		PART ONE		
	Project Name:	Medical Marijuana Estab	lishments - IRC Section 28	80E
	Date: 05/11/2010			
	Operating Division / Area / Industry/Compliance Center:	California - Area 7	Initiating Function:	Examination
	Project Completion Date: 12/3	0/2011	MACS Identified Work	oad? 🗌 Yes 🔽 M
	NAICS Code: Project Code:	0539 Uniform Issue Code:	IRC 280E ERCS Track	ing Code (if applicable) : 05
7)(E)	Contact Person:	Elain Li (Name)	(925) (Phone N	974-3750 umber)
	Form Type:			
b)(7)(E)	Which one of your Operating Division's	"Strategies" does this CIP sup	port? (See instructions)	
	If none, please justify			
	REVIEW and CONCURRENCE Disclosure Manager		Operating Division)	06/04/2010
	Title	Signatur		Date
	PSP Territory Manager	Gill hand a long of the second	Call Lines of the last state and the last	07/08/2010
	Title	Signatur	e	Date
	PSP Section Chief, Section 1		nantisa Giana A Honasa na A Fermina AF Gold A Honasa	
	Title	Signatur	e	Date
	Title	Signatur	e	Date
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6	Title	Signatu	re	Date
-	Approval: (See instructions Operating Division	for each Operating Divisio n's CIP Program Analyst)	on and forward a copy to	each respective
	Title	Signature		Date
	a manager a	PART ONE- EXTEN	SION	
		06/30/2012 xtension Date		
	APPROVALS (See instructions for EXTENSION 6 MONTHS OR LESS: (Information copy to HQ CIP Program Analyst)	each Operating Division)		
	PSP Territory Manager	Susan Braunz		12/15/2011
	Title EXTENSION EXCEEDING 6 MONTHS:	Signatur	re	Date
	Title	equired.)	e	Date

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COMPLIANCE INITIATIVE PROJECT AUTHORIZATION PART ONE - Instructions

For your Operating Division's "Strategies" refer to the respective web site links below:

SB/SE Strategies - http://sbse.web.irs.gov/srpm/

LMSB Strategies - http://lmsb.irs.gov/initiatives/initiatives.htm

W&I Strategies - http://win.web.irs.gov/strategy.htm

Insert the titles and corresponding names for your division on the title line and under the signature line. The person then **must sign and date** the form.

For Review an	nd Concu	irrence section.			
If <u>SB/SE - Com</u>	pliance:	Territory Manager Disclosure Officer TEC Territory Manager Other Affected Functions	lf <u>S</u>	<u>B/SE - TEC</u> :	TEC Territory Manager Disclosure Officer Other Affected Functions PSP Area Support Manager
If the CIP origin	ates in a h	A REAL PROPERTY OF A REAL PROPER	than PSP),	it will be revie	wed by the Functional Director.
Tei Ap	am Manag rritory Man plicable Di sclosure O	ager rector of Field Operation			
If the CIP origin	ates in a h	eadquarters office, the proc	edures for l	Part Two will b	e followed.
	mpus Ope adquarters	rations Manager s Analyst			
For Approval	section.				
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Department of the Treasury - Internal Revenue Service

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PART ONE - NARRATIVE

Project Name

Medical Marijuana Establishments - IRC Section 280E

A. BACKGROUND and OBJECTIVES: Provide information that will be useful for a better understanding of the proposed project. State issues, how identified, and impact on compliance. Describe sources used to determine duplicate or similar projects, either open or closed, and results. Does this project fit into one of your division's operating strategies? State project objective(s) and expected results.

The last few years there has been a large number of "Medical Marijuana" shops open in California and on the Internet. This is due to the California Compassionate Use Act of 1996, codified at Cal. Health & Safety Code Sec. 11362.5. According to (State of California) Board of Equalization analysis in support of SB 1098 (01/14/08), the National Organization for the Reform of Marijuana (Cal Normal) estimates there are over 400 medical cannabis dispensaries in California. To identify the scale of the industry, of the over 400 dispensaries, twenty-one (21) had permits and reported Gross sales of \$47.6 million dollars.

In 128 T.C. 173 Californians Helping to Alleviate Medical Problems, Inc. v. C.I.R. (2007), the Tax Court upheld IRC Sec. 280E disallowing all expenses with the exception of Cost of Goods Sold.

The objective is compliance. From prior and current cannabis exams, substantiation of all expenses, specifically substantiation for CGS, has been the main issue. The cannabis clubs do not keep records for CGS due to fear of compromising the identity of their suppliers in the event of a raid by law enforcement. In addition, the cannabis clubs would only be allowed a deduction for CGS, if substantiated per IRC 6001. All other remaining expenses related to the cannabis business would be disallowed under IRC 280E as expenditures in connection with the illegal sale of drugs as was the case in Californians Helping to Alleviate Medical Problems, Inc. This compliance issue would be consistent regardless of whether or not the cannabis club operated with/without a permit. Further more, according to California Guidelines for Medical Marijuana issued by the California Attorney General, subsection 1.F. the Attorney General states that "California did not "legalize" medical marijuana but instead exercised its power not to punish certain offenses under state law when physician has recommended its use. It should be noted that dispensaries should document members contributions and 'track and record the source of their marijuana.'" p. 10. Additionally, we believe there maybe some medical marijuana businesses under reporting their income or not filing required tax returns at all.

(b)(7)(E)

B. MARKET SEGMENT: Define the market segment. If a market segment is not predefined, provide a detailed description of the taxpayer group from which the market segment will be identified.

There is a high likelihood that a good deal of the 400+ "Medical Marijuana" stores are non-filers and/or are not reporting there sales. Additionally, those who do file are probably deducting Other Business Expenses in contravention to IRC Sec 280E and 128 T.C. 173 Californians Helping to Alleviate Medical Problems, Inc. v. C.I.R. (2007).

Additionally, if the seller is not growing the "Medical Marijuana", they must be buying from a grower. There is a good probability that the grower is a non-filer or under-reporting gross sales. If they are reporting the business, it is very likely they are probably deducting Cost of Goods Sold in contravention to IRC Sec 280E and 128 T.C. 173 Californians Helping to Alleviate Medical Problems, Inc. v. C.I.R. (2007). If the distributor is also a grower/farmer, no COGS is allowed. The cultivating activities would need to be reported on Schedule F. All the expenses incurred to grow the cannabis on Schedule F would be other expenses that would be disallowed per IRC 280E.

If successful, this project could go nationwide and help find a good number of under reporters and non-filers were cannabis has been legalized by the state.

Department of the Treasury - Internal Revenue Service



PART ONE - NARRATIVE (Continuation)

oject Name	Medical Marijuana Establishments - IRC S	Section 280E
DATA: Identify data needed delivery media, amount of time the	for the project and the source and an assessment of its accurac data will be held, method of storing/maintaining and ultimate destruction	y. For external data, include expected d on/disposition.
Data for this project were gat	thered from cases that were audited and cases that are cur	rrently under audit.
The following filters should l	e applied when identifying cases for this project:	
Additionally, further internet	research should be conducted to identify those business	are related to Medical Marijuana.
TIME FRAMES / ACTIO	ON PLAN: List the tasks necessary to complete the project, es	timated time to accompliate analytack and
projected task completion dates. Act	tion plan dates should be consistent with the final project completion date	te.
1) Research & Development	(6 months)	
a) Input parameters in IR		to order returns.
b) Classify/Review return	ns for	to
	he most potential for noncompliance.	
c) Build case file		(b)(7)(E)
d)		
2) Implementation (9 month	s)	
a) Identify RA and/or TC		
b) Training (2 hours)		
c) Workload delivery and	lassignment	
d) Monitor progress		

- e) Monitor for adjustments
- f) Measure results

Date:05/11/2010 Operating Division / Area /	California - Area 7	Initiating Eurotion	Examination
Industry/Compliance Center:		Initiating Function:	
· · · · · · · · · · · · · · · · · · ·	0/2011	MACS Identified Work	
NAICS Code: Project Code:	TBD Uniform Issue Code:	IRC 280E ERCS Trac	king Code (if applicable) :TBI
Contact Person:	Elain Li		974-3750
	(Name)	(Phone	Number) (b)(
Form Type:			
Which one of your Operating Division's	"Strategies" does this CIP supp	ort? (See instructions)	(b)(7)(E
If none, please justify			
REVIEW and CONCURRENCE	(See instructions for each C	Operating Division)	
Disclosure Manager		er följ Diener i lagaler ef ogsår, si US Sak 10,44 (07,0000)	06/04/2010
Title	Signature		Date
PSP Territory Manager	a first party is been present and the same	N. TANK.	07/08/2010
Title	Signature		Date
PSP Section Chief, Section 1		ntig Gine & Honan 6 Annala 1 John & Honan	
Title	Signature		Date
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	for each Operating Division n's CIP Program Analyst)	n and forward a copy i	to each respective
Title	Signature		Date
Sector Sector Sector	PART ONE- EXTENS	SION	
And a shift of a set of the set o	xtension Date each Operating Division)		
Title EXTENSION EXCEEDING 6 MONTHS:	Signature	9	Date

COMPLIANCE INITIATIVE PROJECT AUTHORIZATION PART ONE - Instructions

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W&I Strategies - http://win.web.irs.gov/strategy.htm

Insert the titles and corresponding names for your division on the title line and under the signature line. The person then **must sign and date** the form.

For Review and Con	currence section.			
If <u>SB/SE - Compliance</u> :	Territory Manager Disclosure Officer TEC Territory Manager Other Affected Functions	lf <u>S</u>	<u>B/SE - TEC</u> :	TEC Territory Manager Disclosure Officer Other Affected Functions PSP Area Support Manager
If the CIP originates in a	headquarters function (other th	nan PSP),	it will be revie	wed by the Functional Director.
If <u>LMSB</u> : Team Mana Territory Ma Applicable Disclosure	anager Director of Field Operation			
If the CIP originates in a	headquarters office, the procee	dures for F	Part Two will b	e followed.
If <u>W&I</u> : Campus Op Headquarte	perations Manager ers Analyst			
For Approval section				
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PART ONE - NARRATIVE

Project Name

Medical Marijuana Establishments - IRC Section 280E

A. BACKGROUND and OBJECTIVES: Provide information that will be useful for a better understanding of the proposed project. State issues, how identified, and impact on compliance. Describe sources used to determine duplicate or similar projects, either open or closed, and results. Does this project fit into one of your division's operating strategies? State project objective(s) and expected results.

