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TAX

# COMPLIANCE GUIDE

## Cannabis Industries

INCLUDES RETAIL, DELIVERY,  
TRANSPORTATION, CULTIVATION,  
TESTING, MANUFACTURING,  
AND ALL RELATED BUSINESS  
OPERATIONS.

los  
angeles  
office of  
finance



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# Registration: why and how

**B**usiness owners and individuals help grow our great City through business activity and tax dollars and ensure the success of our local economy. Through the collection of over \$2.5 billion in revenue from sources including taxes, licenses, fees and permits, we are able to provide financial support to a wide range of essential City services that benefit all who live, work and visit here, such as public safety, libraries and local parks.

## WHY REGISTER?

Taxpayers should register for a business tax registration certificate in order to remit taxes due. Failing to remit taxes will result in the revocation of the license issued by the Department of Cannabis Regulation. Late registrations will result in assessed interest and penalties.

The Business Tax Registration Certificate is not a permit and does not authorize the person to conduct any unlawful business or to conduct any lawful business in an illegal (or) unlawful manner or to conduct within the City of Los Angeles the business for which this certificate has been issued, without strictly complying with all the

provisions of the ordinances of said City (or) all local applicable laws, including but not limited to those requiring a permit from any board, commission, department or office of the City.

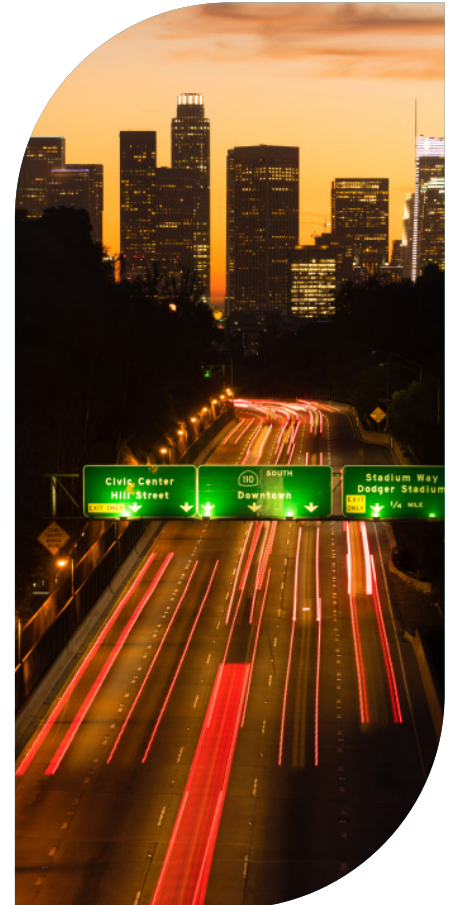
## HOW DO I REGISTER?

Unlike other businesses, a Cannabis business operating a location within the City of Los Angeles must apply and receive a license to operate from The Department of Cannabis Regulation before a business tax registration certificate can be issued by the Office of Finance. The Department of Cannabis Regulation licensing overview can be found at <https://cannabis.lacity.org/licensing/commercial-cannabis-activity>. Upon receipt of authorization from The Department of Cannabis Regulation a business tax registration certificate may be obtained from any of our three service center locations.

## OUT OF CITY REGISTRATION

Businesses located outside of the City of Los Angeles may also need to register for a Business Tax Registration Certificate and report and pay related business taxes.

If your business is located outside of the



**BUSINESS TAX REGISTRATIONS AND RESULTING REVENUE PROVIDE FINANCIAL SUPPORT TO THE CITY'S PROGRAMS SUCH AS PUBLIC SAFETY, LIBRARIES AND LOCAL PARKS.**



city and you sell cannabis products or provide transportation of cannabis products to customers located inside the city, a Business Tax Registration Certificate is required for that intercity business activity.

The sales to customers located inside the City of Los Angeles are subject to the city tax. Only a portion of the gross receipts from intercity cannabis activities will be taxed. The guidelines from City Clerk's Ruling No. 13 might be used to determine an apportioned amount. Please contact the Office of Finance Cannabis Unit by e-mail at [cannabisaudit@lacity.org](mailto:cannabisaudit@lacity.org).

