutional investors to a space long dominated by retail capital.

Read: [4 Major Implications of Cannabis Moving to Schedule III](#)

Good News Even For Those Who Do Not Like Cannabis

Even opponents of cannabis should welcome rescheduling. Section 280E never reduced consumption. Illicit cannabis has remained cheap, accessible, and widely available. What 280E has accomplished is to further disadvantage licensed businesses, pushing consumers toward unregulated sellers who pay little tax, avoid product testing, and have no qualms about selling to children.

If rescheduling is finalized, licensed operators would be better positioned to compete on a more level playing field. Stronger legal businesses could shift demand away from the illicit market, improving public safety and increasing tax revenue. States would likely collect

more in excise and sales taxes, and the federal government would benefit from higher income tax receipts. The benefits of rescheduling extend well beyond the cannabis industry itself.

Read: [The Legality of Distributing and Dispensing Botanical Cannabis under Schedule III](#)

The Work Ahead

Rescheduling would not be a cure-all. Oversupply in certain markets, restrictive and evolving state regulations, and persistent illicit competition would remain. Federal banking laws would still require reform. And the wrongs of the war on drugs still need to be reversed.

Nevertheless, for the first time in years, the industry is confronting a potential federal development that could fundamentally alter its trajectory. If rescheduling is completed, the cannabis industry will have a renewed opportunity to shape its future. With fairer taxation and improved access to capital, operators could build stronger businesses, regulators could enhance public health protections, and markets could grow on firmer footing.

Stay Informed

Vicente LLP continues to monitor federal cannabis rescheduling developments and their implications for businesses, policymakers, and advocates. Vicente's attorneys work at the intersection of law and policy to advance responsible cannabis regulation and support equitable, evidence-based reform.

For a deeper dive into the legal and business implications of Schedule III and the federal-state pilot program, explore our [Vicente LLP Federal Cannabis Schedule III Updates & Resources Hub](#).

Sign up for [Vicente LLP's Federal & International Cannabis Policy Update](#) to receive timely rescheduling insights straight to your inbox.

For guidance on navigating cannabis policy or engaging in federal advocacy efforts, [contact us today](#).

