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**Businesses
have to
follow rules:
Introduction
to
compliance**



Resource document



More information

Businesses have to follow rules to operate legally and responsibly.

These rules have two sides:

- Requirements
- Rights

Four steps to setting up a compliant business:

1. Understand the risk
2. Learn about the laws that govern your business
3. Create a business culture of compliance
4. Adapt to changes in the law



Business law is complicated.

Only a licensed attorney can give you legal advice.
This training material is intended to help you
understand how compliance impacts your
business.

***This training is not intended to serve as legal
advice.***

What is compliance, and why does it matter?

- Cannabis is a highly-regulated industry with laws and rules that change swiftly.
- A cannabis store has more operational risk than other types of stores.
- Breaking the law can result in fines, a revoked license, or even jail time.
- Your employees also take legal risks.
- It's important to learn as much as possible and work with experts to minimize risk.
- Ignorance of the law is not an excuse to break it.

BUT there's good news!

There are many cannabis establishments operating within the scope of current Washington law, and you can learn what you need to know to be one of them.



Who is on your compliance team?

Attorney
Accountant
Bookkeeper
Cannabis expert
Real estate professional

Banker
Payroll service
Employee benefits expert
State and local government agencies
(free assistance is available to help with compliance)

Five cannabis compliance challenges

Conflict between state and federal laws.

Rules that vary between local jurisdictions.

Highly regulated industry, due to public health and safety concerns.

Rapidly changing cannabis laws.

Stores that operate on a cash basis.

Four things you'll need to figure out



Which jurisdictions apply to you?



Which laws and rules apply under each jurisdiction?



How do you set up compliant business processes?

