



# CDTFA

CALIFORNIA DEPARTMENT OF  
TAX AND FEE ADMINISTRATION



## **Cannabis Inspection Program**

Cannabis businesses are a vital part of California's economy. We understand that some rules and regulations can be complicated, and we are here to assist. This publication provides a general overview of your obligations as a cannabis business along with what to expect if we visit your cannabis business for an inspection.

## Your obligations as a cannabis business

### Cannabis Taxes Overview

- The [Cannabis Tax Law](#) imposes a cultivation tax upon all cultivators on all harvested cannabis that enters the commercial market based on the weight and category (flowers, leaves, or fresh cannabis plant) of the harvested cannabis.
- The [Cannabis Tax Law](#) also imposes a 15 percent cannabis excise tax upon purchasers of all cannabis and cannabis products sold at retail in this state, including medicinal cannabis and medicinal cannabis products.
- In addition, sales of cannabis or cannabis products are generally subject to sales tax unless the law provides a specific exemption.

### You must be registered

- Cannabis businesses and other persons making sales must obtain and maintain a seller's permit with us as a prerequisite for obtaining and renewing a cannabis license with the [Department of Cannabis Control](#).
- Distributors of cannabis or cannabis products (including distributor transport only and microbusinesses authorized to distribute cannabis or cannabis products) must also obtain a cannabis tax permit to report and pay the cultivation tax and cannabis excise tax to us.
- You may register for a seller's permit and a cannabis tax permit through our [CDTFA Online Services](#).

### You must maintain adequate books and records

You must keep adequate business books and records so that we may verify the accuracy of your sales and use tax and cannabis tax returns, when applicable.

- The Medicinal and Adult-Use Cannabis Regulation and Safety Act requires you to keep accurate records of your commercial cannabis activity for a minimum of seven years ([Business and Professions Code § 26160](#)).

- For additional information on the requirements of maintaining adequate records, please review the industry topic, recordkeeping, under each business type tab in our [Tax Guide for Cannabis Businesses](#) on our website at [www.cdtfa.ca.gov](http://www.cdtfa.ca.gov).
- Sales and Use Tax [Regulation 1698](#) and Cannabis Tax [Regulation 3700](#) also provides additional guidance on your books and records requirements.

### Your additional obligations and information

- You must ensure when cannabis or cannabis products are sold at retail are in packaging that is child-resistant, tamper-evident, resealable (if more than one serving), and opaque (if an edible cannabis product) as required by the Department of Cannabis Control. Please visit Department of Cannabis Control at [www.cannabis.ca.gov/licenses/requirements-cannabis-goods/](http://www.cannabis.ca.gov/licenses/requirements-cannabis-goods/) for additional information regarding the required packaging for cannabis or cannabis products.
- You must not sell alcoholic beverages or tobacco products on or at the same premises licensed as a cannabis business according to [Business and Professions Code § 26054\(a\)](#).
- Please review our [Tax Guide for Cannabis Businesses](#) at [www.cdtfa.ca.gov/industry/cannabis](http://www.cdtfa.ca.gov/industry/cannabis) for additional information regarding your obligations as a cannabis cultivator, manufacturer, distributor, or retailer. Our guide includes information on the application of the sales and use tax, cannabis excise tax, and cultivation tax, along with information on seller's permits and cannabis tax permits, reporting and payment of applicable taxes, recordkeeping, and much more.

### CDTFA conducts routine inspections

Our mission is to fairly and efficiently collect the revenue that supports our essential public services. To achieve our mission, we strive to serve our taxpayers so that you can comply with your responsibilities. As part of our service, we conduct routine inspections to ensure there is a level playing field so all businesses can thrive in California.

Our inspectors will conduct routine inspections of your business to ensure you:

- Possess the required tax permits and/or licenses for your type of cannabis operation,

- Understand your tax responsibilities as an owner of a cannabis business, and
- Follow the state cannabis tax laws.