If you are located outside of the City and receive a letter regarding possible business activities inside of the City please read the letter and contact the person listed to determine if a business license is required for intercity cannabis activities.

## ADDITIONAL REQUIREMENTS

A sellers permit and sales tax remittance may be required for your business. Please inquire with the California Department of Tax and Fee Administration at <https://www.cdtfa.ca.gov> for specific details.

Additional permits may be required from the County of Los Angeles for your business. For additional information please visit the County of Los Angeles website at <https://www.lacounty.gov> for specific details.

Additional permits and licenses are required for a City of Los Angeles Cannabis business. For all Cannabis business inquiries, please visit the Department of Cannabis Regulation's website at [cannabis.lacity.org](http://cannabis.lacity.org)

## AVOIDING TAX REGISTRATION AND PAYMENT

A cannabis business seeking a license renewal from the Department of Cannabis Regulation must be current on Office of Finance tax filings and amounts due before the renewal will be considered. Unpaid taxes will result in accrued interest and penalties. Outstanding balances may be forwarded for collections and the business will be billed for any fees or charges incurred during the collection effort.

For additional information refer to Department of Cannabis Regulation, Cannabis Regulation No. 11 Renewals and Cancellations.



### BUSINESS TAX APPLICATION

If any type of Retail or Wholesale sales, you are required to fill out the Tobacco Retailers questionnaire/Application  
All information is subject to disclosure

**Business Type** (check one):  Individual  Corporation  Partnership  LLC  Trust  
(Please print or type)

**Legal Name:** \_\_\_\_\_  
Do not use DBA here

**Business Address:** \_\_\_\_\_  
Do not use P.O. Box  
Check appropriate box  Commercial location  Residence  
Street address \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_

**Fictitious Business Name (DBA):** \_\_\_\_\_

**Care Of (C/O):** \_\_\_\_\_

**Mailing Address:** \_\_\_\_\_  
Check appropriate box  Commercial location  Residence  
Street address or P.O. Box \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_

**Starting date of business in the City of Los Angeles:** Month \_\_\_\_\_ Day \_\_\_\_\_ Year \_\_\_\_\_

**Social Security number (SSN) – OR – Federal Employer Identification number (FEIN):** \_\_\_\_\_

**Sales Tax Number (Seller's Permit):** \_\_\_\_\_

**Description of Business:** \_\_\_\_\_  
(Provide in detail)

**E-mail Address:** \_\_\_\_\_

**Business Phone Number:** \_\_\_\_\_

**Gross Receipts:** (If your business began prior to this year, Please complete the information below)

Activity:	2012	2013	2014	2015	2016	2017	2018	2019
Classification	_____	_____	_____	_____	_____	_____	_____	_____
Classification	_____	_____	_____	_____	_____	_____	_____	_____

**Note:** A minimum business tax may be due based on your business activity (ies) for the first year of operation.

**Contact Person:** \_\_\_\_\_ **Title:** \_\_\_\_\_

**Contact Phone Number:** \_\_\_\_\_

**I declare, under penalty of perjury under the laws of the State of California, that to the best of my knowledge the foregoing is true, correct and complete.**

**Signature of owner or agent** \_\_\_\_\_ **Date** \_\_\_\_\_

**Print your name** \_\_\_\_\_ **Phone Number** \_\_\_\_\_

**Title** \_\_\_\_\_ **Email** \_\_\_\_\_

For more information, visit our website: [finance.lacity.org](http://finance.lacity.org)

## IMPORTANT NOTICE:

ADDITIONAL PERMITS AND LICENSES ARE REQUIRED FOR A CITY OF LOS ANGELES BUSINESS. FOR ALL CANNABIS BUSINESS INQUIRIES PLEASE VISIT THE DEPARTMENT OF CANNABIS REGULATION'S WEBSITE AT [CANNABIS.LACITY.ORG](http://CANNABIS.LACITY.ORG)

## WHAT TAX CLASSIFICATION DO I FALL UNDER?

The business tax reporting classification for your firm will be associated with the approved licenses issued by the Department of Cannabis Regulation. The licensing process with DCR will identify all of the business activities performed by your firm which will require licensing and associated tax reporting.

