

WHAT SCHEDULE III REALLY MEANS FOR CANNABIS

A Lawyer's Unfiltered Take on Rescheduling, Risk, & Opportunity

Cannabis rescheduling has dominated recent headlines. Depending on who you listen to, **Schedule III** is either a historic breakthrough or political theater. The truth, as always, is somewhere in the middle. In a recent episode of Cultivation Elevated, host Michael Williamson sat down with Devon Baxter, founder of Baxter Law and a cannabis-focused attorney, to cut through the noise. Their conversation provided a grounded, legal reality check for operators, investors, and anyone building a business in this space.

Here's what Schedule III actually means, and just as importantly, what it doesn't...

I. RESCHEDULING US. LEGALIZATION: THE CRITICAL DIFFERENCE

Myth: Schedule III makes cannabis "legal."

Reality: Not even close.

- Rescheduling is a **procedural change**, not a change in law. It moves cannabis from Schedule I to Schedule III under the federal Controlled Substances Act (CSA), recognizing its medical use and lower abuse potential.
- **Legalization** treats cannabis like alcohol: lawful, regulated, and accessible. Schedule III doesn't do this.

Impact for state-legal operators: Federal prohibition and state programs still conflict. Rescheduling changes the regulatory framework, but risk and uncertainty remain.

Don't confuse regulatory progress with legal freedom.

2. SCIENCE. NOT POLITICS. FORCED THE SHIFT

Rescheduling is often framed as political victory, but the truth is technical:

- Human data from FDA-compliant clinical research showed cannabis has **legitimate medical value**.
- Pharmaceutical-grade cultivation and manufacturing proved cannabis can be produced **safely and consistently**.

Result: The Schedule I argument, that cannabis has "no accepted medical use", became indefensible. Rescheduling wasn't a celebration, it was evidence-driven regulatory reality.

Bonus: Schedule III also lowers barriers for future research, meaning more clinical trials, more data, and clearer medical understanding.



3. 280E TAX RELIEF: REAL. BUT NOT AUTOMATIC

Cannabis operators are eyeing IRS Code Section 280E.

- **280E today:** Prevents cannabis businesses from deducting ordinary business expenses, sometimes resulting in effective tax rates over 70%.
- **Schedule III potential:** Removes this restriction, but it's not a flip-the-switch solution.

Operators need to prepare for:

- Rebuilding financial systems
- Updating expense tracking
- Reassessing entity structures
- Managing investor expectations

280E relief is real, but it rewards planning, not celebration.



4. BANKING MYTH: SCHEDULE III WON'T FLOOD THE MARKET

Reality check: Rescheduling does not open the banking floodgates.

- Federal banking regulations still consider cannabis illegal, keeping major banks out.
- NYSE and NASDAQ listings remain unlikely.
- Traditional commercial loans remain inaccessible.

What could change:

- Increased comfort for state-chartered banks
- Slightly better competition and fees
- Private capital continues as the main financing source

5. INCREASED SCRUTINY: COMPLIANCE IS KING

Rescheduling makes cannabis harder to ignore, meaning more oversight, not less.

Operators should review:

- SOP consistency
- GMP readiness
- Product labeling and health claims
- Potency consistency
- Facility safety and cleanliness



Compliance isn't a checkbox, it's a competitive advantage.

6. LABS. TESTING. & PRODUCT INTEGRITY

Lab testing is fragile.

As margins tighten, “**lab shopping**” may tempt operators, but it's a long-term risk.

- More patients entering the market, including vulnerable populations, means **accuracy matters**.
- Rescheduling increases the likelihood that labs, sampling, and testing standards face **deep scrutiny**.

7. MSOS. CRAFT OPERATORS & INDUSTRY CONSOLIDATION

Schedule III affects operators differently:

- MSOs can restructure finances, pursue acquisitions, and handle scrutiny.
- Single-state/craft operators must focus on brand loyalty, niche positioning, and discipline.

Consolidation is likely, but the craft segment will survive, much like craft beer.

8. HEMP. CBD & REGULATORY CROSSROADS

Hemp faces volatility:

- Federal changes could eliminate intoxicating hemp products by 2026
- Full-spectrum CBD may remain accessible
- Enforcement is already increasing at the state level



Insight: Whether hemp and cannabis converge or diverge is one of the industry's most consequential questions.

9. BIG PHARMA: WATCH. BUT DON'T EXPECT TAKEOVER

- **Schedule III** makes cannabis familiar territory for pharma.
- Pharma focuses on **patentable, standardized products**, not flower or pre-rolls.
- **Short-term:** Expect research investments, not direct competition.



10. INTERSTATE COMMERCE: STILL NOT HAPPENING

- Rescheduling does not authorize **interstate trade**.
- Cannabis still **can't cross state lines** without FDA approval.
- Operators **should not** build strategies assuming national trade is imminent.

11. STRATEGIC PRIORITIES FOR THE NEXT 12-24 MONTHS

For well-capitalized operators or MSOs:

- Secure **high-quality cultivation sites** (power and water access are finite).
- Rebuild **financial and tax strategies** to manage post-280E operations.
- Strengthen **compliance programs** in anticipation of federal scrutiny.

12. THE REAL TAKEAWAY

Schedule III is progress, but not a cure-all.

- Rewards discipline
- Punishes assumptions
- Unlocks some tax relief and smoother capital conversations
- Doesn't eliminate federal risk or guarantee banking



Operators who win: Focus on fundamentals, anticipate second- and third-order effects, and treat compliance as a strategic advantage. Noise fades. Fundamentals don't.