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# ACCOUNTING CONSIDERATIONS FOR THE CANNABIS INDUSTRY

WEST MICHIGAN CANNABIS EXPO

LC SOLUTIONS MICHIGAN PLLC

OCTOBER 5, 2019



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Michigan PLLC

## ABOUT LC SOLUTIONS MICHIGAN PLLC

- LC Solutions Michigan PLLC is a full service accounting, CPA and advisory firm focused on advancing the cannabis industry. Founded in 2016, LCSM has since become one of Michigan's premier industry specific CPA firms, providing clients with expertise and a consistent level of service they can trust and rely on. The firm's mission is to help clients thrive in their accounting and reporting processes and develop long term strategies to support financial compliance, business growth and adherence to accounting best practices.
- The team at LC Solutions Michigan PLLC has helped hundreds of business owners navigate and understand the accounting challenges surrounding the marijuana industry, and ensure that their accounting, record keeping and financial information needs are well met. Collectively, the firm's staff has over 75 years of accounting and business experience. From attestations required for licensing, to bookkeeping, CFO services, tax preparations and beyond, LC Solutions Michigan PLLC works to promote and support a complete and compliant accounting environment in all of its client service areas.



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## IRC §280E

- IRC § 280E: “No deduction or credit shall be allowed for any amount paid or incurred during the taxable year in carrying on any trade or business if such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of schedule I and II of the Controlled Substances Act) which is prohibited by Federal law or the law of any State in which such trade or business is conducted.”
- Further explanation following in Congress’s report states: “All deductions and credits for amounts paid or incurred in the illegal trafficking in drugs listed in the Controlled Substances Act are disallowed. To preclude possible challenges on constitutional grounds, the adjustment to gross receipts with respect to effective costs of goods sold is not affected by this provision of the bill.”
- Different considerations for producers vs retailers in what is an allowed cost of goods sold adjustment.



# RECORD KEEPING, BOOKKEEPING & AUDIT TRAIL MANAGEMENT

- Complete records, correctly categorized, and appropriate cost allocations applied EVERY TIME
- Consistency
- Audit trail attachments
- Cost allocation documentation
  
- Special considerations for vertically integrated facilities and Microbusinesses – all activities under one roof – how to separate for accounting purposes?
- 280E, IRS and regulatory audits, banking, general business best practices



# MICHIGAN REGULATORY ACCOUNTING REQUIREMENTS

- MMMA
  
- MMFLA
  - CPA Attestation documenting capitalization (licensing pre-approval).
  - Annual financial statement review (license renewals). Guidance released on 10/3/2019 – several procedures requiring complete accounting records
  
- MRTMA
  - Consent to “auditing of books and records” – similar to MMFLA annual review?



# BUSINESS RISK, LONGEVITY AND PLANNING

- Budgeting for the unexpected
- Increased costs compared to non marijuana businesses (licensing, compliance, buildouts, etc.)
- Asset management & forecasting
  - Cash flows for tax payments, inventory and payroll
- Investor and banking compliance
- Business longevity - need for a “clean balance sheet”



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## RESOURCES

- Harborside Heath Center November 2018 Tax Court Opinion  
<https://www.ustaxcourt.gov/ustcinop/OpinionViewer.aspx?ID=11828>
- Resource: <https://www.thetaxadviser.com/issues/2018/aug/inventory-accounting-cannabis-businesses.html> (August 2018, before Harborside opinion)
- IRS Memo discussing 280E <https://www.irs.gov/pub/irs-wd/201504011.pdf>



# QUESTIONS?

Contact:

Kareyna L. Miller CPA

LC Solutions Michigan PLLC

[kareyna@lcsolutionsmichigan.com](mailto:kareyna@lcsolutionsmichigan.com)

[lcsolutionsmichigan.com](http://lcsolutionsmichigan.com)

810-793-6702



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