Activity	DCR License	Tax Classification	Tax Rate
Sales of medical use cannabis	J010 - Retail Storefront J030 - Delivery	L711 - Medical Cannabis Sales	\$50 for each \$1,000 of Gross Receipts
Sales of adult or recreational cannabis or cannabis products	J010 - Retail Storefront J030 - Delivery	L712 - Adult Use Cannabis Sales	\$100 for each \$1,000 of Gross Receipts
Transportation or delivery of cannabis or cannabis products	J031 - Distributor Transport Only	L713 - Cannabis Transportation	\$10 for each \$1,000 of Gross Receipts
Activities related to the testing or researching of cannabis or cannabis products	J040 - Testing	L714 - Cannabis Testing	\$10 for each \$1,000 of Gross Receipts
Manufacturing or cultivation of cannabis or cannabis products, wholesale sales	J060 - Nursery/Processor J062 - Cultivation	L716 - Cannabis Cultivation	\$20 for each \$1,000 of Gross Receipts
Commercialization of cannabis or cannabis products not specifically covered	J080 - Distributor J083 - Manufacturer Level	L718 - Cannabis Miscellaneous	\$20 for each \$1,000 of Gross Receipts

# Taxes:

## deadlines and reporting

**A**s of July 1, 2019 business tax on cannabis activities are due on a monthly basis. The tax is due on the first day of the following month and is considered late if not paid by the last date of the month due. For example July's tax renewal should be filed on August 1st and is considered late if not received and paid by August 31st. Applicable interest and penalties will be applied if the renewal is not filed and paid on time.

### LATE FILING INTEREST RATE

The 2020 monthly interest rate is 0.5%. The interest rate is recalculated annually.

### LATE FILING PENALTIES

A penalty of 5% of the principal amount due will be charged for every month the filing is delinquent. The 5% penalty will be applied at the beginning of every month up to the fourth month of delinquency. On the fifth month of delinquency an additional 20% penalty will be charged. There is a maximum penalty due of 40% for long-term delinquency. For more information please see LAMC Section 21.05 Delinquent Dates - Interest - Penalties.

Example:

July's tax payment is due on August 1. The filing is late if not paid by August 31.

Months Late	Cumulative Penalties
1 - Not paid by 8/31	5%
2 - Not paid by 9/30	10%
3 - Not paid by 10/31	15%
4 - Not paid by 11/30	20%
5 - Not paid by 12/31	40%

### OTHER PENALTIES

There are penalties for Deficiency Determination, Negligence, and Fraud. For more information please see LAMC Section 21.05 Delinquent Dates - Interest - Penalties.

### REPORTING AND PAYMENT

Taxes can be filed on-line at <https://finance.lacity.org/online-taxpayer-services> with payment made using credit card, debit card, eCheck, or ACH.



THE TAX IS DUE ON THE FIRST DAY OF THE FOLLOWING MONTH AND IS CONSIDERED LATE IF NOT PAID BY THE LAST DAY OF THE MONTH DUE.



TAXES CAN BE FILED ON-LINE AT [HTTPS://  
FINANCE.LACITY.ORG/ONLINE-TAXPAYER-  
SERVICES](https://finance.lacity.org/online-taxpayer-services) WITH PAYMENT MADE USING  
CREDIT CARD, DEBIT CARD, ECHECK OR ACH.

A renewal form may also be filed out and mailed in or brought to any of our public office locations. Checks and money orders may be mailed in with the renewal while our public office locations will accept cash, credit card, debit card, checks, and money orders for payment.

### CASH AND MONEY ORDER PAYMENTS

Payments of less than \$1,000 in cash, by check, by money order (not exceeding 39 total money orders), and credit card can be made at all three branch office locations and do not require an appointment.