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(b)(7)(E)

B. MARKET SEGMENT: Define the market segment. If a market segment is not predefined, provide a detailed description of the taxpayer group from which the market segment will be identified.

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Additionally, if the seller is not growing the "Medical Marijuana", they must be buying from a grower. There is a good probability that the grower is a non-filer or under-reporting gross sales. If they are reporting the business, it is very likely they are probably deducting Cost of Goods Sold in contravention to IRC Sec 280E and 128 T.C. 173 Californians Helping to Alleviate Medical Problems, Inc. v. C.I.R. (2007). If the distributor is also a grower/farmer, no COGS is allowed. The cultivating activities would need to be reported on Schedule F. All the expenses incurred to grow the cannabis on Schedule F would be other expenses that would be disallowed per IRC 280E.

If successful, this project could go nationwide and help find a good number of under reporters and non-filers were cannabis has been legalized by the state.

PART ONE - NARRATIVE (Continuation)

Project Name

Medical Marijuana Establishments - IRC Section 280E

C. DATA: Identify data needed for the project and the source and an assessment of its accuracy. For external data, include expected delivery date(s), delivery media, amount of time the data will be held, method of storing/maintaining and ultimate destruction/disposition.

Data for this project were gathered from cases that were audited and cases that are currently under audit.

The following filters should be applied when identifying cases for this project:

1) Using the NAICS codes for Pharmacist/Drugstores 446110, Other Health/Personal Care Store 446190, and Office of

All Other Miscellaneous Health Practitioners 621399.

2) Cases with Gross profit percentage > 29% and Net profit percentage < 2.5%.

Additionally, further internet research should be conducted to identify those business are related to Medical Marijuana.

Furthermore, the IRS could request names and addresses of taxpayer who applied for Seller's Permits through the local municipalities or Board of Equalization. In 2008 the BOE offered amnesty to sellers if they voluntarily came in for sellers permits. It is possible a good number of the sellers applied for permits with the Board of Equalization. Using this information, PSP should be able to find non-filers or under-reporters.

D. <u>TIME FRAMES / ACTION PLAN</u>: List the tasks necessary to complete the project, estimated time to accomplish each task and the projected task completion dates. Action plan dates should be consistent with the final project completion date.

	1) Research & Development (6 months)		
(b)(7)(E)	a) Input parameters in IRS computers using		to order returns.
	b) Classify/Review returns for large	1	to
	identify returns with the most potential for noncompliance.		
	c) Build case file	(b)(7)(E)	
	d)		
	2) Implementation (9 months)		
	 a) Identify RA and/or TCO for project 		
	b) Training (2 hours)		
	 Workload delivery and assignment 		

c) Workload delivery and assignment

d) Monitor progress

e) Monitor for adjustments

f) Measure results

(b)(7)(E)





Memo

6 months extension requested in order to better evaluate the project results. Additional time needed to better assess the future of the project.

(b)(3):26 U.S.C. § 6103	

COMPLIANCE INITIATIVE PROJECT AUTHORIZATION PART ONE - NARRATIVE (Continuation)

Project Name

Medical Marijuana Establishments - IRC Section 280E

(b)(7)(E)

C. DATA: Identify data needed for the project and the source and an assessment of its accuracy. For external data, include expected delivery date(s), delivery media, amount of time the data will be held, method of storing/maintaining and ultimate destruction/disposition.

Data for this project were gathered from cases that were audited and cases that are currently under audit.

The following filters should be applied when identifying cases for this project:

Additional internet research will be conducted to identify those businesses as cannabis clubs/medical marijuana dispensaries.

All Personally Identifiable Information (PII) data is secured by the CDE Program and by any function or examiner that will be utilizing the specific return information during an audit. Data will be properly disposed of at the end of the project.

D. <u>ALTERNATIVE TREATMENTS</u>: Consideration should be given to identify various ways to improve voluntary compliance other than audits which are generally the most expensive and intrusive way to increase compliance. Examples are: taxpayer outreach/education, revision of forms or publications, legislative or regulatory changes, agreements with state or local business licensing authorities for tax compliance requirements.

Alternative treatments will be considered based on the results of the Part II project.

COMPLIANCE INITIATIVE PROJECT AUTHORIZATION PART ONE - NARRATIVE (Continuation)

Project Name

Medical Marijuana Establishments - IRC Section 280E

E. MEASURES AND ANALYSIS: Describe measures to evaluate noncompliance for purposes of monitoring and follow-upcompliance activities.

The measurement of the project will be from the audit results on ACIS and the testimony of the compliance staff that works the cases.

F. COST / BENEFIT: Describe resources needed to conduct the project in terms of hours expended by type of examiner and additional costs over and above what would normally be expended.

The cost of running the filters on CDE is minimal and the time required is also minimal as this filter is already established. The benefits expected are lower time on case, lower cycle times, lower no-change rates, and comparable dollars per hour when compared to DIF.

G. <u>TIME FRAMES / ACTION PLAN</u>: List the tasks necessary to complete the project, estimated time to accomplish each task and the projected task completion dates. Action plan dates should be consistent with the final project completion date.

Part II CIP approval process expected to be completed in August 2012 Returns identified, established, and case built - about 5 weeks (ongoing) Cases sent to the field as part of the monthly return orders (ongoing) Project may be extended



PC0539 Medical Marijuana Part II Extension 06302015

Requesting an 18 month extension for PC0539 Part II CIP. With the SBSE realignment, the Southwest Area (Area 07) added the states of Hawaii, Arizona, and New Mexico. Both Arizona and New Mexico allow for the use of marijuana for medicinal purposes (as verified by <u>http://www.azdhs.gov/medicalmarijuana/</u> and <u>http://nmhealth.org/mcp/</u>). Hawaii; however, does not allow for the use of marijuana in any form.

Marijuana is still a federally banned substance, and so the current CIP would be applicable to Arizona and New Mexico as both states have medical marijuana dispensaries. An 18 month extension is requested because time is needed in order to filter, case build, audit, and monitor the results for cases designated for Arizona and New Mexico.

Based on 173 cases closed in the prior 36 months (A-CIS ending 11/22/2013):

- \$1,375 dollars per hour
- 24.5 average hours
- 4.6% no-change rate
- 65.9% pick-up rate
- 281 days average cycle time
- vs. \$493 RA DIF FY13
- vs. 34.9 hrs RA DIF FY13
- vs. 23.5% RA DIF FY13
- vs. 42.4% RA DIF FY13
- vs. 257 days RA DIF FY13

Every metric above is significantly better (with the exception of the cycle time which is only comparable to) than RA DIF FY13 results. Additional breakdown can be provided upon request.

Potential inventory is as follows:

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COMPLIANCE INITIATIVE PROJECT AUTHORIZATION PART ONE - NARRATIVE (Continuation)

Project Name

(b)(7)(E)

Medical Marijuana Establishments - IRC Section 280E

C. DATA: Identify data needed for the project and the source and an assessment of its accuracy. For external data, include expected delivery date(s), delivery media, amount of time the data will be held, method of storing/maintaining and ultimate destruction/disposition.

Data for this project were gathered from cases that were audited and cases that are currently under audit.

The following filters should be applied when identifying cases for this project:

Additional internet research will be conducted to identify those businesses as cannabis clubs/medical marijuana dispensaries.

All Personally Identifiable Information (PII) data is secured by the CDE Program and by any function or examiner that will be utilizing the specific return information during an audit. Data will be properly disposed of at the end of the project.

D. <u>ALTERNATIVE TREATMENTS</u>: Consideration should be given to identify various ways to improve voluntary compliance other than audits which are generally the most expensive and intrusive way to increase compliance. Examples are: taxpayer outreach/education, revision of forms or publications, legislative or regulatory changes, agreements with state or local business licensing authorities for tax compliance requirements.

Alternative treatments will be considered based on the results of the Part II project.

COMPLIANCE INITIATIVE PROJECT AUTHORIZATION PART ONE - NARRATIVE (Continuation)

Project Name

Medical Marijuana Establishments - IRC Section 280E

E. MEASURES AND ANALYSIS: Describe measures to evaluate noncompliance for purposes of monitoring and follow-upcompliance activities.

The measurement of the project will be from the audit results on ACIS and the testimony of the compliance staff that works the cases.

F. COST / BENEFIT: Describe resources needed to conduct the project in terms of hours expended by type of examiner and additional costs over and above what would normally be expended.

The cost of running the filters on CDE is minimal and the time required is also minimal as this filter is already established. The benefits expected are lower time on case, lower cycle times, lower no-change rates, and comparable dollars per hour when compared to DIF.

G. <u>TIME FRAMES / ACTION PLAN</u>: List the tasks necessary to complete the project, estimated time to accomplish each task and the projected task completion dates. Action plan dates should be consistent with the final project completion date.

Part II CIP approval process expected to be completed in August 2012 Returns identified, established, and case built - about 5 weeks (ongoing) Cases sent to the field as part of the monthly return orders (ongoing) Project may be extended

Sheet 6

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PC0539 Medical Marijuana Part II Extension 06302015

Requesting an 18 month extension for PC0539 Part II CIP. With the SBSE realignment, the Southwest Area (Area 07) added the states of Hawaii, Arizona, and New Mexico. Both Arizona and New Mexico allow for the use of marijuana for medicinal purposes (as verified by <u>http://www.azdhs.gov/medicalmarijuana/</u> and <u>http://nmhealth.org/mcp/</u>). Hawaii; however, does not allow for the use of marijuana in any form.

