

10 Tips to Help Your Marijuana Business Survive an IRS Audit

By: Michael H. Sampson and Alexander J. Gase

1

Understand Applicable Law, including Section 280E of the Internal Revenue Code.



2

Review Business Expenses to ensure correct characterization of costs that might qualify as "cost of goods sold" under Section 471(a) of the Internal Revenue Code.

3

Maintain All Tax-Related Documentation, including tax returns, receipts, and correspondence with tax authorities, for an extended period.

4

Retain And Organize Documentation regarding company owners' personal living expenses and net worth, as the IRS has identified this information as potentially relevant to determining business sales.

5

Carefully Follow U.S. Tax Court Cases and other federal court rulings, U.S. Department of Treasury guidance and IRS bulletins and publications.

6

Utilize IRS Prepaid Credit Cards to pay estimated taxes online.

7

Cooperate With IRS Agents (if and when required/appropriate), and work with legal counsel to protect all legal rights.

8

Be Prepared For On-Site Tours of business and initial interviews, which are common methods employed in audits across this industry.

9

Ensure All Correspondence With The IRS Is In Writing to establish a "paper trail."

10

Contact An Experienced Tax Attorney, preferably one with knowledge of the cannabis industry, and/or a qualified accountant, if and when the business has been identified for audit.



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