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Craig Smalley • May. 11, 2022



If you are on the accrual method of accounting, and you recognize income as it is incurred and someone doesn't pay you, you have a bad debt. However in cannabis you are stymied by Section 280E, which only allows cost of goods sold (COGS) to be

deducted. A bad debt expense is not COGS, so you have to find another way around

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I know that with Section 280E cannabis accounting is hindered by this law, that has been in place since 1982. In California for example, this is very common. A cultivator will sell his or her crop on consignment. With the flood of dispensaries and cultivators the cannabis industry is not as lucrative as it used to be. That being said, the cultivators a lot of times get burned on the consignment issue.

If they were any other business on the accrual method, they would be able to deduct as a bad debt. If you work at all in cannabis you know you have to get creative. Returns and allowances is the only way you can go.

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Craig W. Smalley, MST, EA, is the Founder and CEO of [CWSEAPA, PLLC](#). He has been admitted to practice before the Internal Revenue Service as an Enrolled Agent and has a Master's Certificate in Taxation from UCLA. In practice since 1994, Craig is well-versed in U.S Tax Law and U.S. Tax Court cases, and specializes in individual, partnership, and corporate taxation for high-net-worth clients; entity structuring and restructuring; and representation before the IRS regarding negotiations, audits and appeals.

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