

# The Ultimate Guide to Cannabis Accounting in New York

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Everything you need to know about cannabis accounting, 280E compliance, and OCM reporting for New York operators

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## 1. Introduction to Cannabis Accounting

Cannabis accounting is unlike any other industry. With federal prohibition still in place, cannabis businesses face unique challenges that require specialized knowledge and expertise. In New York, operators must navigate not only federal tax laws like 280E but also state-specific reporting requirements from the Office of Cannabis Management (OCM).

This comprehensive guide will walk you through everything you need to know about cannabis accounting in New York, from basic bookkeeping principles to complex compliance requirements. Whether you're a dispensary, cultivator, or processor, this guide will help you understand the financial landscape and stay compliant.

### **Why Cannabis Accounting is Different**

- 280E tax code restrictions on deductions
- Cash-heavy business operations
- Complex inventory tracking requirements
- State and federal compliance reporting
- Banking and payment processing challenges

## **2. Understanding 280E Tax Code**

Section 280E of the Internal Revenue Code is perhaps the most significant challenge facing cannabis businesses. This federal law prohibits businesses that traffic in controlled substances from deducting most business expenses, dramatically increasing their tax burden.

### **What 280E Means for Your Business**

Under 280E, cannabis businesses can only deduct:

- Cost of Goods Sold (COGS)
- Directly related expenses (very limited)

This means most traditional business deductions are off-limits, including:

- Marketing and advertising
- General administrative expenses
- Most professional services
- Rent and utilities (in most cases)

#### **Important 280E Considerations**

280E compliance requires careful expense categorization and documentation. Misclassifying expenses can result in significant penalties and interest charges.

## 3. NY OCM Reporting Requirements

The New York Office of Cannabis Management requires regular reporting from all licensed cannabis businesses. These reports are critical for maintaining your license and ensuring compliance with state regulations.

### Monthly Reporting Requirements

- Sales and revenue data
- Inventory tracking and movement
- Employee information
- Security and compliance metrics

## Annual Reporting Requirements

- Comprehensive financial statements
- Tax compliance documentation
- Audit reports (if required)
- Business plan updates

## 4. Setting Up Your Books

Proper bookkeeping setup is crucial for cannabis businesses. Your chart of accounts should be designed specifically for cannabis operations, with clear categories for COGS, deductible expenses, and non-deductible expenses.

### Essential Chart of Accounts Categories

- **Revenue:** Product sales, service revenue
- **COGS:** Direct materials, labor, overhead
- **Deductible Expenses:** Limited administrative costs
- **Non-Deductible Expenses:** Marketing, general admin
- **Assets:** Inventory, equipment, cash
- **Liabilities:** Accounts payable, loans

## 5. COGS Tracking Best Practices

Cost of Goods Sold (COGS) is one of the few expenses cannabis businesses can deduct under 280E. Proper COGS tracking is essential for tax compliance and profitability analysis.

## COGS Components for Cannabis

- Direct materials (seeds, nutrients, packaging)
- Direct labor (cultivation, processing, packaging)
- Direct overhead (facility costs, utilities, equipment)
- Transportation and storage costs

## 6. Audit Preparation

Cannabis businesses face higher audit risk due to 280E compliance issues and cash transactions. Proper preparation is essential for surviving an audit.

### Audit-Ready Documentation

- Detailed expense receipts and invoices
- Inventory tracking records
- Bank statements and cash logs
- Employee time sheets
- Vendor contracts and agreements

## 7. Common Mistakes to Avoid

Many cannabis businesses make costly mistakes that can result in penalties, audits, or license issues. Here are the most common pitfalls to avoid:

### Top 5 Cannabis Accounting Mistakes

1. **Improper expense categorization:** Mixing deductible and non-deductible expenses

2. **Inadequate documentation:** Not keeping detailed records of all transactions
3. **Cash handling issues:** Poor tracking of cash transactions
4. **Inventory mismanagement:** Inaccurate COGS calculations
5. **Compliance reporting delays:** Missing OCM reporting deadlines

## 8. Getting Professional Help

Cannabis accounting is complex and requires specialized expertise. Working with a qualified cannabis accountant can save you time, money, and potential legal issues.

### Ready to Get Professional Help?

Let Canna Bookkeeper NY handle your cannabis accounting needs. We specialize in 280E compliance, OCM reporting, and audit preparation.

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