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PC0539 Medical Marijuana Part II Extension 06302015

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	PART TWO	
Project Name:	Medical Marijuana Establishments - IRC	Section 280E
Date: 7/25/2012		
Operating Division / Area / Industry/Compliance Center:S	BSE CA Area 7 Project Completion Date: 12/31	/2013 InitiatingCA Area 7 - PSP
Termination Report Due Date:9/30/2	2014 MACS Identified Worklos	ad? 🗙 Yes 🗌 No
NAICS Code: NA Project Code:	0539 Uniform Issue Code: NA ERC	S Tracking Code (if applicable): various
Contact Person:	Abbott Wang	949-389-4242
(Coordinator)	(Name) (H	Phone Number) (b)(7)(E)
Form Type:		(O)(I)(E)
	"Strategies" does this CIP support? (See instructions)
	ryone meets their obligations to pay taxes	
If none, please justify		
REVIEW and CONCURRENCE: (S	ee instructions for each Operating Division) Brad Puskas	
PSP Section Chief	Brad Puskas Discontact Value Area Brad Puskas, PSP Manager Section #5	July 26, 2012 Date
	Signature	Date
Acting PSP Territory Manager	Susan Braunz	July 27, 2012
Title	Signature	Date
Director, California Exam	Junder of Antonia Constant and the famous and the f	July 27, 2012
Title	Signature	Date
HQ CIP Analyst	1XKFB Display upon by USUR Bit in 1500 g module - D Microsoft And Company Date 2012 (08.21 08:5012 04:00	
Title	Ann O. Underland Signature.gened by V7YCB	Date
acting Prog. Mgr. ERS	V7YCB DNt cn=V7YCB, enall=Joan £Thilligers, gov Date 2012/08.20 10:11:47 - 04/007	8-20-2012
Title	DeGina LaCour	Date
HQ Disclosure	Marie A Twarog Digrafy signed by Marie A Twarog Date: 2012.08.27 08:42:56 -04'00'	8/27/2012
Title	Marie Twarog	Date
	Signature	
Title	Signature	Date
Title	Signature	Date
Title	Signature	Date
Approval: (See instructions for each C	Operating Division and forward a copy to each respective C	Operating Division's CIP Program Analyst)
Director, EPD	Karen M. Schiller DH: cre-NBUFB: email-Karen M. Schiller Sin.	
Title	Karen M. Schiller Signature	Date
Title	Signature	Date

PART TWO

CROSS-DIVISIONAL CIP:		
Title	Signature	Date
Title	Signature	Date
	PART TWO - EXTENSION	
EXTENSION OF TIME:		
1st Extension 06/30/2015		
Extension Date	and the second se	
SW PSP Territory Manager	Chris Simmons	12/12/2013
Title	Signature	Date
Concurrence:	Alfredo Valdespino	2/11/2014
Acting Director, EPD Title		2/11/2014 Date
2nd Extension	Signature	
Extension Date		
Title	Signature	Date
Concurrence:		
Title	Signature	Date
3rd Extension		
Extension Date		
Title	Signature	Date
Concurrence:		
Title	Signature	Date

COMPLIANCE INITIATIVE PROJECT AUTHORIZATION PART TWO - Instructions

For your Operating Division's "Strategy" refer to your respective web site links below:

SB/SE Strategies - http://sbse.web.irs.gov/srpm/

LMSB Strategies - http://lmsb.irs.gov/initiatives/initiatives.htm

W&I Strategies - http://win.web.irs.gov/strategy.htm

Insert the titles and corresponding names for your division on the title line and under the signature line. The person then **must** sign and date the form.

Under Review and Concurrence section.

If SB/SE - Compliance:

Territory Manager Managers/Directors of Other Affected Functions CLD Chief, Operations Support Disclosure Officer Area Director PSP Area Support Manager Headquarters Program Manager (*example: non-filer, Exam Specialization Program, IRA Penalties, etc.*) Headquarters CIP Program Analyst Headquarters Manager, Examination Return Selection

If SB/SE - Campus:

Program Manager, Workload Selection and Delivery Disclosure Officer CIP Headquarter Analyst

If SB/SE - CLD:

CLD Stakeholder Liaison Disclosure Officer Managers/Directors of Other Affected Functions PSP Area Support Manager CLD Area Director

If CIP originates in a headquarters function (other than EPD), it will be reviewed for concurrence by the Functional Director. Final Approval will be the Director, of Exam Planning & Delivery.

If LMSB:

Territory Manager/Headquarters Manager Director of Field Operations/Director of International Compliance Strategy & Policy Disclosure Officer Designated CIP Headquarter/Industry Analyst or the PSP for Foreign Residence Compliance LMSB CIP Analyst

If W&I:

Campus Compliance Operations Manager Disclosure Officer Headquarters Analyst Chief, Strategy and Selection or delegate

For Approval section.

If SB/SE Compliance:

Director, Exam Planning & Delivery

If SB/SE Campus Compliance:

Director of Campus Reporting Compliance Director, Exam Planning & Delivery

If LMSB:

Operations Planning & Support Senior Manager, Planning, Quality, Analysis & Support

If <u>SB/SE - CLD</u>: Director of Planning, Quality, Analysis & Support

If W&I:

6 months or more

Compliance:

Campus:

Director, Reporting Compliance.

PSP Area Support Manager

Director, of Exam Planning & Delivery

Service Center Exam Program Manager

Director, of Campus Reporting Compliance

Headquarters CIP Program Analyst

Director, of Exam Planning & Delivery

Director, of Exam Planning & Delivery

Field Director, Compliance Services or delegate

Workload Planning & Analysis Program Manager

Note: For LMSB, the CIP must be presented to the CIP Oversight Committee.

For Extension Approvals section.

6 months or less

Compliance:

PSP Area Support Manager (Forward a copy to Headquarters CIP Program Analyst)

Campus:

Program Manager Workload Selection and Delivery Workload Planning & Analysis Program Manager

CLD:

CLD Area Director

If LMSB:

Operations Planning & Support Senior Manager, Planning, Quality, Analysis & Support Director of Planning, Quality, Analysis & Support

If W&I:

CLD Area Director

CLD:

Chief, Strategy and Selection or delegate

Note: For LMSB, the CIP must be presented to the CIP Oversight Committee.

Form 13498 (Rev. 04-2009)

Catalog Number 37558B

Sheet 3

Department of the Treasury - Internal Revenue Service

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COMPLIANCE INITIATIVE PROJECT AUTHORIZATION PART TWO - NARRATIVE

Project Name

Medical Marijuana Establishments - IRC Section 280E

A. <u>BACKGROUND and OBJECTIVES</u>: Provide information that will be useful for a better understanding of the proposed project including results of Part One, if applicable. State issues, how identified, and impact on compliance. Describe sources used to determine duplicate or similar projects, either open or closed, and results. Does this project fit into one of your division's operating strategies? State project objective(s) and expected results.

The last few years there has been a large number of "Medical Marijuana" shops open in California and on the Internet. This is due to the California Compassionate Use Act of 1996, codified at Cal. Health & Safety Code Sec. 11362.5. According to (State of California) Board of Equalization analysis in support of SB 1098 (01/14/08), the National Organization for the Reform of Marijuana (Cal Normal) estimates there are over 400 medical cannabis dispensaries in California. To identify the scale of the industry, of the over 400 dispensaries, twenty-one (21) had permits and reported Gross sales of \$47.6 million dollars.

In 128 T.C. 173 Californians Helping to Alleviate Medical Problems, Inc. v. C.I.R. (2007), the Tax Court upheld IRC Sec. 280E disallowing all expenses with the exception of Cost of Goods Sold.

The objective is compliance. From prior and current cannabis exams, substantiation of all expenses, specifically substantiation for CGS, has been the main issue. The cannabis clubs do not keep records for CGS due to fear of compromising the identity of their suppliers in the event of a raid by law enforcement. In addition, the cannabis clubs would only be allowed a deduction for CGS if substantiated per IRC Sec. 6001. All other remaining expenses related to the cannabis business would be disallowed under IRC 280E as expenditures in connection with the illegal sale of drugs as was the case in Californians Helping to Alleviate Medical Problems, Inc. This compliance issue would be consistent regardless of whether or not the cannabis club operated with/without a permit. Further more, according to California Guidelines for Medical Marijuana issued by the California Attorney General, subsection 1.F., the Attorney General states that "California did not 'legalize' medical marijuana but instead exercised its power not to punish certain offenses under state law when physician has recommended its use. It should be noted that dispensaries should document members contributions and 'track and record the source of their marijuana."" p. 10. Additionally, we believe there maybe some medical marijuana businesses under reporting their income or not filing required tax returns at all. (b)(7)(E)

As of June 29, 2012, RAs have closed 91 cases from the Part I CIP. The 91 cases have see time per case of 22.5 hours with a 3.3% no-change rate. When compared to DIF results of 32.4 hours per case and a 20.2% no-change rate, the cases are being closed quicker along with a much lower no-change rate than DIF returns. In addition, the 91 cases have an average cycle time of 204 days which is lower than DIF of 260 days. The 91 cases have also yielded an average \$945/hour with a 62.6% pick-up rate which are both significantly higher than DIF results of \$544/hour and 46.7% pick-up rate. (Data based on ACIS period ending 6/29/2012)

Note: Western Area had conducted a CIP part 1 on Medical Marijuana, the fallout from that CIP was only for

B. MARKET SEGMENT: Define the market segment. If a market segment is not predefined, provide a detailed description of the taxpayer group from which the market segment will be identified.

High Income Taxpayers (TGR > \$300,000) in Area 7 (California SBSE) including C-Corps, S-Corps, Partnerships, Sch-C (Self-Employed), Non-Filers and Taxpayer not reporting the sales of "Medical Marijuana".



Additionally, if the seller is not growing the "Medical Marijuana", they must be buying from a grower. There is a good probability that the grower is a non-filer or under-reporting gross sales. If they are reporting the business, it is very likely they are probably deducting Cost of Goods Sold in contravention to IRC Sec. 280E and 128 T.C. 173 Californians Helping to Alleviate Medical Problems, Inc. v. C.I.R. (2007). If the distributor is also a grower/farmer, no COGS is allowed. The cultivating activities would need to be reported on Schedule F. All the expenses incurred to grow the cannabis on Schedule F would be other expenses that would be disallowed per IRC 280E.



