STATE OF NEW YORK

10698

IN ASSEMBLY

March 20, 2026

Introduced by M. of A. DAIS -- read once and referred to the Committee on Economic Development

AN ACT to amend the cannabis law, in relation to prohibiting cannabis inversion and establishing penalties and whistleblower protections

The People of the State of New York, represented in Senate and Assembly, do enact as follows:

Section 1. This act shall be known and may be cited as the "cannabis supply chain integrity and anti-inversion act".

§ 2. Legislative findings and intent. The legislature finds that the integrity of New York state's regulated cannabis market depends on transparency, traceability, and lawful origin of cannabis and cannabis products offered for sale to consumers in New York. The introduction of illicit cannabis into the regulated supply chain, commonly known as "cannabis inversion," threatens consumer health, undermines public confidence, deprives the state of tax revenue, and disadvantages compliant licensees. It is the intent of the legislature to define cannabis inversion, prohibit such conduct, provide for meaningful penalties and license consequences, and establish accountability for responsible persons and laboratories.

§ 3. Subdivision 1 of section 136 of the cannabis law is amended to read as follows:

1. "Illicit cannabis" means and includes **(a)** any cannabis flower, concentrated cannabis and cannabis product on which any tax required to have been paid under any applicable state law, has not been paid. Illicit cannabis shall not include any cannabis lawfully possessed in accordance with this chapter or the penal law[~~.~~]**;**

(b) sourced cannabis or cannabis products from an unlicensed or unauthorized person or entity; or

(c) misrepresented geographic origin, cultivation site, or chain of custody of cannabis, cannabis products, or cannabis-derived materials.

§ 4. The cannabis law is amended by adding new section 125-a to read as follows:

§ 125-a. Cannabis inversion. "Cannabis inversion" means any act or omission involving illicit cannabis.

EXPLANATION--Matter in *italics* (underscored) is new; matter in brackets [-] is old law to be omitted.

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1. (a) No registrant, licensee, permittee, or laboratory testing facility, and no person acting on behalf of any such registrant, licensee, permittee, or laboratory testing facility, shall engage in cannabis inversion.

(b) A violation of this section shall constitute cause for discipline pursuant to section one hundred thirty-three of this article and any applicable regulations.

2. (a) In addition to any other penalty, the office may impose a civil penalty of not less than three times the retail value of the inverted cannabis or cannabis products involved in the violation, or two hundred fifty thousand dollars, whichever is greater.

(b) Inverted cannabis or cannabis products, and any proceeds directly derived therefrom, shall be subject to seizure, forfeiture, and destruction or other disposition as determined by the office in accordance with applicable law and regulation.

(c) Upon reasonable grounds to believe a violation occurred, the office may order immediate suspension pending investigation. Upon a finding that cannabis inversion was committed knowingly or recklessly, revocation shall be presumed to be the appropriate sanction, subject to any procedures and standards applicable under section one hundred thirty-three of this article.

(d) In addition to any other sanction, submission, use, or issuance of a fraudulent or materially unreliable certificate of analysis in furtherance of cannabis inversion shall constitute cause for permanent revocation of a laboratory testing permit and a civil penalty of not less than three times the retail value of the inverted cannabis involved in the violation, or two hundred fifty thousand dollars, whichever is greater.

(e) It shall constitute a violation of this section if any person listed in paragraph (a) of this subdivision:

(i) utilizes a fraudulent, misleading, or materially unreliable certificate of analysis;

(ii) falsifies or omits required inventory, testing, transfer, or tracking records;

(iii) sells, transfers, or offers for sale inverted cannabis products to any registrant, licensee, or permittee; or

(iv) sells, transfers, or offers for sale any products that violate the office's regulations on hemp products shall have the burden of proving that they have not knowingly engaged in inversion.

(f) For purposes of subdivision (e) of this section, the office shall presume that any cannabis, cannabis derivative, cannabis plant, or cannabis product where the complete chain of custody cannot be demonstrated is illicit cannabis. Where electronic inventory records are missing or inadequate to demonstrate the complete chain of custody, a licensee shall have the burden of proof and may present video or photographic evidence to be considered by the office to overcome the presumption that such product is illicit cannabis.

3. (a) For purposes of this section, "responsible person" means any principal officer, managing member, general partner, or other natural person who exercises operational control or managerial authority over the relevant licensed or permitted activity.

(b) Where the office finds that a responsible person knew or should have known of cannabis inversion and failed to take reasonable steps to prevent, stop, or report such conduct, such responsible person may be held jointly and severally liable for civil penalties imposed pursuant

to subdivision two of this section, in addition to any license discipline imposed on the entity.

§ 5. Subdivision 1 of section 138-a of the cannabis law, as added by section 20 of part UU of chapter 56 of the laws of 2023, is amended to read as follows:

1. order any person who is unlawfully cultivating, processing, distributing or selling cannabis, cannabis product, cannabinoid hemp or hemp extract product, or any product marketed or labeled as such in this state without obtaining the appropriate registration, license, or permit therefor, or engaging in **cannabis inversion or in** an indirect retail sale to cease such prohibited conduct;

§ 6. The cannabis law is amended by adding a new section 138-c to read as follows:

§ 138-c. Whistleblower protection; anti-retaliation. 1. No registrant, licensee, permittee, laboratory testing facility, or contractor thereof shall discharge, threaten, penalize, discipline, or otherwise retaliate against any employee or contractor because such employee or contractor, in good faith, reported or attempted to report suspected prohibitions and restrictions to the office, the board, or any law enforcement agency.

2. Retaliation in violation of this section shall constitute an independent violation subject to discipline and civil penalties pursuant to section one hundred thirty-three of this article and applicable regulations.

§ 7. Severability. If any clause, sentence, paragraph, subdivision, section or part of this act shall be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder thereof, but shall be confined in its operation to the clause, sentence, paragraph, subdivision, section or part thereof directly involved in the controversy in which such judgment shall have been rendered.

§ 8. This act shall take effect on the one hundred eightieth day after it shall have become a law. Effective immediately, the addition, amendment and/or repeal of any rule or regulation necessary for the implementation of this act on its effective date are authorized to be made and completed on or before such effective date.