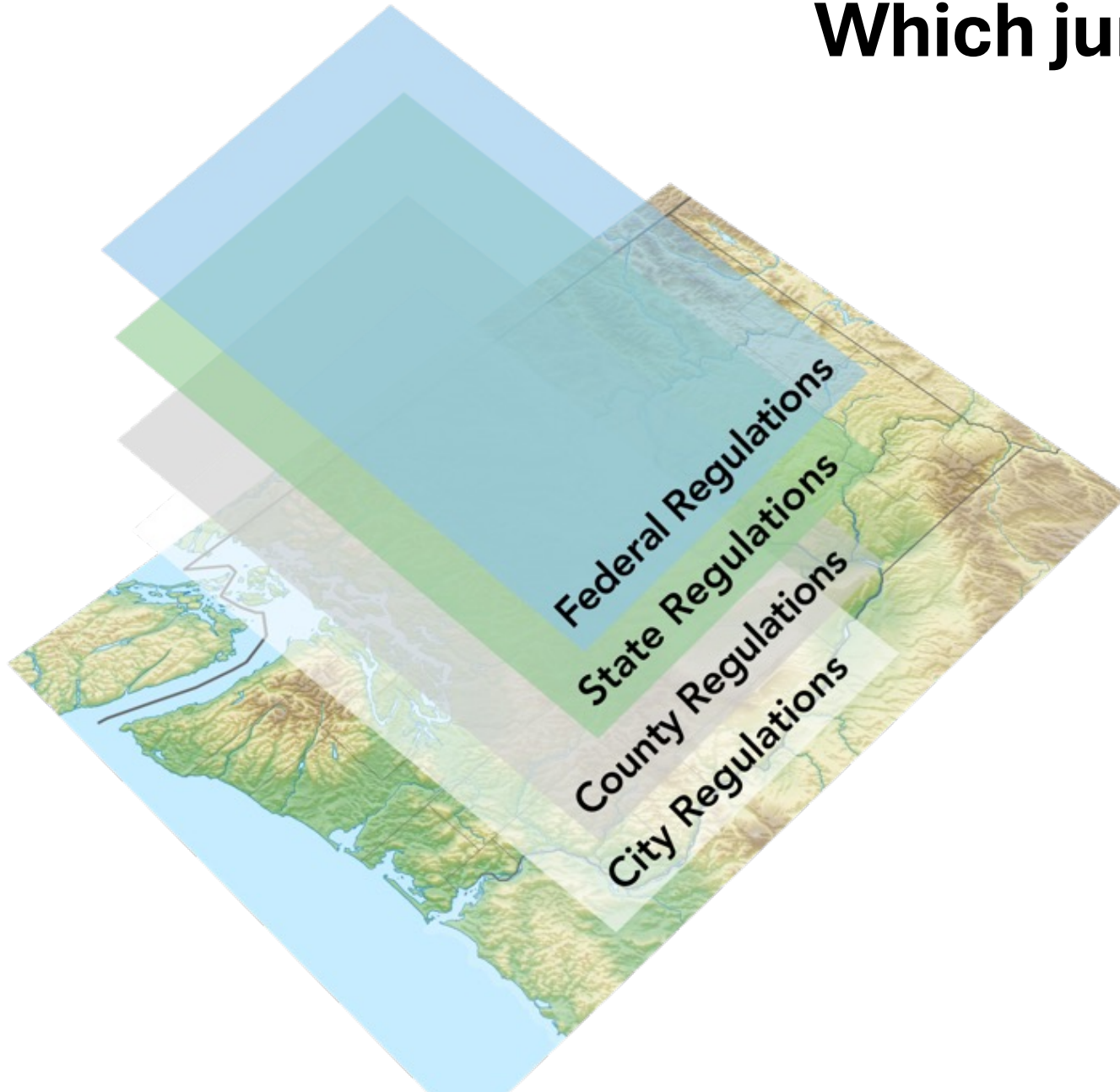


How do you stay informed in case rules change?

Useful terms to know

- **Statutes**, also known as laws or codes, are the rules passed by a legislative body (the state legislature or Congress).
 - The **Revised Code of Washington (RCW)** is the compilation of all permanent laws now in force.
- **Regulations** are rules passed by agencies like the Liquor and Cannabis Board. These supplement the statutes and provide more guidance about what is and is not allowed.
 - **Washington Administrative Code (WAC)** codifies regulations and arranges them by subject or agency.
- **Ordinances** are rules passed by cities and counties.
- A **ban** is a prohibition on doing something. A **moratorium** generally refers to a time-limited prohibition on doing something.

Which jurisdictions apply to you?



1. Federal (US)
2. State of Washington
3. County (Washington is divided into 39 counties)

You **may** be subject to additional rules if you fall within one of the following:

4. City or town
5. Federally-recognized Tribal Nation



Local Compliance

- Although state law may allow cannabis operations, **in many areas, city and county ordinances prohibit them.**
- You can learn more from the LCB website.

<https://lcb.wa.gov/se/allotment-details>

- You should also **contact your city or county directly to learn about any restrictions.**
- A great place to start is the Municipal Research and Services Center (MRSC), a nonprofit that maintains **information about all cities and towns in the state.**

<https://mrsc.org/research-tools/washington-city-and-town-profiles>

Six areas of local compliance to consider

**Business
Licensing
and Permits**

**Local
Business
Taxes**

**Zoning
Regulations**

**Building
Codes**

**Operating
Hours**

**Waste
Management
Regulations**



Local compliance checklist

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Learn more about:

Cities: <https://dor.wa.gov/manage-business/city-endorsements>

Counties: <https://dor.wa.gov/manage-business/county-endorsements>

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Learn more about state location rules:

<https://lcb.wa.gov/selicensing/location-restrictions-requirements>

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Four ways to stay on top of changes to local ordinances



Sign up for city and county newsletters and email announcements.



Follow local government pages on social media.



Join a business group, such as the Chamber of Commerce.



Attend meetings of the city or county council.

If an issue that impacts your business is going to be discussed, attend the public meeting. Provide your comments in writing or deliver a verbal statement on the record.

Washington State Compliance

There are **five key agencies** you should know about at the state level:

1. The Washington State Liquor and Cannabis Board (LCB)
2. Office of the Secretary of State (OSOS)
3. Washington State Department of Revenue (DOR)
4. Washington State Department of Labor & Industries (L&I)
5. Washington State Employment Security Department (ESD)

Get help with state business compliance here:

<https://business.wa.gov>

“We know regulations, you know your business, together we'll make a great team that will keep your business on track with state, federal, and local regulations.”