Project Name:	Medical Marijuar	a Establishments - IRC See	ction 280E
Date: 7/25/2012			
Operating Division / Area /	BSE CA Area 7	Project Completion Date: 12/31/20	013 Initiating Function: CA Area 7 - PSF
Termination Report Due Date:9/30/	2014	MACS Identified Workload?	
NAICS Code: NA Project Code:	0539 Uniform Issue		Tracking Code (if applicable): TBD
		Acres and a second second	5 1 11
Contact Person: (Coordinator)	Abbott Wang (Name)		19-389-4242 ne Number)
Form Type:			
Which one of your Operating Division's	"Strategies" does this C	IP support? (See instructions)	
Enforcing the tax law to ensure eve			
If none, please justify			
REVIEW and CONCURRENCE: (S	ee instructions for each Op	erating Division)	and the second second
PSP Section Chief	Brad Puskas	Digitally signed by Brat Postas Chi, ch-duad Pastas Date: 2012;07:26:17:24:14-07:30	July 26, 2012
Title		P Manager Section #5	Date
Acting PSP Territory Manager	Susan Braunz	The count of the second	July 27, 2012
Title	S	Signature	Date
Director, California Exam	channes & Route	Departs in the second process of the second	July 27, 2012
Title	5	Signature	Date
HQ CIP Analyst	1XKFB	Digitally righted by 100 B Different 2006 B, email: Annu-Differentiation denisation Differ: 2012/08/21 08:10:52 - 04:001	
Title	5	Underland Bignaturesigned by V7YCB	Date
acting Prog. Mgr. ERS	V7YCB	DN: cn=V7YCB, enall=Joan E Thill@is- .gov Date: 2012.05.20 10:11:47 -04:00*	8-20-2012
Title	Deg Marie A Twaro	LaCour Digitally signed by Marie A Twarog Digitally Signed by Marie A Twarog, c=US Date: 2012.08.27 08:42:56 -04'00'	Date
HQ Disclosure			8/27/2012
Title		ie Twarog Signature	Date
Title	5	Signature	Date
Title	5	Signature	Date
Title	S	Signature	Date
	Raren M. Schiller	ard a copy to each respective Oper DH: cn=N8XFE, vmail=Karen M.Schiller@ins.	rating Division's CIP Program Analyst)
Director, EPD Title	Karen	M. Schiller	Date
	S	Signature	-12.318
Tilla			Date
Title	5	Signature	Date

ct Name:	Medical Marijuana Establishments - IRC Section	280E
CROSS-DIVISIONAL CIP:		
Title	Signature	Date
Title	Signature	Date
	PART TWO - EXTENSION	
EXTENSION OF TIME:		
1st Extension		
Extension Date	-	
Title	Signature	Date
Concurrence:		
Title	Signature	Date
2nd Extension		
Extension Date		
Title	Signature	Date
Concurrence:		
Title	Signature	Date
3rd Extension		
Extension Date		
Title	Signature	Date
Concurrence:		
Title	Signature	Date

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If SB/SE - Campus:

Program Manager, Workload Selection and Delivery Disclosure Officer CIP Headquarter Analyst

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For Approval section.

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If SB/SE Campus Compliance:

Director of Campus Reporting Compliance Director, Exam Planning & Delivery

If LMSB:

Operations Planning & Support Senior Manager, Planning, Quality, Analysis & Support

If SB/SE - CLD:

Director of Planning, Quality, Analysis & Support

If W&I:

Director, Reporting Compliance.

Note: For LMSB, the CIP must be presented to the CIP Oversight Committee.

For Extension Approvals section. If <u>SB:/SE</u> : <u>6 months or less</u> Compliance:	<u>6 months or more</u> <u>Compliance</u> : PSP Area Support Manager Director, of Exam Planning & Delivery
PSP Area Support Manager (Forward a copy to Headquarters CIP Program Analyst) Campus: Program Manager Workload Selection and Delivery Workload Planning & Analysis Program Manager CLD: CLD Area Director	Campus: Field Director, Compliance Services or delegate Service Center Exam Program Manager Workload Planning & Analysis Program Manager Headquarters CIP Program Analyst Director, of Campus Reporting Compliance Director, of Exam Planning & Delivery CLD: CLD Area Director Director, of Exam Planning & Delivery
If <u>LMSB</u> : Operations Planning & Support Senior Manager; Planning, Quality, Analysis & Support Director of Planning, Quality, Analysis & Support	If <u>W&I:</u> Chief, Strategy and Selection or delegate
Note: For LMSB, the CIP must be presented to the CIP Oversight (orm 13498 (Rev. 04-2009) Catalog Number 37558B Sheet	energia de la companya de la company No serve de la companya de la company

§ 6103

COMPLIANCE INITIATIVE PROJECT AUTHORIZATION PART TWO - NARRATIVE

Project Name

Medical Marijuana Establishments - IRC Section 280E

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(b)(7)(E)

B. MARKET SEGMENT: Define the market segment. If a market segment is not predefined, provide a detailed description of the taxpayer group from which the market segment will be identified.

There is a high likelihood that a good deal of the 400+ "Medical Marijuana" stores are non-filers and/or are not reporting there sales. Additionally, those who do file are probably deducting Other Business Expenses in contravention to IRC Sec 280E and 128 T.C. 173 Californians Helping to Alleviate Medical Problems, Inc. v. C.I.R. (2007).

Additionally, if the seller is not growing the "Medical Marijuana", they must be buying from a grower. There is a good probability that the grower is a non-filer or under-reporting gross sales. If they are reporting the business, it is very likely they are probably deducting Cost of Goods Sold in contravention to IRC Sec. 280E and 128 T.C. 173 Californians Helping to Alleviate Medical Problems, Inc. v. C.I.R. (2007). If the distributor is also a grower/farmer, no COGS is allowed. The cultivating activities would need to be reported on Schedule F. All the expenses incurred to grow the cannabis on Schedule F would be other expenses that would be disallowed per IRC 280E.

(b)(3):26 U.S.C. § 6103

Department of the Treasury - Internal Revenue Service

Compliance Initiative Project Termination Report

Function/[Divisio	on
------------	---------	----

Area/Industry	Requesting Function					
Southwest Area 207	Pla	Planning and Special Programs - Compliance Initiative Project				
Project Name	Pro	roject Number (optional)		Termina	Termination Date	
Medical Marijuana Establishments	- 053	39 (Tracking Coc	le 0502)	June 30	, 2015	4
Project Results (A)				/		
Number of returns examined	30	128				13
Number of returns no-changed	4	4	None			None
Number of returns surveyed	None	None	None	Sec. Com		None
Average time per return	20.8 Hou	irs 37.9 Hours		(b)(3):26 U.S \$ 6103	C.	4.4 Hour
Avg. deficiency or adjustment (1120S, 1065)	\$675 / Ho	our \$2,788/Hour		30105		\$756 / Hor
Other results:						
1. No-Change Rate	13.3%	3.1%	0.0 %			0.0 %
2. Pick-Up Rate	100.0%	42.2%	100.0%			100.0%
3. Cycle Time	293 Days	s 379 Days	165 Days			185 Days
Number of referrals to Criminal Investigation	None	None	None			None
rumber of referrais to offining investigation		rione				and the second sec
Number of joint investigations from such referrals	None	None	None	(b)(7)(E)		None
Number of joint investigations from such referrals Was noncompliance addressed? Explain. Yes. This project was extended to Part II. Part I and the SBSE. DIF average of \$686 per hour SBSE. DIF average of 28.5%. The nharijuana expenses. All returns, except seventy-for Did the results of the project justify the time and resord Yes. Minimal time and resources were spent on this	d Part II r. Furtherm red r of the ources spent s project as	None examin nore, the project's ceived valuable e eturns, t? Explain. the workload wa	ations resulted sr education rega were related p s identified by	in \$2,788 p to-change rat rding non-de tick-ups.	e of 3.1% is ductible mee	ch is above better than dical (b)(7)(n Part I
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Signature: Hannah Lee 2016.03.07 12:02:33 -08'00'	Telephone Number: (213) 576-3991 Date:	
Title: PSP Section Chief		
Signature:	Telephone Number: (213) 576-3669	
Title: PSP Territory Manager	Date: 03/16/2016	
Signature: Chris Simmons	Telephone Number:	
Title: Senior Program Analyst	Date: 3/21/2016	
	2016.03.07 12:02:33 -08'00' Title: PSP Section Chief Signature: Title: PSP Territory Manager Signature: Chris Simmons Title: Senior Program Manager Distance Program Alexandrem	

Instructions for Termination Report

Compliance Initiative Projects should be terminated prior to the authorized completion date when any of the following conditions have been met:

- · Noncompliance has been addressed
- · Results don't justify time spent
- · Resources are no longer available
- · Other circumstances indicate that the project is no longer viable

A termination report must be submitted when substantially all cases have closed but no later than 6 months after the project completion date including extensions.

Project Approving Official

For SB/SE Compliance:	Area Director/Director of Exam Planning and Delivery if headquarters CIP PSP Area Support Manager
For SB/SE Campus:	Field Director, Compliance Services or Delegate Director of Reporting Compliance
For SB/SE CLD:	CLD Area Director PSP Area Support Manager

For all SB/SE Project Terminations, a copy of the termination report should be sent to the Headquarters CIP Program Analyst.

