



## FINANCIAL DOCUMENTATION FOR MARIJUANA BUSINESSES – BEST PRACTICES

With all that is entailed getting licensed, it's easy to put recordkeeping on the back burner; however, it's imperative to begin building out a business's accounting and reporting function from Day 1. Meticulous documentation is the foundation of every business's accounting records.

This is especially true for the licensed marijuana industry in Michigan. The combination of detailed recordkeeping and the use of an [accounting system](#) early on will help ensure that businesses stay compliant with State and Federal rules and reporting requirements.

Licensed marijuana businesses are subjected to ongoing state compliance reporting which typically involve a deep dive into their books and records. The Michigan Cannabis Regulatory Agency (CRA)'s [administrative rules for marijuana operations](#) requires that every licensee must at a minimum maintain supporting documentation that clearly documents the licensee's income and expenses. This list includes but is not limited to the following:

- [Cash logs](#)
- Sales records
- Purchase of inventory
- Invoices
- Receipts
- Deposit slips
- Cancelled checks
- Employee compensation records
- Tax records

The CRA requires licensees to maintain financial records for four (4) years. If the CRA is inspecting or investigating a licensee's business, it is required to maintain the records until the CRA notifies it that the records can be disposed of.

In addition, given that marijuana is federally illegal, marijuana businesses have a much higher likelihood of being examined by the IRS. Much like state compliance reporting, the IRS may request supporting documentation for any of the information that appears on the business's Federal income tax return, especially for any amounts claimed as deductions.

The IRS requires that businesses maintain income tax returns, payroll tax returns and supporting records for three (3) years after the filing date, unless under examination. Best practice would be to maintain this information for at least seven (7) years.

Due to marijuana being federally illegal, your business is subject to Internal Revenue Code Section 280E, commonly referred to as "280E". [280E](#) disallows marijuana companies from deducting "ordinary and necessary" business expenses. This creates complexities in the preparation of marijuana company business tax return beyond that of non-marijuana businesses. It's important that licensees (and their accountant) maintain support for the calculations of Cost of Goods Sold (COGS) reported on their returns.

Engaging a CPA that understands the unique requirements of the Michigan marijuana industry can help licensees get these systems and processes in-place.