These inspections are authorized by [Revenue and Taxation Code \(R&TC\) § 34016](#).

### What will happen during the inspection?

Our inspectors will enter your business, identify themselves by name to you or your representative, show their CDTFA identification, and explain the reason for their visit. They will ask you to:

- Show your identification.
- Provide verification of ownership of the business.
- Provide the required permits and/or licenses.
- Provide your business records/invoices.
- Show them your entire cannabis inventory.

Our inspectors will examine the cannabis or cannabis products at your business location(s) and any place where you store additional cannabis or cannabis products. They will verify:

- Your purchase invoices and sales receipts include the required cannabis tax information and if any applicable cannabis taxes were paid or collected.
- Cannabis or cannabis products are packaged securely as required by the laws administered by the Department of Cannabis Control.

Our inspectors may use the California Cannabis Track-and-Trace system for additional verification, when appropriate.



### What happens if the inspectors find untaxed or unlawful cannabis inventory?

Upon discovery by our inspectors that a person possesses, stores, owns, or has made retail sales of cannabis or cannabis products without evidence of tax payments or not contained in secure packaging, our inspectors are authorized to seize the cannabis or cannabis products ([R&TC § 34016\(c\)](#)). Our inspectors will:

- Explain the reason for the seizure.
- Give you a property receipt listing the cannabis or cannabis products seized.
- Provide you with their contact information, and may also
- Issue a criminal citation for possession of untaxed and/or unlawful cannabis or cannabis products, if appropriate.

### Can I get seized products back?

You have the right to ask that your cannabis or cannabis products be returned. If our inspectors seize any cannabis or cannabis products during the inspection, we will mail you a notice listing the seized items and describing your rights to challenge their seizure. We will include form CDTFA-1238-IB2, *Verified Petition for Release or Recovery of Property*, with the notice.

Under state law, seized cannabis or cannabis products can only be returned if we seized it in error or illegally. To ask for return of your cannabis or cannabis products, you must submit a completed petition form within 20 days and explain why the seizure was illegal or a mistake. We will respond to your petition in writing.

### Can I refuse to allow an inspection?

When our inspectors arrive at your business, you or your representatives are required by law to allow them to inspect your business. Any person who does not allow an inspection is guilty of a misdemeanor. As a result, our inspectors may issue a criminal citation to you for not allowing an inspection. Each offense is punishable by a fine up to \$5,000, or imprisonment not exceeding one year in a county jail, or both the fine and imprisonment ([R&TC § 34016](#)).

### What happens if I operate without a seller's permit?

Making cannabis or cannabis products sales without a seller's permit is a misdemeanor. As a result, our

inspectors may issue a criminal citation to you for operating the business without a seller's permit ([R&TC § 6071](#)). Each offense is punishable by a fine between \$1,000 and \$5,000, imprisonment not exceeding one year in county jail, or both the fine and imprisonment at the discretion of the court.

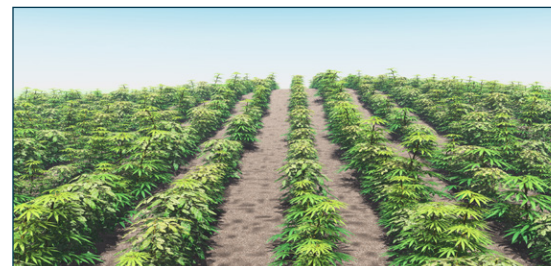
### What happens if I refuse to provide records or provide false records?

Our inspectors may examine the books and records of any person licensed, or required to be licensed with the Department of Cannabis Control, as they deem necessary ([R&TC § 34015\(d\)](#)).

Refusing to provide records to our inspectors is a misdemeanor. As a result, our inspectors may issue a criminal citation for refusing to furnish required records ([R&TC § 55361](#)). Each offense is punishable by a fine up to \$500.