- For LMSB: Industry/Headquarter Director Operations Support Manager, Strategy Research and Program Planning
- For W&I: Chief, Discretionary Examination

perating Division / Area / dustry/Compliance Center:SE ermination Report Due Date:09/15/201 AICS Code: Project Code:17 ontact Person: Shar	78 Uniform Issue Code: ron P Ryan (Name) ategies" does this CIP support? (See inst cluding Under reporting and Non-filers -	Initiating Function:PSP orkload? X YesNo ERCS Tracking Code (<i>if applicable</i>): 303-603-4810 (<i>Phone Number</i>) tructions) 6/14/2011	(b)(7)
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dustry/Compliance Center:SE ermination Report Due Date:09/15/201 AICS Code:Project Code:017 ontact Person:Shar coordinator) form Type:Shar coordinator) form Type:Shar corease compliance among SBSE Taxpayers incompliance among SBSE Taxp	3 CDE Identified Wo 78 Uniform Issue Code: 78 Uniform Issue Code: 79 (See inst 70 P Ryan 78 (Name) 79 (See inst 70 Cluding Under reporting and Non-filers - 79 (See inst 70 Cluding Under reporting and Non-filers - 70 Cluding Under Report	orkload? X Yes No ERCS Tracking Code (if applicable): 303-603-4810 (Phone Number) tructions) 6/14/2011	(b)(7
ermination Report Due Date: 09/15/201 AICS Code: Project Code: 01 Contact Person: Share Coordinator) Form Type: Chich one of your Operating Division's "Stratements compliance among SBSE Taxpayers inconce, please justify EVIEW and CONCURRENCE: (See in PSP Section Chief Title	3 CDE Identified Wo 78 Uniform Issue Code: 78 Uniform Issue Code: 79 (See inst 70 P Ryan 78 (Name) 79 (See inst 70 Cluding Under reporting and Non-filers - 79 (See inst 70 Cluding Under reporting and Non-filers - 70 Cluding Under Report	orkload? X Yes No ERCS Tracking Code (if applicable): 303-603-4810 (Phone Number) tructions) 6/14/2011	(b)(7)
AICS Code: Project Code:017 ontact Person: Shar boordinator) form Type: Thich one of your Operating Division's "Stra norease compliance among SBSE Taxpayers inc none, please justify EVIEW and CONCURRENCE: (See in PSP Section Chief Title	78 Uniform Issue Code:	ERCS Tracking Code (if applicable): 303-603-4810 (Phone Number) tructions) 6/14/2011	(b)(7)
Coordinator) Corm Type: Chich one of your Operating Division's "Strance among SBSE Taxpayers income, please justify CEVIEW and CONCURRENCE: (See in PSP Section Chief Title	(Name) ategies" does this CIP support? (See inst cluding Under reporting and Non-filers - structions for each Operating Division) Robert D. Brewer	(Phone Number) tructions) 6/14/2011	(b)(7)
hich one of your Operating Division's "Stra norease compliance among SBSE Taxpayers ind none, please justify EVIEW and CONCURRENCE: (See in PSP Section Chief Title	structions for each Operating Division) Robert D. Brewer	6/14/2011	
norease compliance among SBSE Taxpayers ind none, please justify EVIEW and CONCURRENCE: (See in PSP Section Chief Title	structions for each Operating Division) Robert D. Brewer	6/14/2011	
none, please justify EVIEW and CONCURRENCE: (See in PSP Section Chief Title	structions for each Operating Division) Robert D. Brewer Structure and Structure Structure and Struc		_
EVIEW and CONCURRENCE: (See in PSP Section Chief Title	Robert D. Brewer Management and State		-
PSP Section Chief Title	Robert D. Brewer Management and State		
Title	Signature		
and a second second day of an	SI JFB Signature av signed by SLIFA		
Acting, Disclosure Manager		Date	
	Date: 2011.07.12 13:31:48:06/0	7/12/2011	
Title	Signature speed by Debise Lyon	Date	
HQ CIP Analyst	Signature aged by Detector on the Signature Si	7/14/2011	
Títle	Signature	Date	
Title	Signature	Date	
Title	Signature	Date	
Title		Date	
	Signature	Constant Children City Constant	
PSP Territory Manager	Ken Cooper	Dective Operating Division's CIP Program Analyst) 06/15/2011	
Title	Signature	Date	
	PART ONE - EXTENSION		
ROJECT EXTENSION*: Extensio PPROVALS (See instructions for each Opera XTENSION 6 MONTHS OR LESS: Information copy to HQ CIP Program Analyst)			
Title	Signature	Date	
Title XTENSION EXCEEDING 6 MONTHS:	Signature	Date	
Title	Signature	Date	
Title (Attach explanation why extension is required.)	Signature	Date	
rm 13502 (Rev. 04-2009) Catalog Nu	umber 37596P Sheet 1	Department of the Treasury - Internal Revenue S	ervice

PART ONE - Instructions

For your Operating	Division's	"Strategies"	refer to the	respective web	site links below:	

<u>SB/SE</u> Strategies - <u>http://sbse.web.irs.gov/srpm/</u> <u>LMSB</u> Strategies - <u>http://lmsb.irs.gov/initiatives/initiatives.htm</u> <u>W&I</u> Strategies - <u>http://win.web.irs.gov/strategy.htm</u>

Insert the titles and corresponding names for your division on the title line and under the signature line. The person then **must sign and date** the form.

Under Review and Concur	rence section	
If SB/SE - Compliance:	If SB/SE - Campus:	If SB/SE - CLD:
CLD Stakeholder Liaison Disclosure Officer Other Affected Functions	Program Manager Workload Selection & Delivery Disclosure Officer CIP Headquarter Analyst	CLD Stakeholder Liaison Disclosure Officer Other Affected Functions PSP Territory Manager
	ters function (other than EPD), it will be reviewed for c the Director, of Exam Planning & Delivery.	oncurrence by the Functional
If LMSB:		If W&I:
Team Manager		Disclosure Officer

Headquarters Analyst

i calli Mallagei
Territory Manager
Applicable Director of Field Operation
Disclosure Officer
Designated CIP Headquarter/Industry Analyst or the PSP for Foreign
Residence Compliance
LMSB CIP Analyst

If the CIP originates in a headquarter office (including Field Specialists) then the CIP must be presented to the CIP Oversight Committee.

For Approval Section	If <u>SB/SE - (</u> Director, Reportin Exam Planning &	g Compliance	If <u>SB/SE - CLD</u> : CLD Area Director
PSP Territory Manager		a man a start a start at the	, Reporting Compliance or delegate.
If LMSB:		proved by the Director	If W&I:
Operations Planning & Suppor Support	Manager; Planning, Qual	ity, Analysis & Chie	f, Strategy and Selection or delegate
For Extension Approvals see	ction		
If <u>SB/SE:</u>		<u>6 months or mon</u> Compliance:	re
6 months or less		PSP Territory M	lanagor
Compliance:			m Planning & Delivery
PSP Territory Manager		Campus:	ant lanning a Denvery
Campus Program Manager Workload Se Workload Planning & Analysis I CLD:		Field Director, C Service Center Workload Plann Headquarters C Director, of Can	Compliance Services or delegate Exam Program Manager ning & Analysis Program Manager CIP Program Analyst npus Reporting Compliance
			m Planning & Delivery
CLD Area Director		CLD Area Direc Director, of Exa	tor m Planning & Delivery
If LMSB:			lf W&I:
Director of Field Operations/Director Operations Planning & Support N			
Forward a copy of all Extensions	to the SB/SE CIP Program	n Analyst.	

COMPLIANCE INITIATIVE PROJECT AUTHORIZATION PART ONE - NARRATIVE

	Project Name	Medical Marijuana
	State issues, how identified, and in	BJECTIVES: Provide information that will be useful for a better understanding of the proposed project. mpact on compliance. Describe sources used to determine duplicate or similar projects, either open or ect fit into one of your division's operating strategies? State project objective(s) and expected results.
	passed laws related to the use this industry are flourishing in t	(Cannabis) is a controlled substance. Currently nine (9) of twelve (12) Western Area states have , possession and cultivation of marijuana (cannabis) for medicinal purposes. Businesses related to hese states. The licensing/registration requirements vary from state to state. The marijuana marke \$120 billion, the largest cash crop in the country. This is a very cash intensive industry.
	SEC. 280E. EXPENDITURES	IN CONNECTION WITH THE ILLEGAL SALE OF DRUGS.
(b)(7)(E)	if such trade or business (or th	allowed for any amount paid or incurred during the taxable year in carrying on any trade or busines e activities which comprise such trade or business) consists of trafficking in controlled substances e I and II of the Controlled Substances Act) which is prohibited by Federal law or the law of any usiness is conducted.
	determine compliance with rep	that report income/expenses related to the eparation/infusion, dispensing/selling, and prescribing of medicinal marijuana. The examinations with orting all gross receipts, including cash, using direct and/or indirect methods. Further, the empliance of reporting under section 280E, which restricts the deduction of expenses.
		atabase revealed a similar project in California. However there are not any project results available ustify the pursuit of this project. General industry research/information and state regulating/licensing e Western Area.
(b)(7)(E)	and the for the part of the pa	will be limited to fifty (50) taxpayer contacts
	B. MARKET SEGMENT: De taxpayer group from which the ma	fine the market segment. If a market segment is not predefined, provide a detailed description of the arket segment will be identified.
(b)(7)(E)	The NAICS codes used for	reporting purposes vary within the industry and have not yet been identified.
	The businesses that have t	been identified as being related to this industry include:



COMPLIANCE INITIATIVE PROJECT AUTHORIZATION PART ONE - NARRATIVE (Continuation)

(b)(7)(E) Project Name

Medical Marijuana

C. DATA: Identify data needed for the project and the source and an assessment of its accuracy. For external data, include expected delivery date(s), delivery media, amount of time the data will be held, method of storing/maintaining and ultimate destruction/disposition.



CDE data with appropriate filters will be utilized to identify inventory for this project. IDRS and other internal resources will be used as needed. The identified CDE population will be evaluated for examination potential and classified. PSP staff will be responsible for the requisition of returns.

All CDE filters and requests will be associated with the administrative file and destroyed in accordance with the normal retention schedules. All other internal data secured for this project, such as IDRS, will be retained according to normal retention schedules or destroyed upon completion or termination of the project, whichever comes first. No external data is anticipated for this project.

D. <u>TIME FRAMES / ACTION PLAN</u>: List the tasks necessary to complete the project, estimated time to accomplish each task and the projected task completion dates. Action plan dates should be consistent with the final project completion date.

