Cannabis Industries

INCLUDES RETAIL, DELIVERY, TRANSPORTATION, CULTIVATION, TESTING, MANUFACTURING, AND ALL RELATED BUSINESS OPERATIONS.
WHY AND HOW TO REGISTER YOUR BUSINESS

WHY REGISTRATION OF YOUR BUSINESS WITH THE CITY OF LOS ANGELES IS IMPORTANT AND HOW TO PERFORM THE REGISTRATION PROCESS.

WHEN TAXES ARE DUE AND HOW TO REPORT AND PAY

FILING DEADLINES AND HOW YOU CAN SUBMIT YOUR TAX RENEWAL AND RELATED PAYMENT.

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Registration: why and how

Business 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.

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 city and you sell cannabis products or provide transportation of cannabis prod-
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.

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 inquires, please visit the Department of Cannabis Regulation’s website at 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.

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
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.

<table>
<thead>
<tr>
<th>Activity</th>
<th>DCR License</th>
<th>Tax Classification</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales of medical use cannabis</td>
<td>J010 - Medical Retail</td>
<td>L711 - Medical Cannabis</td>
<td>$50 for each $1,000 of Gross Receipts</td>
</tr>
<tr>
<td>Sales of adult or recreational cannabis or cannabis products</td>
<td>J020 - Adult-Use Retail</td>
<td>L712 - Adult Use Cannabis</td>
<td>$100 for each $1,000 of Gross Receipts</td>
</tr>
<tr>
<td>Transportation or delivery of cannabis or cannabis products</td>
<td>J030 - Medical Delivery, J031 - Medical Distributor Transport Only, J035 - Adult-Use Delivery, J036 - Adult-Use Distributor Transport Only</td>
<td>L713 - Cannabis Transportation</td>
<td>$10 for each $1,000 of Gross Receipts</td>
</tr>
<tr>
<td>Activities related to the testing or researching of cannabis or cannabis products</td>
<td>J040 - Testing</td>
<td>L714 - Cannabis Testing</td>
<td>$10 for each $1,000 of Gross Receipts</td>
</tr>
<tr>
<td>Manufacturing or cultivation of cannabis or cannabis products, wholesale sales</td>
<td>J060 - Medical Cultivation Specialty Cottage Indoor, J062 - Medical Cultivation Specialty Indoor, J064 - Medical Cultivation Small Indoor, J066 - Medical Cultivation Medium Indoor, J070 - Adult-Use Cultivation Specialty Cottage Indoor, J072 - Adult-Use Cultivation Specialty Indoor, J074 - Adult-Use Medical Cultivation Small Indoor, J076 - Adult-Use Medical Cultivation Medium Indoor</td>
<td>L716 - Cannabis Cultivation</td>
<td>$20 for each $1,000 of Gross Receipts</td>
</tr>
<tr>
<td>Commercialization of cannabis or cannabis products not specifically covered</td>
<td>J080 - Medical Distributor, J083 - Medical Manufacturer Level 1, J090 - Adult-Use Distributor, J093 - Adult-Use Manufacturer Level 1</td>
<td>L718 - Cannabis Miscellaneous</td>
<td>$20 for each $1,000 of Gross Receipts</td>
</tr>
</tbody>
</table>
Taxes: deadlines and reporting

As 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 2019 monthly interest rate is 0.5%. The interest rate is re-calculated 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 and 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.

<table>
<thead>
<tr>
<th>Months Late</th>
<th>Cumulative Penalties</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - Not paid by 8/31</td>
<td>5%</td>
</tr>
<tr>
<td>2 - Not paid by 9/30</td>
<td>10%</td>
</tr>
<tr>
<td>3 - Not paid by 10/31</td>
<td>15%</td>
</tr>
<tr>
<td>4 - Not paid by 11/30</td>
<td>20%</td>
</tr>
<tr>
<td>5 - Not paid by 12/31</td>
<td>40%</td>
</tr>
</tbody>
</table>

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.

A renewal form may also be filled 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 payment is brought in. Walk-ins with payments over $1,000 will 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 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 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.
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.

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

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cannabis</td>
<td>45.00</td>
</tr>
<tr>
<td>Edible</td>
<td>50.00</td>
</tr>
<tr>
<td>Concentrate</td>
<td>60.00</td>
</tr>
<tr>
<td>Capsule</td>
<td>96.00</td>
</tr>
<tr>
<td>Delivery Fee</td>
<td>5.00</td>
</tr>
</tbody>
</table>

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
EXAMPLE 2:

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

Sample of a Sales Receipt

<table>
<thead>
<tr>
<th>Item</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cannabis</td>
<td>45.00</td>
</tr>
<tr>
<td>Edible</td>
<td>50.00</td>
</tr>
<tr>
<td>Concentrate</td>
<td>60.00</td>
</tr>
<tr>
<td>Capsule</td>
<td>96.00</td>
</tr>
<tr>
<td>Delivery Fee</td>
<td>5.00</td>
</tr>
</tbody>
</table>

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Subtotal: 256.00 A

Excise Tax: 30.72 B
Municipal Business Tax: 25.60 C

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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

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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

<table>
<thead>
<tr>
<th>Item</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cannabis</td>
<td>3,045.00</td>
</tr>
<tr>
<td>Edible</td>
<td>2,050.00</td>
</tr>
<tr>
<td>Concentrate</td>
<td>1,060.00</td>
</tr>
<tr>
<td>Excise Tax</td>
<td>738.60</td>
</tr>
<tr>
<td>Total Adult Use Receipts</td>
<td>6,893.60       &lt;- Excise Tax is included in the calculation of gross receipts</td>
</tr>
</tbody>
</table>

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 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 for more information.
Record keeping: what and how long

Financial 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**

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cannabis</td>
<td>45.00</td>
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<td>Edible</td>
<td>50.00</td>
</tr>
<tr>
<td>Concentrate</td>
<td>60.00</td>
</tr>
<tr>
<td>Capsule</td>
<td>96.00</td>
</tr>
<tr>
<td>Delivery Fee</td>
<td>5.00</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>256.00</strong> A</td>
</tr>
<tr>
<td>Excise Tax</td>
<td>30.72  B</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>286.72</strong> A+B &lt;- Excise Tax is included in calculation of Gross Receipts</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>27.24  &lt;- Sales Tax is excluded from calculation of Gross Receipts</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>313.96</strong></td>
</tr>
</tbody>
</table>

**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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cannabis</td>
<td>45.00</td>
</tr>
<tr>
<td>Edible</td>
<td>50.00</td>
</tr>
<tr>
<td>Concentrate</td>
<td>60.00</td>
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<tr>
<td>Capsule</td>
<td>96.00</td>
</tr>
<tr>
<td>Delivery Fee</td>
<td>5.00</td>
</tr>
<tr>
<td><strong>Subtotal</strong> A</td>
<td>256.00</td>
</tr>
<tr>
<td>Excise Tax</td>
<td>30.72</td>
</tr>
<tr>
<td>Municipal Business Tax</td>
<td>25.60</td>
</tr>
<tr>
<td><strong>Subtotal</strong> A+B+C</td>
<td>312.32</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>29.67</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>341.99</td>
</tr>
</tbody>
</table>

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.

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

Office Hours:

Open
Monday, Tuesday, Thursday, and Friday 8:00 AM to 4:30 PM
Wednesday 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 FOR ALL TAX INFORMATION AND SERVICES TO FILE YOUR RENEWALS AND PAY BILLS ON-LINE