Rendering false or fraudulent reports to us is a misdemeanor. As a result, our inspectors may issue a criminal citation for rendering false or fraudulent reports ([R&TC § 34016\(d\)](#)). Each offense is punishable by a fine up to \$1,000.

Our inspectors are authorized to seize the cannabis or cannabis products if they discover that any person possesses, stores, owns, or has made a retail sale of cannabis or cannabis products without evidence of tax payment, such as no records ([R&TC § 34016\(c\)](#)).



### What happens if I receive a citation?

If you are issued a criminal citation, you are required to appear in court on the date and time specified on the citation. You may also receive a notice from the District Attorney's Office regarding criminal proceedings. If you fail to appear in court, a bench warrant will be issued against you and your cannabis license may be suspended or revoked pursuant to [§ 26031](#) of the Business and Professions Code.

## Understanding Your Rights

### What are my rights related to this inspection?

You have specific legal rights as a California taxpayer. Our inspectors must honor and protect those rights. As explained in [publication 70](#), *Understanding Your Rights as a California Taxpayer*, you have the right to:

- Courteous and prompt service,
- Fair treatment,
- Confidentiality, and
- Information and assistance.

### Can I file a complaint if I have concerns about the inspection or the inspector's behavior?

Yes. If you believe an inspector was unprofessional or violated your rights, you may file a complaint by:

- Calling the Inspections Section at: 1-833-430-7030
- Filing online at: [www.cdtfa.ca.gov/legal/icomplaint.aspx](http://www.cdtfa.ca.gov/legal/icomplaint.aspx)
- Writing to:
  - California Department of Tax and Fee Administration
  - Inspections Section, MIC:42
  - PO Box 942879
  - Sacramento, CA 94279-0042

Be sure to fully explain your concerns in detail. Your complaint will be handled by an Inspection Section supervisor or manager, who will contact you. If you are unable to resolve the problem with the supervisor or manager or prefer to have your complaint handled outside the Inspection Section, you may contact our Taxpayers' Rights Advocate Office.

### Taxpayers' Rights Advocate Office

If you would like to know more about your rights as a taxpayer or if you have not been able to resolve a problem through the normal channels (for example, by speaking to a supervisor), please see [publication 70](#), *Understanding Your Rights as a California Taxpayer*, or contact the [Taxpayers' Rights Advocate Office](#) for help at 1-888-324-2798.

If you prefer, you can write to: [Taxpayers' Rights Advocate](#), MIC:70, California Department of Tax and Fee Administration, P.O. Box 942879, Sacramento, CA 94279-0070.

## **For more information**

If you have any questions about the inspection, you may contact our Inspection Section at 1-833-430-7030. For more information regarding cannabis business taxation requirements, please see our [Tax Guide for Cannabis Businesses](#) or [publication 557, Tax Help for The Cannabis Industry](#), on our website at [www.cdtfa.ca.gov](http://www.cdtfa.ca.gov).

For help filing your return or general questions, please call our Customer Service Center at 1-800-400-7115 (CRS:711). Customer service representatives are available Monday through Friday from 7:30 a.m. to 5:00 p.m. (Pacific time), except state holidays.

For guidance regarding California cannabis licenses, see the Department of Cannabis Control website at [www.cannabis.ca.gov](http://www.cannabis.ca.gov).

For the federal government's guidance regarding marijuana enforcement, see the U.S. Department of Justice website at [www.justice.gov](http://www.justice.gov).

Another good resource—especially for starting businesses—is the California Tax Service Center at [www.taxes.ca.gov](http://www.taxes.ca.gov).

## **Tax evasion hurts all of us...**

To report suspected tax evasion, you may call our Tax Evasion Hotline at 1-888-334-3300 or file a complaint online at [www.cdtfa.ca.gov/legal/icomplaint.aspx](http://www.cdtfa.ca.gov/legal/icomplaint.aspx).

When calling, please provide the following information: suspect and business name, location address, a summary of the tax evasion, period in which the tax evasion occurred, and whether you have evidence to support the allegation.