Responsible Party	Action Plan	Completion Date
PSP Staff	Complete CIP and route for approval	06/30/2011
PSP Staff	External Information/Data Requests	08/31/2011
PSP Staff	CDE research to identify inventory order returns and classify inventory	10/31/2011
SBSE Compliance	Examination of Returns	12/31/2012
PSP Staff	Monitoring	Ongoing



Compliance Initiative Project Termination Report

Function/Division	n
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(b)(7)(

SBSE - Western Area PSP - Compliance Field Examination

Western Area PSP		Wester	n Area PSP	tion			10.171
Project Name (b)(3):26 U.S.C. §			Western Area PSP (b)(7 Project Number (optional) Termination Date 0178 9/30/2014				
Project Results (A)							
Number of returns examined	67			16	10		9
Number of returns no-changed	4.1			-	0		0
Number of returns surveyed	8						
Average time per return	13			62.3	67.7		1.9
Avg. deficiency or adjustment (1120S, 1065)	\$15,7	781		\$0	\$0		\$1,814
Other results:		· · · ·					
1. \$/Hour	\$1,21	1		\$0	\$0		\$961
2. % No change	6.1%			6.3%	0%		0%
% Related Pickup	86.7%	Va		43.7%	50%		100%
Number of referrals to Criminal Investigation	4			3		(p)(3):26 U.S.C.	
Number of joint investigations from such referrals						\$ 6103	
The project focused on the examination of returns, cultivation/growing, product preparation/infusion, of Internal Revenue Code states that no expenses will consists of trafficking in controlled substances. No	dispensi be allow	wed duri	ng and prese ng a tax yea	cribing of m ir in carryin	edicinal mar g on any trac	s related to the ijuana. Section 2 le or business if the had taken expens	he trade
Did the results of the project justify the time and results	aurces s	spent? F	xplain				es on men
Did the results of the project justify the time and results for the project re	fe cycle no chan axes. R	e of the p ige rate c elated pi	oroject ende of only 6.1%	o for	eturns, 6 86.7% for	returns.	returns The cycle

Feedback reports received from examiners did not identify any successful procedures or audit techniques.

Project Coordinator: (Printed Name)	Signature: F3RDB Dearby spectry 1900 Decor/1900 Tearby State	Telephone Number: 303-603-4836	
Susan K Wilson	Title: PSP CIP Coordinator	Date: 9/29/2014	
Project Approving Official: (Printed Name)	Signature: 26GLB	Telephone Number: 303-603-4736	
Christal Laybourne	Title: Acting PSP Section Chief	Date: 10/1/2014	
Project Approving Official: (Printed Name)	Signature: Tommy D. McDonald	Telephone Number: 303-603-4703	
Lois E Deitrich	Title: PSP Territory Manager	Date: 10/01/2014	

C.

Instructions for Termination Report

Compliance Initiative Projects should be terminated prior to the authorized completion date when any of the following conditions have been met:

- · Noncompliance has been addressed
- · Results don't justify time spent
- · Resources are no longer available
- · Other circumstances indicate that the project is no longer viable

A termination report must be submitted when substantially all cases have closed but no later than 6 months after the project completion date including extensions.

Project Approving Official

For SB/SE Compliance:	Area Director/Director of Exam Planning and Delivery if headquarters CIP PSP Area Support Manager
For SB/SE Campus:	Field Director, Compliance Services or Delegate Director of Reporting Compliance
For SB/SE CLD:	CLD Area Director PSP Area Support Manager

For all SB/SE Project Terminations, a copy of the termination report should be sent to the Headquarters CIP Program Analyst.

- For LMSB: Industry/Headquarter Director Operations Support Manager, Strategy Research and Program Planning
- For W&I: Chief, Discretionary Examination



		T ONE		
Project Name:	Section 280E Ex	penses - Marijuana E	Businesses	
	eletion Date: 12/31/20			
Operating Division / Area / ndustry/Compliance Center:S	BSE Western Area Ex	xam	1	DCD
			Initiating Function: ad? Yes X No	FOF
Fermination Report Due Date: 6/30/20				ablat
NAICS Code: Project Code:	C D D D D D D D D D D D D D D D D D D D			abie)
Contact Person:	(Name)		(435) 634-5566 (Phone Number) (b)(7)(E)	In a series part of
Form Type:				(b)(7)(E)
Which one of your Operating Division's "S				
Increase compliance among SBSE ta	xpayers including unde	er reporting and non-	filers -	
f none, please justify				
REVIEW and CONCURRENCE: (See	instructions for each Operat	ting Division)		
PSP Territory Manager		(An international second secon	2/9/2016 Date	-
Title	Signa	ature	Date	
Disclosure Officer				-
Title	Signa	ature	Date	
Title			Date	
The	Signa	ature	Date	
Title			Date	
	Signa	ature		
Title	-		Date	
	Sign	ature		
Title	Cian	ature	Date	
Approval: (See instructions for each Ope			Operating Division's CIP Progr	am Analvst)
Acting Area Director	the rest of the second s	Digitally signed by kinkin Born. Dis. co-studiet Born, as-2005 Western Area Dawn.		Contraction of the
Title	Kristin L. Bonn Signat	un Partinet Ferdine. and Middel Bonneletiger, 1435 Date 2016/02/2011/24-46 (00/07) ULFR	Date	
		EXTENSION		
PROJECT EXTENSION*: 06/3	0/2017			
Extens	ion Date			
APPROVALS (See instructions for each Ope	rating Division)			
EXTENSION 6 MONTHS OR LESS: Information copy to HQ CIP Program Analyst)	Guadalupe N.	Eighthicigned to Sustained K (96) DK colds and S Gammand, an Oraclevel at the		
Area Director, Western Area	Ortiz	Treasure purchases a demonstrative provide montheader, second Number 1988 (1), cm Calabit year N. 2094 Directory 1991 (2), 19, 19, 49, 19, 19700	· · · · · · · · · · · · · · · · · · ·	
Title	Signa	ature	Date	
Tale	0. 1			
	Sign	ature	Date	
EXTENSION EXCEEDING 6 MONTHS:				
Title	Signa	ature	Date	-
	Signa	ator C		
Title	0	ature .	Date	
(Attach explanation why extension is required.) Signa			

For your Operating	Division's "Strateg	ies" refer to	the resp	pective we	eb site links below:
	<u>SB/SE</u> Strategies - <u>htt</u> <u>LMSB</u> Strategies - <u>http</u> <u>W&I</u> Strategies - <u>http:/</u>	o://Imsb.irs.go	v/initiative	s/initiatives	.htm
Insert the titles and correspo then must sign and date th		division on th	e title line i	and under t	the signature line. The person
Under Review and Conc	urrence section				1
If <u>SB/SE - Compliance</u> : CLD Stakeholder Liaison Disclosure Officer Other Affected Functions	Program Manage Disclosure Office	r		Delivery	If <u>SB/SE - CLD</u> : CLD Stakeholder Liaison Disclosure Officer Other Affected Functions PSP Territory Manager
If CIP originates in a headque Director. Final Approval will					oncurrence by the Functional
If LMSB:					If <u>W&I</u> :
Team Manager Territory Manager Applicable Director of Fiel Disclosure Officer Designated CIP Headquar Residence Compliance LMSB CIP Analyst		the PSP for	Foreign		Disclosure Officer Headquarters Analyst
If the CIP originates in a hea Oversight Committee.	dquarter office (includi	ing Field Spe	cialists) the	en the CIP	must be presented to the CIP
For Approval Section	If s	SB/SE - Cam	pus:		If SB/SE - CLD:
If <u>SB/SE - Compliance</u> : PSP Territory Manager	Director,	Reporting Co anning & Deliv	mpliance		CLD Area Director
If the CIP originates in a hea	dquarters function, it w	vill be approv	ed by the I	Director, Re	porting Compliance or delegate.
If LMSB:					If <u>W&I</u> :
Operations Planning & Su Support	pport Manager; Planni	ing, Quality, A	Analysis &	Chief, St	trategy and Selection or delegate
For Extension Approval	s section		6 months		
If <u>SB/SE:</u>			6 months Complian		
<u>6 months or less</u> Compliance:				mitory Mana	ager
PSP Territory Manager					Planning & Delivery
Campus: Program Manager Workloa Workload Planning & Anal		ery	Service Workloa Headqu Director	Center Exa d Planning arters CIP I of Campu	npliance Services or delegate am Program Manager & Analysis Program Manager Program Analyst s Reporting Compliance Planning & Delivery
CLD Area Director			CLD:		anning a convery
222 1-111 0 2 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1			CLD Are	ea Director	Planning & Delivery
If LMSB:					If W&I:
Director of Field Operations/ Operations Planning & Supp					Chief, Strategy and Selection or delegate
Forward a copy of all Extens	ions to the SB/SE CIP	Program Ana	alyst.		
m 13502 (Rev. 04-2009)	Catalog Number 37596P	Sheet 2	De	epartment of th	he Treasury — Internal Revenue Service
		(b)(3):26 § 6103	U.S.C.		
		1			

COMPLIANCE INITIATIVE PROJECT AUTHORIZATION PART ONE - NARRATIVE

Project Name

Section 280E Expenses - Marijuana Businesses

A. BACKGROUND and OBJECTIVES: Provide information that will be useful for a better understanding of the proposed project. State issues, how identified, and impact on compliance. Describe sources used to determine duplicate or similar projects, either open or closed, and results. Does this project fit into one of your division's operating strategies? State project objective(s) and expected results.

Under Federal law, marijuana (Cannabis) is a controlled substance and subject to deduction restrictions under section 280E, IRC. However, Colorado has passed legislation allowing cultivation, sales and possession of both medical and recreational marijuana. In 2014, 74 tons of marijuana flower were sold in Colorado, of which 19 tons were sold as "recreational." The Colorado marijuana industry has created approximately 16,000 jobs since it has become legalized. Even though Colorado law allows both medical and recreational use of marijuana, it still remains a very cash intensive industry.