Cash payments over \$1,000 can be made at our City Hall public office location. An appointment must be requested before the



not be accommodated.

Money Order payments totaling 40 or more can be made at any of our public offices. An appointment must be requested before the payment is brought in.

Appointments for Cash or Money Order payment can be made by email or phone at least three business days in advance (but not more than a month in advance) of the desired appointment time. You may contact us by email at [finance.csd.appt@lacity.org](mailto:finance.csd.appt@lacity.org) or by phone at (213) 978-1540. An Office of Finance representative will respond at least 2 days prior to the scheduled appointment with confirmation and additional instructions.

### IMPORTANT NOTICE:

CASH PAYMENTS OVER \$1,000 OR  
MONEY ORDER PAYMENTS TOTALING 40  
OR MORE REQUIRE AN APPOINTMENT  
PRIOR TO VISITING OUR OFFICES.

# What is taxable?: tracking and reporting

All gross receipts generated from business activities are subject to tax. The classification and tax rate are determined by the individual activity. The tax is self-reported and it is the responsibility of the taxpayer to register for all tax classifications and report all gross receipts earned.

## CALCULATING RECEIPTS

All receipts generated from cannabis activity should be included in the calculation of gross receipts. This includes any excise tax, other tax, and fees collected.

## MULTIPLE ACTIVITY TYPES

If gross receipts are earned from multiple cannabis tax classifications, the receipts should be allocated and taxed according to each specific classification.

## NON-CANNABIS SALES

Non-cannabis products sold at wholesale should be classified and taxed under LAMC Section 21.41 (g) / LGR1 Wholesale Sales. The tax rate for wholesale sales is \$1.01 for each \$1,000.00 of gross receipts and is due annually.

Non-cannabis products sold at retail should be classified and taxed under LAMC Section 21.43 (e) / LGR2 Retail Sales. The tax rate for retail sales is \$1.27 for each \$1,000.00 of gross receipts and is due annually.

## TAX EXEMPTIONS

There are no business tax exemptions for business classified under LAMC Section 21.51 Taxation of Cannabis and Section 21.52 Taxation of Medical Cannabis.

## SALES OF CBD PRODUCTS

CBD products covered under Section 11018.5 of the California Health and Safety Code are not considered cannabis sales. These gross receipts earned from these products should be classified and taxed accordingly under LAMC Section 21.43 (e) / LGR2 Retail Sales and or LAMC Section 21.41 (g) / LGR1 Wholesale Sales.

## PAYMENT OF TAX

This cannabis tax is a privilege tax imposed on the business. This cannabis tax is not a tax on the consumer or purchaser. If this tax is charged to the customer, the amount collected will be considered as taxable gross receipts to the business.



THERE ARE NO TAX EXEMPTIONS FOR THE SALES, CULTIVATION, AND DISTRIBUTION OF CANNABIS.

# Tax calculation: determining liability



## INCLUDED IN CALCULATION

All receipts generated from cannabis activity should be included in the calculation of gross receipts. This includes any excise tax, other tax, and fees collected.

## EXCLUDED FROM CALCULATION

Sales tax, sales discounts, and refunds may be excluded from the calculation of gross receipts.

## EXAMPLE 1:

Calculation of Gross Receipts when Excise Tax is collected from the consumer:

### Sample of a Sales Receipt

Cannabis	45.00		
Edible	50.00		
Concentrate	60.00		
Capsule	96.00		
Delivery Fee	5.00		
	-----		
Subtotal	256.00	A	
Excise Tax	30.72	B	
	-----		
Subtotal	286.72	A+B	<- Excise Tax is included in calculation of Gross Receipts
Sales Tax	27.24		<- Sales Tax is excluded from calculation of Gross Receipts
	-----		
Total	313.96		

ALL RECEIPTS  
GENERATED FROM  
CANNABIS ACTIVITY  
SHOULD BE INCLUDED  
IN THE CALCULATION  
OF GROSS RECEIPTS.  
THIS INCLUDES ANY  
EXCISE TAX, OTHER  
TAX, AND FEES.

