10 Easy Steps to Start a Cannabis Business Entity in California
1. Choose an Entity Type & Business Name

If you plan to engage in cannabis-related activities as a business, your first step is to determine the type of entity that you wish to form and the name that you wish to give your business. Your choice of entity type will have an effect on how your business and its participants are taxed; your ability to transfer assets and ownership interests; manage and run the business; your personal liability; and possibly the type of license that you may obtain from state or local agencies (e.g. Cannabis Cooperative Associations).

2. Register Your Business with the Secretary of State

Once you have determined the type of business entity that you wish to form, and if the entity is of a type that must be registered with the California Secretary of State, you must file organizational documents with the California Secretary of State and pay the appropriate fee(s). Forms or samples with instructions and fee information for most entity types are available on the California Secretary of State website at bizfile.sos.ca.gov. Some filings (e.g. corporations), do not require use of a prescribed form and free-form documents are accepted. Depending on the entity type that you choose, it may be necessary to register the entity with the California Secretary of State.

- **Entities Required to Register:** Corporations (including for profit and nonprofit), Limited Liability Companies (LLCs), Limited Partnerships (LPs), and Limited Liability Partnerships (LLPs).

- **Entities that May Register:** General Partnerships are not required to register with the California Secretary of State, but may choose to if desired.

- **Entity Not Requiring Registration:** Sole Proprietorships.
3. Register a Fictitious Business Name (If Necessary)

In some circumstances, a business may choose to conduct business under a name other than its legal name, or it may be required to do business under a different name to obtain business licenses and permits. In California, fictitious business names are filed with the county clerk/recorder where the business is located. You should refer to the county’s website for information on requirements, forms and fees, as well as California Business and Professions Code sections 17900 through 17930.

4. Obtain Required City and/or County License, Permit or Other Authorization

WARNING: Filing organizational documents with the California Secretary of State alone does not provide a business with the necessary licenses to conduct cannabis-related activities. California has a dual licensing system and cannabis businesses will be required to obtain a city, county, or city and county license, permit, or other authorization, before a business can apply for a state license. Check with your local city and county in which the cannabis-related activities will take place to determine what steps your business may need to take to obtain a required license, permit, or other authorization for the cannabis-related activities that your business will be conducting.

5. Obtain a Seller’s Permit and Cannabis Tax Permit from the California Department of Tax and Fee Administration (If Necessary)

If you sell cannabis or cannabis products, you must register with the California Department of Tax and Fee Administration (CDTFA) for a seller’s permit. Cannabis cultivators, processors, manufacturers, retailers, microbusinesses, and distributors making sales are required to obtain and maintain a seller’s permit as a prerequisite for applying for a license with the Department of Cannabis Control. Distributors of cannabis and cannabis products also must register with the CDTFA for a cannabis tax permit to report and pay two new cannabis taxes to the CDTFA. The cannabis tax permit is in addition to your seller’s permit.

6. Obtain Required State License(s)

If the cannabis-related activities that your business will be engaged in require a state license, you must apply for and obtain any required state license(s) prior to conducting those cannabis-related activities. The state agency charged with licensing cannabis-related activities is the Department of Cannabis Control. For more information about licensing requirements, visit the Department of Cannabis Control website at cannabis.ca.gov.
7. Employer Responsibilities

If you intend to have employees for your business, you must register your business as an employer and obtain a federal Employer Identification Number (EIN). As an employer, there are obligations to consider such as payroll taxes, wage withholding requirements, matching employer withholding requirements and employee employment eligibility requirements, along with requirements for State Disability (workers’ compensation) Insurance, Unemployment Insurance, workplace safety and health regulations and equal employment opportunity.

Additional Resources:

- **Internal Revenue Service (IRS)**
  www.irs.gov/businesses/small-businesses-self-employed/how-to-apply-for-an-ein
- **California Franchise Tax Board (FTB)**
  ftb.ca.gov/file/business/index.html
- **California Employment Development Department (EDD)**
  www.edd.ca.gov/Payroll_Taxes/Am_I_Requed_to_Register_as_an_Employer.htm
- **State Compensation Insurance Fund (SCIF):**
  www.statefund.ca.gov
- **Department of Industrial Relations, Division of Occupational Safety and Health, (Cal/OSHA):**
  www.dir.ca.gov/dosh/dosh1.html

8. Tax Information

There are several agencies that administer a variety of taxes for businesses in California, which should be consulted to determine any obligations that your business may have.

Taxing Agency Information and Resources:

- **Internal Revenue Service (IRS)** administers all federal taxes except alcohol, tobacco, and customs duties: irs.gov
- **Franchise Tax Board (FTB)** administers two of California’s major tax programs essential to our state—Personal Income Tax and Corporation Tax; phone: (800) 852-5711 ftb.ca.gov/cannabis
- **Employment Development Department (EDD)** administers four state payroll taxes—Unemployment Insurance (UI), Employment Training Tax (ETT), State Disability Insurance (SDI), and Personal Income Tax (PIT) http://edd.ca.gov/Payroll_Taxes/Cannabis_Industry_Payroll_Tax_Reporting.htm
- **California Department of Tax and Fee Administration (CDTFA)** administers business permits and taxes including Seller’s Permits, Sales and Use Taxes, Excise Taxes and other special taxes http://cdtfa.ca.gov/
- **California State Board of Equalization (BOE)** reviews and adjusts assessments for property taxes boe.ca.gov
- **California Tax Service Center** is a partnership of tax agencies that have joined together to streamline and improve taxpayer resources and educational programs sponsored by the California Fed State Partnership taxes.ca.gov
9. Ongoing Business Registration Requirements

Every corporation and limited liability company is required to file a Statement of Information with the California Secretary of State within the first 90 days of registering with the California Secretary of State and annually thereafter for California stock corporations (including cannabis cooperative associations) and foreign (formed outside of California) corporations and every two years for California non-profit corporations and all limited liability companies based on the calendar month of the entity’s registration date.

10. Trademarks and Service Marks

Once your service or product is lawfully in use in commerce within California, you may wish to register your trademark or service mark with the California Secretary of State’s office. Although a permissive filing, a trademark or service mark helps to identify and distinguish the source of the goods or services of one party from those of another. For further information including forms, fees, restrictions and registration instructions, please visit the California Secretary of State’s Trademark and Service Mark webpage (http://www.sos.ca.gov/business-programs/ts/).
STARTING A NEW CANNABIS BUSINESS CHECKLIST:

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2. Register Your Business with the Secretary of State
3. Register a Fictitious Business Name (If Necessary)
4. Obtain Required City and/or County License, Permit or Other Authorization
5. Obtain a Seller’s Permit and Cannabis Tax Permit from the California Department of Tax and Fee Administration (If Necessary)
6. Obtain Required State License(s) [DCC]
7. Employer Responsibilities [IRS, FTB, EDD]
8. Tax Information [FTB, EDD, CDTFA, IRS]
9. Ongoing Business Registration Requirements
10. Trademarks and Service Marks