



280E Deduction Guide for Cannabis Businesses

Professional Cannabis Accounting Resources

Understanding Section 280E

Section 280E of the Internal Revenue Code prohibits businesses engaged in trafficking controlled substances from deducting most business expenses. This federal law significantly impacts cannabis businesses, even in states where cannabis is legal.

Key Impact of 280E

- Cannabis businesses can only deduct Cost of Goods Sold (COGS)
- Most traditional business deductions are prohibited
- Effective tax rates can reach 70% or higher
- Proper planning and compliance are essential

What You CAN Deduct

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Consult with qualified professionals for specific advice.

Cost of Goods Sold (COGS)

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- **Direct Materials:** Seeds, nutrients, soil, packaging materials
- **Direct Labor:** Cultivation, trimming, processing, packaging labor
- **Direct Overhead:** Facility costs, utilities, equipment depreciation
- **Transportation:** Costs to move inventory between facilities

Limited Administrative Expenses

- Accounting and bookkeeping services
- Legal services (compliance-related only)
- Tax preparation and planning
- Certain professional services

Pro Tip

Maximize your COGS deductions by properly categorizing all direct costs of production. This includes facilities costs, utilities, and labor directly related to cultivation and processing.

What You CANNOT Deduct

Non-Deductible Expenses Under 280E

- Marketing and advertising expenses
- General administrative expenses
- Rent and utilities (unless directly related to production)
- Insurance (except product liability)

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- Professional development and training
- Travel and entertainment

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- Office supplies and equipment
- Most consulting and professional services

Compliance Strategies

1. Separate Business Entities

Consider operating separate entities for different business activities:

- **Plant-touching entity:** Subject to 280E, handles cultivation/processing
- **Management company:** Not subject to 280E, handles administration
- **Real estate entity:** Owns facilities, charges rent

2. Maximize COGS

COGS Optimization Checklist

- ☐ Include all direct materials in COGS calculation
- ☐ Track direct labor hours and costs accurately
- ☐ Allocate facility costs to production activities
- ☐ Include equipment depreciation in COGS
- ☐ Document all COGS calculations thoroughly

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3. Maintain Detailed Records Consult with qualified professionals for specific advice.

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280E compliance requires meticulous documentation:

- Detailed expense receipts and invoices
- Time tracking for all employees
- Inventory movement records
- COGS calculation worksheets
- Bank statements and cash transaction logs

Common 280E Mistakes

Mistake #1: Mixing deductible and non-deductible expenses in accounting records

Solution: Use separate chart of accounts categories for COGS vs. non-deductible expenses

Mistake #2: Inadequate COGS documentation

Solution: Maintain detailed records of all direct costs and allocation methods

Mistake #3: Failing to maximize legitimate COGS deductions

Solution: Work with cannabis accounting experts to identify all allowable COGS items

Getting Professional Help

280E compliance is complex and requires specialized expertise. Cannabis accounting professionals can help you:

- Structure your business for optimal tax efficiency

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- Maintain proper documentation and records
- Prepare for potential IRS audits

- Develop tax planning strategies

Need Professional Help?

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

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