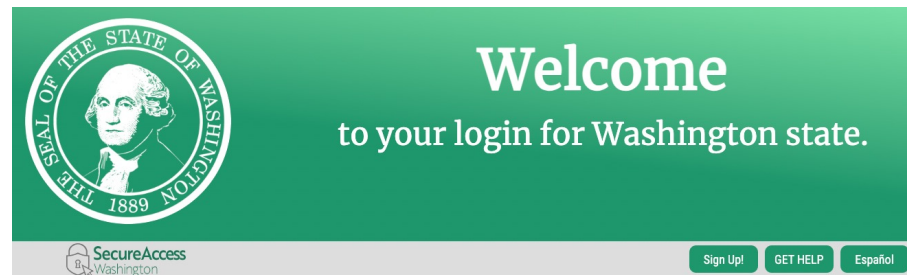
Washington State Liquor and Cannabis Board

The Washington State Liquor and Cannabis Board (LCB) is responsible for overseeing the licensing and regulation of cannabis businesses in Washington State. Each retail store must obtain a license from the LCB and comply with its rules and regulations regarding the following:

- Sales
- Packaging
- Labeling
- Advertising
- Security
- Recordkeeping
- Signage

The license application process starts with the Department of Revenue's (DOR) Business Licensing Service (BLS).

Information gets entered through a Secure Access Washington (SAW) account and goes to the LCB.





Washington State Liquor and Cannabis Board

After your business is licensed and running, you will have an ongoing relationship with the LCB. There are three key areas to know:

- **LCB collects the 37% cannabis excise tax charged on retail sales.** This is in addition to sales tax, which is collected by the Department of Revenue (DOR).

Learn more at <https://lcb.wa.gov/taxreporting/cannabis-tax-reporting-guide>

- LCB maintains a cannabis traceability system called the Cannabis Central Reporting System (CCRS). It's accessed through your SAW account.

Learn more at <https://lcb.wa.gov/ccrs>

- Your cannabis retail license must be renewed annually.



Washington State Liquor and Cannabis Board

LCB offers many resources for applicants and license holders:

- LCB web pages explain cannabis licensing: <https://lcb.wa.gov/cannabis-license/cannabis-licensing>
- Enforcement Education:
https://lcb.wa.gov/enforcement/cannabis_licensee_education_materials
- Responsible Cannabis Sales training in both PDF and video format:
<https://lcb.wa.gov/enforcement/responsible-cannabis-sales>
- Learn about the LCB Social Equity Plan: <https://lcb.wa.gov/se/cannabis-social-equity>

Bookmark the LCB website: <https://lcb.wa.gov>.

State laws and rules that govern cannabis businesses

RCW 69.50

<https://apps.leg.wa.gov/rcw/default.aspx?cite=69.50>

WAC 314.55

<https://app.leg.wa.gov/WAC/default.aspx?cite=314-55>



Office of the Secretary of State

Most cannabis businesses are corporations, partnerships, or liability limited companies (LLCs). These business entities are formed by registering them with the **Office of the Secretary of State**. **Each type has different requirements** and means you're exposed to **different levels of risk as an owner**.

Every business entity is associated with one or more "true parties of interest," meaning people who exercise control over the business operations. Washington state law requires that a cannabis license be issued in the name(s) of this or these individuals. That means the LCB may conduct an investigation of these individuals when you apply for a cannabis license.

The law also states: A married couple may not be a true party of interest in more than 5 retail cannabis licenses and may not be a true party of interest in a cannabis retailer license and a cannabis producer license or a cannabis retailer license and a cannabis processor license.



