

Boston Business Journal

Midsize accounting firms take lead in marijuana work

Apr 27, 2018, 5:27am EDT

Marijuana dispensaries need an accountant just like any other business. But some accounting firms are reluctant to bring on pot businesses as clients, afraid of the reputational repercussions or the drug's illegal status federally. The so-called Big Four firms, for instance, appear to be distancing themselves from pot.

In their place, a small group of accounting firms is emerging in Massachusetts as leading practitioners for the marijuana industry. They include a handful of national firms with Boston offices, like CohnReznick and **Marcum**, and midsize Massachusetts and regional firms, like AAFCPAs and Edelstein & Co.

Call them the Goldilocks firms, pot entrepreneurs: Big enough to be able to develop a dedicated practice to a legally complex business, small enough to be willing to take on a niche industry that still comes with risks.

In that way, accounting firms mirror their professional services brethren at law firms. Boston's biggest legal outfits aren't representing pot businesses (or if they are, they're keeping quiet about it). But some of the firms in the next size tier have started marijuana practices, such as Foley Hoag LLP and Burns & Levinson LLP.

Banks are another story. Only one Massachusetts bank, Century Bank, is known to take marijuana businesses as customers.

To partake or not to partake?

While pot is illegal at the federal level, Massachusetts regulators have given accounting firms clearance to work with the businesses. The state Board of Public Accountancy issued a statement in January 2017 saying it would not take action against a firm just because it works with legal marijuana businesses. The board maintained, however, that “disciplinary action may be taken... should a licensee be found guilty of a federal criminal act.”

Despite that assurance, some firms just say no to marijuana. Local accountants with marijuana clients said that, to the best of their knowledge, the Big Four — PricewaterhouseCoopers, Ernst & Young, Deloitte and KPMG — are not competing for the business. A PwC spokeswoman confirmed that firm does not work with cannabis companies. EY, Deloitte and KPMG did not immediately respond to the Business Journal.

A leader of one of the state's 15 largest accounting firms, who asked to remain anonymous in order to talk about internal firm deliberations, said the firm was unlikely to consider taking on pot businesses

unless the federal government legalizes the drug. "Our clients are transacting business across state lines. We made a commitment that we abide by all federal and state laws," the leader said.

For others, the state accounting board's statement last year was assurance enough. "As long as it's allowed by the state and the Massachusetts Society of CPAs, we have no problem doing their accounting;" said Michael Barbera, a principal at Edelstein, a Boston firm with just under 100 employees.

For firms that do marijuana work, getting into the business often required a long, serious and sometimes contentious conversation. "We had a tremendous debate;" said Marc Silverman of WithumSmith+Brown, a national firm with a Boston office of about 30 employees.

The firm's client acceptance committee researched industry groups' stance on the issue, but the conversation still hit on personal convictions, Silverman said. Withum's first potential pot client was a medical marijuana business. "Somebody was completely against it, and somebody else said if there are people that this helps, why would I stand in the way?" he said. Withum has now worked with both medical and recreational pot clients nationally, though it decides whether to take on a pot business on a case-by-case basis.

Westborough-based AAFCPAs decided that medical marijuana businesses were a natural extension of its expertise in health care companies and nonprofits, considering medical dispensaries were regulated by the state Department of Public Health, according to co-managing partner Dave McManus.

AAFCPAs has been working with medical marijuana business for five years. It would consider working with recreational-only firms "under the right circumstances," he said.

Some firms have marijuana clients but are cautious about embracing the industry wholeheartedly. For instance, KLR, the 16th-largest accounting firm in Massachusetts, had a few pre-existing clients that decided to enter the cannabis business, managing director Alan Litwin said. It's developed a marketing plan around marijuana, but has held off on rolling it out "until we have a better idea of what the market looks like," Litwin said.

High upside

For those firms that have established a foothold in the growing industry, the upside is high: The state Department of Revenue has estimated that, after cramp-up period, legal sales of marijuana in Massachusetts will reach \$1 billion or more annually.

The firms are developing an expertise in an area of accounting that is unlike any other, a selling point to potential clients as more dispensaries and other marijuana businesses open in Greater Boston in the coming years.

Under Internal Revenue Service regulations, marijuana businesses are only allowed to deduct what is known as the cost of goods sold —such as the soil and water used to grow cannabis for producers, and expenses related to the purchase and storage of marijuana for retailers —and not other overhead costs, experts said. That means they pay a higher effective tax rate than most other types of businesses. It also means they have to take particular care to track their expenses, an area in which accounting firms can help.

The firms can also assist with putting internal controls in place to make sure dispensaries are handling cash properly. Dispensaries deal with a lot of cash because credit card companies don't allow customers to use their cards at the retailers.

Firms are handling some audit work for marijuana businesses. However, Silverman said Withum is doing relatively few audits in the cannabis sector because lending institutions require audits, and banks are not lending to dispensaries. Other types of investors can still require audits, though.