STATE OF NEW YORK

10698--B

IN ASSEMBLY

March 20, 2026

Introduced by M. of A. DAIS, PEOPLES-STOKES, LUPARDO, ZACCARO, STIRPE, LEVENBERG, TAYLOR, STERN, CONRAD, McMAHON, KELLES, KASSAY, KAY, LUNSFORD, JACKSON, BURROUGHS, DAVILA, KIM, DE LOS SANTOS, STECK, ALVAREZ, LUCAS, SIMONE, O'PHARROW, VANEL, HEVESI, CHANDLER-WATERMAN, HOOKS, McDONOUGH -- read once and referred to the Committee on Economic Development -- committee discharged, bill amended, ordered reprinted as amended and recommitted to said committee -- again reported from said committee with amendments, ordered reprinted as amended and recommitted to said committee

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

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**;**

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

LBD14524-11-6

(b) cannabis or cannabis products sourced from a person or entity not licensed or authorized to engage in such practices under this chapter; or

(c) cannabis and cannabis products imported into New York state.

1-a. Illicit cannabis shall not include any cannabis lawfully possessed in accordance with this chapter or the penal law.

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

§ 125-a. Cannabis inversion. 1. "Cannabis inversion" means any act or omission involving illicit cannabis.

(a) This section shall apply to a registrant, licensee, permittee, or laboratory testing facility licensed or authorized under this chapter.

(b) 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 or the following acts:

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

(ii) falsify or omit required inventory, testing, transfer, tracking, or chain of custody records as required under this chapter or regulations promulgated thereto;

(iii) possess cannabis or cannabis products without valid records or documentation demonstrating the complete chain of custody in accordance with section seventy-eight of this chapter and the regulations promulgated thereto; or

(iv) sell, transfer, or offer for sale illicit cannabis or cannabis products to any registrant, licensee, or permittee.

(c) For purposes of subparagraph (iii) of paragraph (a) of this subdivision, 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 board to overcome the presumption that such product is illicit cannabis.

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

(b) Any violation of this section may be subject to a civil penalty of not more than ten thousand dollars for each day during which such violation continues and an additional civil penalty in an amount of no more than five times the revenue from the prohibited sale of illicit cannabis or, an amount of no more than three times the projected revenue for any illicit cannabis found in the possession of such person in violation of this section.

(c) Illicit cannabis or cannabis products shall be subject to seizure, forfeiture, and destruction in accordance with subdivision five of section one hundred thirty-two of this article and any regulation promulgated thereto.

3. (a) The office may submit a request to the board for the issuance of an order of suspension pending investigation against a registrant, licensee, permittee, or laboratory testing facility in accordance with the formal hearing and notice requirements in section seventeen of this chapter. The office shall provide with its request to the board: (i) the formal written finding by the office that there are reasonable grounds to believe the registrant, licensee, permittee, or laboratory testing facility is engaged in cannabis inversion and stating the rationale for

its finding; and (ii) documentation to support the written finding in subparagraph (i) of this paragraph.

(b) The office shall retain records of all requests to the board for the suspension of a license, permit or registration pending investigation under this section along with any written findings and documentation to support such findings in accordance with applicable law and regulations.

§ 5. Subdivision 2 of section 133 of the cannabis law is amended to read as follows:

2. There shall be a rebuttable presumption of revocation for the following causes:

(a) conviction of the registered organization, licensee, permittee or [~~his or her~~] their agent or employee for selling any illicit cannabis on the premises registered, licensed or permitted; [~~or~~]

(b) for transferring, assigning or hypothecating a registration, license or permit without prior written approval of the office[~~.~~]; or

(c) laboratory testing facility submission, use, or issuance of a fraudulent or materially unreliable certificate of analysis in furtherance of cannabis inversion.

§ 6. Subdivisions 3 and 8 of section 17 of the cannabis law, subdivision 3 as amended by section 6 and subdivision 8 as amended by section 8 of part G of chapter 55 of the laws of 2024, are amended to read as follows:

3. Notice and right of hearing as provided in the state administrative procedure act shall be served at least fifteen days prior to the date of the hearing, provided that, whenever because of danger to the public health, safety or welfare it appears prejudicial to the interests of the people of the state to delay action for fifteen days or with respect to a violation of subdivision one or one-a of section one hundred twenty-five of this chapter or with respect to a violation of section one hundred twenty-five-a of this chapter, the board may serve the respondent with an order requiring certain action, the cessation of certain activities, [~~or~~] the sealing of a premises immediately or within a specified period of less than fifteen days, or the temporary suspension of the license, permit or registration for a period of thirty days or less with respect to a request by the office for an order of suspension pending investigation for a violation of section one hundred twenty-five-a of this chapter, in accordance with the provisions of this chapter. Whenever a notice of violation or order has been served, including an order to seal, the respondent shall be provided an opportunity to request a hearing pursuant to the procedures established by the office and in accordance with the state administrative procedure act and the provisions of this chapter.

8. Following a hearing, the board may make appropriate determinations and issue a final order in accordance therewith; provided that if the board grants the office request for an order of suspension pending investigation for a violation of section one hundred twenty-five-a of this chapter, such order of suspension shall be limited to a period of thirty days. Any such order may include financial penalties as well as injunctive relief, including an order to seal a premises in accordance with section one hundred thirty-eight-b of this chapter. The respondent and the office shall have thirty days to submit a written appeal to the board. If any party fails to submit a written appeal within thirty days of the determination of the board the order shall be final.

§ 7. Subdivision 10 of section 17 of the cannabis law, as renumbered by section 7 of part G of chapter 55 of the laws of 2024, is renumbered subdivision 11 and a new subdivision 10 is added to read as follows:

10. (a) A registrant, licensee, permittee, or laboratory testing facility subject to an order of suspension pending investigation issued pursuant to subdivision eight of this section, shall have the right to request the board to review any final determination of the investigation conducted by the office.

(b) The board is prohibited from extending a suspension pending investigation beyond the thirty days set forth in subdivision eight of this section.

(c) The board is prohibited from issuing a subsequent suspension based on the same facts used in a prior issued order of suspension pending investigation.

(d) A registrant, licensee, permittee, or laboratory testing facility may only be found in violation of a suspension order after service of notice is effectuated in accordance with this section.

(e) This subdivision shall not be construed as to prevent the enforcement of any other penalty or remedy authorized by this chapter.

§ 8. 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;

§ 9. 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.

§ 10. 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.