Office of the Secretary of State

To register your business:

1. Learn about the pros and cons of each business entity.

<https://dor.wa.gov/open-business/choose-ownership-structure/compare-business-structures>

2. Learn who is a true party of interest for the purposes of a cannabis license.

<https://app.leg.wa.gov/wac/default.aspx?cite=314-55-035>

3. Review your findings with your business advisors, especially your attorney and your accountant, and decide on a structure.
4. Draft the appropriate documents, such as Articles of Incorporation or a Partnership Agreement.
5. Register your business with the Office of the Secretary of State.

Visit the OSOS website: <https://www.sos.wa.gov/corporations-charities>



The Department of Revenue is responsible for several important aspects of a cannabis business:

**Business
License**

Sales Tax*

**Business and
Opportunities
(B&O) tax**

**Reseller's
Permit**

**Webinars, videos, and tax consulting:
<https://dor.wa.gov/education>**

**Not the same as Cannabis Excise Tax, which is collected by LCB*



Washington State Department of Labor & Industries

The Washington State Department of Labor and Industries (L&I) oversees business compliance in **three areas that relate to workers in Washington state**:

- Wage law
- Workers' Compensation
- Safety and health regulations (the Washington state law, WISHA, applies, rather than the federal OSHA)

If you have employees, L&I provides resources, including training and account managers to help you stay compliant in these three areas.



<https://Lni.wa.gov>

**Payment for Workers' Compensation premiums is collected by DOR.*



Employment Security Department

WASHINGTON STATE

The Employment Security Department (ESD) administers programs that ensure equitable access to **resources that improve economic security**:

- Unemployment insurance
- Long-term care
- Other employment-related programs in Washington State

If you have employees, you must register with the ESD and comply with state employment laws and regulations.



<https://esd.wa.gov>

**Payment for ESD programs is collected by DOR..*

Four more agencies to know

Department of Agriculture (WSDA)

Regulates cultivation and testing of cannabis plants

Makes sure scales are accurate

Department of Health (DOH)

Regulates the medical cannabis market

Department of Ecology (DOE)

Regulates handling and disposal of cannabis waste

Department of Commerce (Commerce)

Provides resources for small businesses, including grants and training



How to get help

- Every state agency has people and programs to help you remain compliant. Use their websites to find them.
- Reach out to your compliance team (attorney, accountant, etc.).
- Find and join advocacy groups that represent your business. They are an excellent way to stay informed about changes to the law.

 <https://business.wa.gov>



State compliance checklist

An American flag is shown in the top-left corner of the slide, waving against a blue sky. The flag's stars and stripes are clearly visible.

Federal Compliance

There are **three key agencies** you should know about at the federal level:

1. The Drug Enforcement Administration (DEA)
2. The Internal Revenue Service (IRS)
3. The Department of the Treasury



Federal small business resources:

<https://sba.gov>

Get help with federal business compliance:

<https://www.sba.gov/business-guide/manage-your-business/stay-legally-compliant>



Federal compliance checklist

Drug Enforcement Administration (DEA)

- Enforces federal drug laws, including the Controlled Substances Act (CSA), which covers cannabis.
- Since 1970, cannabis has been classified as a schedule I controlled substance, which means no accepted medical use in the United States.
- **Despite this, dozens of states have legalized it for medical and recreational use, putting their laws in conflict with federal law.**
- There is a possibility that cannabis may be reclassified to schedule III. That will cause a ripple of effects to rules for departments such as the Department of Justice and the IRS.
- The DEA will still maintain authority to enforce federal laws related to cannabis cultivation, distribution, and possession.



Learn more: <https://dea.gov>

DEA Risk

Conflicting rules represent risk to your business operations. There are four things you can do to mitigate this risk:

- Maintain compliance at the state and local levels and with other federal agencies (such as the IRS).
- Keep accurate records of all business transactions.
- Monitor rules and laws at the federal level, so you can adapt your business to changes.
- Join an advocacy group, such as the Minority Cannabis Business Association or the National Cannabis Industry Association.



Internal Revenue Service (IRS)



- Your retail cannabis business is **always subject to federal tax laws**, which are administered by the IRS.
- This includes **business taxes, payroll taxes for your employees, and reporting on payments**, such as those made to independent contractors.
- You will need a **federal tax identification** number for your business (EIN)

<https://www.irs.gov/businesses/small-businesses-self-employed/employer-id-numbers>

- Work with an **accountant** who is experienced in cannabis retail operations and who stays on top of changes to regulations.
- A **payroll service** is also valuable, to make sure withholding and benefit administration are compliant.

