

CPA Trendlines

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CANNABIS

Marcum LLP: Moving Forward in Cannabis with Confidence



Rosen

The firm is open about its new services group.

By Liz Gold
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Legal recreational cannabis is coming to New Jersey – as soon as this year. And when it does, hundreds of millions of dollars in potential tax revenues will start flowing to the state beginning in 2020.

Marcum LLP is ready.

A Top 100 accounting and advisory firm, with 23 offices nationwide (as well as several overseas), Marcum has been working with cannabis clients for several years, watching the ramp up to legalization and preparing internally by building out its Cannabis Services Group practice.

“Even though we are a big firm, we are very entrepreneurial,” said Gary B. Rosen, an advisory partner based in New York and active in the cannabis group. “We tend to do a lot of things other firms might shy away from. We found that in cannabis, a lot of CPAs are shying away because they don’t know the uniqueness of the industry.”

Rosen said a number of people in the firm – across a variety of specialties – are involved with clients because the industry has many moving parts. For instance, a number of companies are going public in Canada, involving the firm’s SEC practice. A partner in California heads up the tax practice. The firm has a large SALT practice with team members dedicated to keeping up with the ever-changing regulatory changes. And as for Rosen, he helps cannabis businesses get set up and launch, forecast projections, structure entities and raise capital. Their clients run the gamut – everyone from growers to dispensaries and those companies providing ancillary services.

“One of my clients invests in technology, putting their dollars into capital resources that the people running the dispensaries and growing facilities need,” said Rosen. “So, they are going into a multitude of different technologies that will yield better crops and help clients grow.”

Though the cannabis industry is relatively new and emerging, Marcum has been in the space for a while, said Rosen, pointing to a number of organizations across the country that have helped set the foundation. In the case of New Jersey, Rosen serves as treasurer to the New Jersey CannaBusiness Association, which acts as a liaison between the state legislature and the cannabis community. He also points to the New York State Society of CPAs and New Jersey Society of CPAs both having cannabis committees, in an effort to develop guidelines, policies and procedures for CPAs working with cannabis clients.

“Both societies realize this is here to stay,” Rosen said about forming cannabis-specific committees. “If I was a betting man, I’d bet that the CPA societies in each of the states that have it as medical or recreational are going to start committees because there is going to be a need to keep practitioners up to speed on the changes that occur.”

Marcum has been open about working with cannabis clients – the firm has information on its website and has presented at informational seminars for those interested in entering the industry in New Jersey. At one event, there were more than 800 people who paid to attend, listening to industry professionals talk about trends, licensing, regulations and how to stay in compliance.

“Three people, who were actually CPAs, stood up and asked me questions about getting into the space,” Rosen said.

He recognizes however, that in order to move forward in New Jersey, the state legislature has to pass the recreational law. This is anticipated to happen soon, perhaps by the end of 2018.

“Once they do that, it’s going to be a boost to the industry,” Rosen said. “Once it becomes recreational, you are going to see a huge influx of tax revenue to the state of New Jersey.” That said, details about licenses in each area or local ordinances have yet to be worked out.

Still, his clients have work to do in order to get ready. Rosen said that aside from filling out applications, it’s critical cannabis business owners understand what the financial needs are to run a business. For many of the firm’s clients, this is their second business and they are using money from their first to fund this next venture.

“They believe this is the next area that will be a boom and they want to be part of it,” he said. “They have to work very diligently because there are going to be a limited number of licenses.”

The other challenges his clients face are standard issues for the industry – ensuring there is capital to fund the venture; managing cash flow because, for example, as clients build out their grow facilities, there is going to be ramp-up time to go from seedling to cultivation to sale to third parties; and of course, dealing with IRS Code 280E and what Rosen calls the “very unusual deductibility structure.”

Rosen said Marcum is strict about who it takes on as clients, doing a thorough background check and vetting carefully.

“We have to do this with our eyes wide open,” he said. “We have to make sure the people we are involved with are properly vetted, are right with the project and there are no grenades that can go off during the process.”

He added, “CPAs have to adhere to the professional standards that they adhere to with their other clients. They cannot go into this industry halfheartedly. There are a lot of pitfalls and if you don’t know what you are doing it could come back and bite both the CPA and the client.”