**EXAMPLE 2:**

Calculation of Gross Receipts when Excise Tax and Business Tax are collected from the consumer:

## Sample of a Sales Receipt

Cannabis	45.00		
Edible	50.00		
Concentrate	60.00		
Capsule	96.00		
Delivery Fee	5.00		
	-----		
Subtotal	256.00	A	
Excise Tax	30.72	B	
Municipal Business Tax	25.60	C	<- Consumer charged for City Business Tax
	-----		
Subtotal	312.32	A+B+C	<- Excise Tax and Business Tax are included in calculation of Gross Receipts
Sales Tax	29.67		<- Sales Tax is excluded from calculation of Gross Receipts
	-----		
Total	341.99		

**CALCULATING PAYMENT AMOUNT**

After calculating total taxable gross receipts, round up to the nearest thousand dollars and multiply against the applicable tax rate.

**CALCULATION EXAMPLE**

Calculation of Business Tax Due for Section 21.51 Adult Use

## Example using Adult Use Gross Receipts

Cannabis	3,045.00		
Edible	2,050.00		
Concentrate	1,060.00		
Excise Tax	738.60		
Total Adult Use Receipts	6,893.60	<-	Excise Tax is included in the calculation of gross receipts
Round Up to Nearest Thousand	7.00	A	Tax Measure
Adult Use Tax Rate	100.00	B	
Tax Due	700.00	A x B	Multiply Tax Measure against Tax Rate

## OUT OF CITY SALES AND SELLERS

Q: I am located in the City and sell to others located outside the City. Are all my gross taxable?

A: The sales to others located outside the City may be subject to apportionment. The [guidelines from City Clerk's Ruling No. 14](#) might be used to determine an apportioned amount. Please contact the Office of Finance Cannabis Unit at [cannabisaudit@lacity.org](mailto:cannabisaudit@lacity.org) for more information.

Q: I am located out of the City and sell to customers located inside the City. Am I subject to tax?

A: The sales to customers located inside the City of Los Angeles are subject to business tax. Only a portion of the gross receipts from intercity cannabis activities will be taxed. The [guidelines from City Clerk's Ruling No. 13](#) might be used to determine an apportioned amount. Please contact the Office of Finance Cannabis Unit at [cannabisaudit@lacity.org](mailto:cannabisaudit@lacity.org) for more information.

# Record keeping: what and how long

**F**inancial records including, but not limited to, bank statements, sales invoices, receipts, point of sales records, tax records, and all records required by the California Department of Tax and Fee Administration, other State of California agencies, the Office of Finance, or the Department of Cannabis Regulation must be kept and maintained for at least seven years. For additional information refer to Cannabis Regulation No. 10 Operational Requirements and Violations B. Records Retention.

## DIFFERENT SALES ACTIVITIES

Detailed and verifiable records for receipts from all activities should be maintained. Records should clearly indicate if the sale was for retail, wholesale, cannabis and non-cannabis. The cannabis receipts should also clearly show where the receipts were generated from in accordance to the license issued by the Department of Cannabis Regulation. Detailed records will aid in filing business tax renewals and during audits.

## MEDICAL USE SALES

A verifiable record detailing sales for medical use should be kept. Records should clearly

indicate the sale was for qualified medical use. The claim of sales for medical use will be disqualified if sufficient proof of sales for medical use cannot be supported. Once disqualified, all receipts claimed as medical use will be considered and taxed under adult use.

## TAX AUDITS

All cannabis businesses will be audited on a regular basis to verify compliance with the City tax code.

When you receive a letter requesting to set an audit appointment please read the letter and contact the auditor listed in the letter to confirm the scheduled appointment. Failure to respond to the letter will result in an estimated assessment. If you are unable to make the appointment listed on the notice you may reschedule the appointment one time based on a valid reason.