<https://irs.gov>

Internal Revenue code prohibits businesses engaged in the trafficking of controlled substances from deducting ordinary business expenses for federal tax purposes, except for cost of goods sold.

This is true as long as cannabis is classified as schedule I under the CSA. Your accountant will help you understand what's deductible now and how that will change if the rule changes.

Department of the Treasury

- As of January 1, 2024, the U.S. Department of the Treasury requires that businesses file a **Beneficial Ownership Information (BOI)** report
- This provides transparency about who owns and benefits from an LLC or a corporation.
- It is a one-time federal requirement that can be completed for free online.

Learn more: <https://fincen.gov/boi>



Create a business culture of compliance

Artifacts “Stuff”

- ☐ LCB posters on the sales floor
- ☐ L&I posters in the breakroom
- ☐ Packaging that complies with LCB and WSDA laws
- ☐ Compliant floor plan and parking plan filed with the city
- ☐ Clear and up-to-date sales records
- ☐ Training materials that ensure all staff members learn about compliance

Behavior *Actions we can see*

- ☐ Sales staff checks IDs
- ☐ Staff members ask questions to verify that they are operating correctly
- ☐ Timely CCRS filings
- ☐ Regular meetings with an accountant to go over tax payments
- ☐ Conversations and meetings about the compliant way to do things
- ☐ Reading industry news about changes to cannabis laws
- ☐ Learning about compliance (in other words, what you are doing right now!)

Underlying values *Attitudes/assumptions*

- ☐ Value placed on compliance
- ☐ Beliefs about the risk of non-compliance
- ☐ Habits around paying fees and taxes
- ☐ Assumptions about what you can "get away with"



5 steps to register a new business

Step	Who/Where	Jurisdiction
Decide on the type of business. https://dor.wa.gov/open-business/choose-ownership-structure/compare-business-structures	You and your advisors	N/A
Submit documents of origination. Wait to receive a UBI. https://www.sos.wa.gov/corporations-charities	Office of the Secretary of State	State
Apply for a business license with a cannabis endorsement. https://dor.wa.gov/open-business	Department of Revenue	State
Apply for an Employer Identification Number (EIN). https://ein-taxfiling.com/	IRS	Federal
File your federal Beneficial Ownership Information Report (BOI) within 30 days of registering your business. https://boiefiling.fincen.gov/	U.S. Treasury's Financial Crimes Enforcement Network (FinCEN)	Federal



Steps to set up a business

Set Up a Legally-Compliant Business

Summary and Next Steps

Pause here to check in on what you know and your next steps.

- ☐ You can explain how local laws influence the setup and operation of a fully-compliant Washington State cannabis retail store.
- ☐ You can identify Washington state agencies that regulate your business.
- ☐ You can identify Washington state agencies that provide resources for your business.
- ☐ You can describe how differences between federal and state laws influence business risk.
- ☐ You can find information about local, state, and federal rules that impact your business.
- ☐ You can establish a business structure that complies with local, state, and federal rules.



If you have questions about one of these areas, what is your plan to get it answered?

Next Steps

What are your next steps?

Here are some ideas for your next steps:

- ☐ Complete the Jurisdiction worksheet.
- ☐ Visit business.wa.gov and review compliance resources.
- ☐ Subscribe to local email bulletins.
- ☐ Attend city or county meetings and get to know your local officials.
- ☐ Join groups that advocate for your business at the local, state, and federal level.
- ☐ Read RCW 69.50 and WAC 314.55 to get an understanding of state laws that govern cannabis businesses.
- ☐ Set up your compliance team and talk to them about the best business structure.
- ☐ Subscribe to newsletters or bulletins from the state agencies you will be working with.
- ☐ Use the Compliance Culture worksheet to capture your thoughts about how you will set up your business for compliance.

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