Section 280E, IRC states there is no deduction or credits allowed for any amount paid or incurred during the taxable year in carrying on any trade or business if such trade or business consists of trafficking in controlled substances (within the meaning of schedule I or II of the Controlled Substances Act) which is prohibited by Federal law or the law of any State in which such trade or business is conducted. Therefore, all operating expenses associated with the marijuana industry should be disallowed.

Even though Colorado law mandates strict regulations and licensing of this industry, preliminary search shows a high number of Federal non-filers. Another compliance concern is the accurate reporting of gross income. Because the industry is so cash intensive, the likelihood of an understatement is high.

There has been prior CIP projects on this issue. However, there is no project results that would either justify or not justify the pursuit of this latest project.

As a Part 1 CIP the project will be limited to thirty taxnaver contacts

B. <u>MARKET SEGMENT</u>: Define the market segment. If a market segment is not predefined, provide a detailed description of the taxpayer group from which the market segment will be identified.

There is no NAICS code for this industry. The Colorado Department of Revenue does publish all licensed stores, cultivators (growers) and suppliers of infused products (edibles).

(b)(7)(E)

(b)(3):26 U.S.C.§

6103

(b)(7)

COMPLIANCE INITIATIVE PROJECT AUTHORIZATION PART ONE - NARRATIVE (Continuation)

Project	Name
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Section 280E Expenses - Marijuana Businesses

C. DATA: Identify data needed for the project and the source and an assessment of its accuracy. For external data, include expected delivery date(s), delivery media, amount of time the data will be held, method of storing/maintaining and ultimate destruction/disposition.

(b)(7)(E) The Colorado Department of Revenue posts online list of licensed marijuana dispensaries and retail centers. Even though the data is from an external source, it is a public access. The data lists the business name, address and license number but no Federal tax ID. One business location can have more than one license, i.e. medical dispensary and recreational retail store.

Since there is no specific NAICS code for this industry, CDE will not be utilized to identify the inventory. IDRS and other internal resources will be used instead.

A training classes for section 280E expenditures is being organized for the end of March 2016. Case inventory is needed for these trained revenue agents.

D. <u>TIME FRAMES / ACTION PLAN</u>: List the tasks necessary to complete the project, estimated time to accomplish each task and the projected task completion dates. Action plan dates should be consistent with the final project completion date.

RESPONSIBLE PARTY	ACTION PLAN	COMPLETION DATE
PSP Staff	Complete CIP and route for approval	01/15/2016
PSP Staff	External information/Data requests	01/31/2016
PSP Staff	Inventory identification, order returns and classify inventory	02/28/2016
SBSE Compliance	Examination of returns	12/31/2016
PSP Staff	Monitoring	Ongoing

(b)(7)(E)



REVIEW and CONCURRENCE: (See instructions for each Operating Division) 2/9/2016 PSP Territory Manager Kenneth D. Cooper Title Signature Disclosure Officer Date Title Signature Date Date Title Signature Title Signature Date Date Title Signature Approval: (See instructions for each Operating Division and forward a copy to each respective Operating Division's CIP Program And Acting Area Director Title Signature Date PART ONE - EXTENSION Date PROJECT EXTENSION*: Extension Date APPROVALS (See instructions for each Operating Division) EXTENSION 6 MONTHS OR LESS: Information copy to HQ CIP Program An	
Operating Division / Area / Industry/Compliance Center: SBSE Western Area Exam Initiating Function: P Termination Report Due Date: 6/30/2017 MACS Identified Workload? Yes No MAIdS Code: Project Code: Uniform Issue Code: ERCS Tracking Code (if applicable) Coordinator Name) (Phone Number) (Phone Number) Coordinator Name) (Phone Number) (Phone Number) Form Type: (Name) (Phone Number) (Phone Number) Mich one of your Operating Division's "Strategies" does this CIP support? (See instructions) Increase compliance among SBSE taxpayers including under reporting and non-filers - If none, please justify REVIEW and CONCURRENCE: (See instructions for each Operating Division) 2/9/2016 PSP Territory Manager Kenneth D. Cooper Date Title Signature Date Disclosure Officer Date Date Title Signature Date PROYOAL <t< th=""><th></th></t<>	
Industry/Compliance Center:	
NALCS Code: Project Code: Uniform Issue Code: ERCS Tracking Code (if applicable) Contract Person: Jake Riley (435) 634-5566 Coordinatoriation (Name) (Phone Number) Form Type: (Name) (Phone Number) Form Type: (Name) (Phone Number) Form Type: (Name) (Phone Number) Mich one of your Operating Division's "Strategies" does this CIP support? (See instructions) Increase compliance among SBSE taxpayers including under reporting and non-filers - If none, please justify (See instructions for each Operating Division) 2/9/2016 PSP Territory Manager Kenneth D. Cooper 2/9/2016 Title Signature Date Disclosure Officer Date Date Title Signature Date Title Signature Date Title Signature Date Acting Area Director Kristifit I: Bornt 02/09/2016 Title Signature Date Signature Date Signature PAProval: (See instructions for each Operating Division and forward a copy to each respective Operating Division'S CIP Program Analys	(b)(
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(Information copy to HQ CIP Program Analyst) Title Date	
Signature	
Title Date	
EXTENSION EXCEEDING 6 MONTHS:	
Title Signature Date	
Title Date * (Attach explanation why extension is required.) Signature	

For your Operating Di	PART ONE -	refer to the respective w	eh site links below:
			ed site links below.
	3/SE Strategies - http://st	se.web.irs.gov/srpm/ isb.irs.gov/initiatives/initiatives	him
		web.irs.gov/strategy.htm	5.11(11)
Insert the titles and correspond then must sign and date the f		ion on the title line and under	the signature line. The person
Under Review and Concur			
If SB/SE - Compliance:		E - Campus:	If SB/SE - CLD:
CLD Stakeholder Liaison Disclosure Officer Other Affected Functions		orkload Selection & Delivery	CLD Stakeholder Liaison Disclosure Officer Other Affected Functions PSP Territory Manager
If CIP originates in a headquar Director. Final Approval will be			oncurrence by the Functional
If LMSB:			If <u>W&I</u> :
Team Manager Territory Manager Applicable Director of Field O Disclosure Officer Designated CIP Headquarte Residence Compliance	Same and the second	PSP for Foreign	Disclosure Officer Headquarters Analyst
LMSB CIP Analyst If the CIP originates in a headq Oversight Committee.	uarter office (including F	ield Specialists) then the CIP	must be presented to the CIP
For Approval Section	If SB/S	E - Campus:	If SB/SE - CLD:
If <u>SB/SE - Compliance</u> : PSP Territory Manager		orting Compliance	CLD Area Director
If the CIP originates in a headq	uarters function, it will be	approved by the Director, Re	eporting Compliance or delegate
If LMSB:			If W&I:
Operations Planning & Supp Support	oort Manager; Planning, C	Quality, Analysis & Chief, S	trategy and Selection or delegat
For Extension Approvals	section	C mantha an mara	
If <u>SB/SE:</u>		<u>6 months or more</u> Compliance:	
6 months or less		PSP Territory Man	ager
Compliance:			Planning & Delivery
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<u>Campus</u> Program Manager Workload Workload Planning & Analys		Field Director, Con Service Center Ex Workload Planning Headquarters CIP Director, of Campu	is Reporting Compliance
<u>CLD</u> :		Director, of Exam I	Planning & Delivery
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If LMSB:	•••••••••		If W&I:
Director of Field Operations/Dir Operations Planning & Support			Chief, Strategy and Selectio or delegate
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Forward a copy of all Extension	IS to the SB/SE CIP Prog	grann Anaryst.	
			he Treasury — Internal Revenue Servi

COMPLIANCE INITIATIVE PROJECT AUTHORIZATION PART ONE - NARRATIVE

Project Name

Section 280E Expenses - Marijuana Businesses

A. BACKGROUND and OBJECTIVES: Provide information that will be useful for a better understanding of the proposed project. State issues, how identified, and impact on compliance. Describe sources used to determine duplicate or similar projects, either open or closed, and results. Does this project fit into one of your division's operating strategies? State project objective(s) and expected results.

Under Federal law, marijuana (Cannabis) is a controlled substance and subject to deduction restrictions under section 280E, IRC. However, Colorado has passed legislation allowing cultivation, sales and possession of both medical and recreational marijuana. In 2014, 74 tons of marijuana flower were sold in Colorado, of which 19 tons were sold as "recreational." The Colorado marijuana industry has created approximately 16,000 jobs since it has become legalized. Even though Colorado law allows both medical and recreational use of marijuana, it still remains a very cash intensive industry.

Section 280E, IRC states there is no deduction or credits allowed for any amount paid or incurred during the taxable year in carrying on any trade or business if such trade or business consists of trafficking in controlled substances (within the meaning of schedule I or II of the Controlled Substances Act) which is prohibited by Federal law or the law of any State in which such trade or business is conducted. Therefore, all operating expenses associated with the marijuana industry should be disallowed.

Even though Colorado law mandates strict regulations and licensing of this industry, preliminary search shows a high number of Federal non-filers. Another compliance concern is the accurate reporting of gross income. Because the industry is so cash intensive, the likelihood of an understatement is high.

There has been prior CIP projects on this issue. However, there is no project results that would either justify or not justify the pursuit of this latest project.

As a Part 1 CIP the project will be limited to thirty taxpaver contacts

B. <u>MARKET SEGMENT</u>: Define the market segment. If a market segment is not predefined, provide a detailed description of the taxpayer group from which the market segment will be identified.
(b)(7)(E)

There is no NAICS code for this industry. The Colorado Department of Revenue does publish all licensed stores, cultivators (growers) and suppliers of infused products (edibles).

(b)(7)(E)

COMPLIANCE INITIATIVE PROJECT AUTHORIZATION PART ONE - NARRATIVE (Continuation)

Project Name

Section 280E Expenses - Marijuana Businesses

C. DATA: Identify data needed for the project and the source and an assessment of its accuracy. For external data, include expected delivery date(s), delivery media, amount of time the data will be held, method of storing/maintaining and ultimate destruction/disposition.