**ALL REQUIRED  
FINANCIAL  
STATEMENTS MUST  
BE KEPT AND  
MAINTAINED FOR AT  
LEAST SEVEN YEARS.**



# Common Errors: mistakes to avoid

## ALWAYS INCLUDE EXCISE TAXES IN GROSS RECEIPTS

The calculation of gross receipts includes any excise tax charged. The reported gross receipts will be considered underreported if the business did not include in the gross receipts any excise taxes that was charged to the consumer.

### Sample of a Sales Receipt

Cannabis	45.00		
Edible	50.00		
Concentrate	60.00		
Capsule	96.00		
Delivery Fee	5.00		
	-----		
Subtotal	256.00	A	
Excise Tax	30.72	B	
	-----		
Subtotal	286.72	A+B	<- Excise Tax is included in calculation of Gross Receipts
Sales Tax	27.24		<- Sales Tax is excluded from calculation of Gross Receipts
	-----		
Total	313.96		



ALWAYS INCLUDE  
EXCISE TAXES IN  
REPORTED GROSS  
RECEIPTS AND IF  
THE BUSINESS TAX  
IS CHARGED TO THE  
CONSUMER THEY ARE  
CONSIDERED GROSS  
RECEIPTS AS WELL.

## IF THE CONSUMER IS CHARGED THE BUSINESS TAX THEY MUST BE REPORTED AS GROSS RECEIPTS

The City of Los Angeles cannabis tax is not tax on the consumer. Any City of Los Angeles cannabis tax charged to the consumer will be considered and included as taxable gross receipts. The reported gross receipts will be considered underreported if the business did not include in gross receipts any amount of city cannabis tax that was charged to the consumer.

### Sample of a Sales Receipt

Cannabis	45.00		
Edible	50.00		
Concentrate	60.00		
Capsule	96.00		
Delivery Fee	5.00		
	-----		
Subtotal	256.00	A	
Excise Tax	30.72	B	
Municipal Business Tax	25.60	C	<- Consumer charged for City cannabis tax
	-----		
Subtotal	312.32	A+B+C	<- Excise Tax and Business Tax are included in calculation of Gross Receipts
Sales Tax	29.67		<- Sales Tax is excluded from calculation of Gross Receipts
	-----		
Total	341.99		

## ENSURE MEDICAL CANNABIS SALES ARE DOCUMENTED

Claims of medical cannabis sales under LAMC Section 21.52 Taxation of Medical Cannabis will be verified during an audit. Documents should be kept for seven years. If claims of medical cannabis sales cannot be verified, the sales in question will be treated and taxed under LAMC Section 21.51 Taxation of Cannabis.

## SOME CBD PRODUCTS ARE TAXED AS CANNABIS SALES

CBD products not covered under Section 11018.5 of the California Health and Safety Code will be considered as cannabis sales and taxed accordingly under LAMC Section 21.51 Taxation of Cannabis or LAMC Section 21.52 Taxation of Medical Cannabis.

# More information: additional resources



## LOS ANGELES MUNICIPAL CODE

A link to the Los Angeles Municipal Code can be found at <https://finance.lacity.org/tax-ordinance>

## OFFICE OF FINANCE WEBSITE

For additional business tax information please visit the Office of Finance website at [finance.lacity.org](https://finance.lacity.org).

## SERVICE CENTERS

You may come in and visit us at one of our public office locations:

### Office Hours:

Monday, Tuesday, Thursday, and Friday  
Wednesday

8:00 AM to 4:30 PM  
9:00 AM to 4:30 PM

City Hall  
200 N. Spring St, Room 101  
(Note: Use Main Street Entrance)

Van Nuys Civic Center  
6262 Van Nuys Blvd., Suite 110

West Los Angeles  
1828 Sawtelle Blvd., Room 102

VISIT THE OFFICE OF  
FINANCE WEBSITE  
AT [FINANCE.LACITY.  
ORG](https://finance.lacity.org) FOR ALL TAX  
INFORMATION AND  
SERVICES TO FILE  
YOUR RENEWALS AND  
PAY BILLS ON-LINE