The Colorado Department of Revenue posts online list of licensed marijuana dispensaries and retail centers. Even though the data is from an external source, it is a public access. The data lists the business name, address and license number but no Federal tax ID. One business location can have more than one license, i.e. medical dispensary and recreational retail store.

(b)(7)(E)

Since there is no specific NAICS code for this industry, CDE will not be utilized to identify the inventory. IDRS and other internal resources will be used instead. The process begins with downloading the list of licensees from Colorado Department of Revenue.

A training classes for section 280E expenditures is being organized for the end of March 2016. Case inventory is needed for these trained revenue agents.

D. <u>TIME FRAMES / ACTION PLAN</u>: List the tasks necessary to complete the project, estimated time to accomplish each task and the projected task completion dates. Action plan dates should be consistent with the final project completion date.

RESPONSIBLE PARTY	ACTION PLAN	COMPLETION DATE
PSP Staff	Complete CIP and route for approval	01/15/2016
PSP Staff	External information/Data requests	01/31/2016
PSP Staff	Inventory identification, order returns and classify inventory	02/28/2016
SBSE Compliance	Examination of returns	12/31/2016
PSP Staff	Monitoring	Ongoing

	PART ONE	
Project Name:	Section 280E Expenses - M	larijuana Businesses
Date: 1/4/2016 Project Com	pletion Date: 12/31/2016	
Operating Division / Area / Industry/Compliance Center:	SBSE Western Area Exam	Initiating Function: PSP
	017 MACS Identif	fied Workload? 🗌 Yes 🛛 No
NAIOS Code: Project Code:	Uniform Issue Code:	ERCS Tracking Code (if applicable).
Contact Person:	Jake Riley	(435) 634-5566
(Coordinator)	(Name)	(Phone Number)
Form Type:		
Which one of your Operating Division's "S Increase compliance among SBSE ta		
If none, please justify	axpayers monuting under reporting	
REVIEW and CONCURRENCE: (See	e instructions for each Operating Division)	
PSP Territory Manager Title		Date
Disclosure Officer	Signature SWBBB Stream Contract of Stream	1 25 2010
Title	Law 20 Lat 1 and 1	1-25-2016 Date
	Signature	Date
Title	9	Date
	Signature	
Title	Simpling	Date
	Signature	
Title		Date
	Signature	
Title	Classification	Date
Approval: (See instructions for each Ope	Signature erating Division and forward a copy to each	n respective Operating Division's CIP Program Analyst)
Acting Area Director	ordang prodon and formale a copy to cau	
Title	Signature	Date
	PART ONE - EXTENSIO	N
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	sion Date	
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EXTENSION 6 MONTHS OR LESS: (Information copy to HQ CIP Program Analyst)		
Title	Signature	Date
Title	Signature	Date
EXTENSION EXCEEDING 6 MONTHS:		
Title	- Later and	Date
	Signature	
Title	-	Date
* (Attach explanation why extension is required	.) Signature	Date
Form 13502 (Rev. 04-2009) Catalog	Number 37596P Sheet 1	Department of the Treasury — Internal Revenue Servic

DART ONE Instructions

	PART ONE - Inst	ructions	
For your Operating D	ivision's "Strategies" refe	er to the respective w	eb site links below:
L	<u>B/SE</u> Strategies - <u>http://sbse.v</u> <u>MSB</u> Strategies - <u>http://lmsb.ir</u> /&I Strategies - <u>http://win.web</u>	rs.gov/initiatives/initiatives	s.htm
Insert the titles and correspon then must sign and date the		on the title line and under	the signature line. The person
Under Review and Concu	/ 10/ 85		- 1
If <u>SB/SE - Compliance</u> : CLD Stakeholder Liaison Disclosure Officer Other Affected Functions	If <u>SB/SE - C</u> Program Manager Worklo Disclosure Officer CIP Headquarter Analyst	ad Selection & Delivery	If <u>SB/SE - CLD</u> : CLD Stakeholder Liaison Disclosure Officer Other Affected Functions PSP Territory Manager
If CIP originates in a headquar Director. Final Approval will be			oncurrence by the Functional
If LMSB:			If <u>W&I</u> :
Team Manager Territory Manager Applicable Director of Field Disclosure Officer Designated CIP Headquarte Residence Compliance LMSB CIP Analyst	Operation er/Industry Analyst or the PSP	for Foreign	Disclosure Officer Headquarters Analyst
If the CIP originates in a head Oversight Committee.	quarter office (including Field	Specialists) then the CIP	must be presented to the CIP
For Approval Section If <u>SB/SE - Compliance</u> : PSP Territory Manager	If <u>SB/SE - C</u> Director, Reporting Exam Planning &	g Compliance	If <u>SB/SE - CLD</u> : CLD Area Director
			eporting Compliance or delegate
If <u>LMSB</u> :	port Manager; Planning, Quali		If <u>W&I</u> : strategy and Selection or delegate
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(b)(3):26 U.S.C. § 6103

COMPLIANCE INITIATIVE PROJECT AUTHORIZATION PART ONE - NARRATIVE

Project Name

Section 280E Expenses - Marijuana Businesses

A. <u>BACKGROUND and OBJECTIVES</u>: Provide information that will be useful for a better understanding of the proposed project. State issues, how identified, and impact on compliance. Describe sources used to determine duplicate or similar projects, either open or closed, and results. Does this project fit into one of your division's operating strategies? State project objective(s) and expected results.

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(b)(7)(E)

Form 13502 (Rev. 04-2009) Catalog Number 37596P Sheet 3 Department of the Treasury — Internal Revenue S	orm 13502 (Rev. 04-2009)	Catalog Number 37596P	Sheet 3	Department of the Treasury — Internal Revenue Se
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COMPLIANCE INITIATIVE PROJECT AUTHORIZATION PART ONE - NARRATIVE (Continuation)

Project Name

Section 280E Expenses - Marijuana Businesses

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SBSE Compliance	Examination of returns	12/31/2016
PSP Staff	Monitoring	Ongoing

(b)(3):26 U.S.C. § 6103 (b)(7)(E)

Page 162 to Page 165

Withheld pursuant to exemption

(b)(3):26 U.S.C. § 6103

of the Freedom of Information and Privacy Act

Compliance Initiative Project Termination Report

Function/Division SBSE-EXAM							
Area/Industry	10		_				
Western PSP	Requesting function Western PSP-CIP Coordinator (b)(7)			(b)(7)(E			
Project name Section 280E Expenses Marijuana Businesses	The Area Const	Project code Terminal			tion date		
Project Results	0102	0102					
Number of returns examined	103	13	29	35	T		
Number of returns no-changed	4	0	27	33	(b) 3).26 U.S.C. §	
Number of returns surveyed				10	61	103	
	0	0	0	0			
Average time per return	17.26	55	49	52.1			
Avg. deficiency or adj (1065, 1120s)	120,301	21,251,0	331,902	576,323			
Other results				_			
1.							
2.							
3.				1		Post of Post of State	
Number of referrals to CI							
Number of Joint Investigations from referrals				1			
Were the issues that created the CIP identified and adjusted	d in the examinations			1	X Yes	□ No	
If not, was there a common factor for the discrepancies? If yes, explain.					[] Yes	X No	
If not, was there anything learned from the CIP that woold lf yes, explain.	uld help to refine or in	prove the s	selection p	orocess?	Yes Yes	No No	
N/A							
Based on the results of the CIP to include feedback from ex addressed further by the Service? If yes, explain.	aminers, productivity,	etc., shoul	d this issu	e be	X Yes	No No	
Wide variety of expenses that are included in COGs that were detended to IRC 280e.	ermined to be non-dedu	ctible expen	ses as well	as expenses	deducted the	at were	
dentify the potential opportunities for the Service to address correspondence examinations, taxpayer/preparer education Expansion of CIP into national CIP as well as taxpayer/preparer e	, legislative changes,						
expansion of Cir monatonal Cir as wen as taxpayer/preparer e	ducation.						
Did the results of the project justify the time and resources s	spent? Explain.				X Yes	No No	
significant compliance issues were addressed based upon current	legislation, examination	results were	e substantia	l based upo	n time spent	on exams.	
Vhat difficulties were encountered and how were they resol					-		
Risk of targeting a specific industry that is high profile. Risk was on issues to maintain consistency in exams.	discussed and monitored	d via senior i	managemer	nt. Training	provided to	examiners	
form 13497 (Rev. 4-2018) Catalog Number 37557Q	publish.no.irs.gov	Departn	nent of the	Treasury - Ir	nternal Reve	enue Service	
	(b)(3):26 U.S.C	2.					
	§ 6103		_				

Describe successful procedures and/or audit techniques used

Developed training for examiners. Developed program specialist to review closed case. Held regular meeting with examiners. Council involved in developing exam guidelines.

Project Coordinator (printed name) Scott Mintken	Signature	Solution States	
	Title CIP Coordinator-Western	Date 6/20/2018	
Project Approving Official (printed name)	Signature Pegepy M. aucher	Telephone number 303 - 603 - 4736	
Peggy M. Archer	Title PSP Section Chief	Date 12/18	
Project Approving Official (printed name)	Signature	Telephone number	
Van Coopee	Title PSP TM	Date 7-2-2018	

Instructions for Form 13497, Compliance Initiative Project Termination Report IRM 4.17.4.7

Compliance Initiative Projects should be terminated prior to the authorized completion date when any of the following conditions have been met:

- Noncompliance has been addressed
- + Results do not justify time spent
- · Resources are no longer available
- Other circumstances indicate that the project is no longer viable

A termination report must be submitted when substantially all cases have closed but no later than 60 days after the project completion date including extensions.

Project Terminations reports should be sent to the Headquarters CIP Program Analyst.

Project Approving Official

The termination report will be prepared by the CIP coordinator and signed by the approver of the CIP outlined in <u>IRM 4.17.4.3.5</u> Review, Concurrence and Approval of Part One CIP Only or <u>IRM 4.17.4.4.4</u> Review, Concurrence and Approval Part Two Authorization Requests.

