

Insight

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Flourishing in the Land of Lincoln

Even in hard times, these Illinois industries are seeing major growth. Here's how CPAs can get on board. **By Mark Lawton** | Summer 2020

In the wake of the COVID-19 pandemic, the U.S. economy suffered a major downturn. As unemployment spiked from historic lows to historic highs, businesses shuttered their doors, and markets wildly fluctuated, the situation drew more comparisons to the Great Depression than the Great recession. But while some businesses suffer, others offer a silver lining. In Illinois, businesses flourishing before the pandemic offer glimmers of hope for continued growth as normalcy returns.

Supply chain links like renewable energy; transportation and trucking; distribution and warehousing; home healthcare; and cannabis have not taken the same hits as others and are most likely to succeed during a recession or quickly bounce back. And as these businesses grow, so will their need for the expertise and strategic advice of CPAs.

RENEWABLE ENERGY

Illinois' renewable energy industry has boomed in recent years, driven by standards requiring a percentage of electricity sold by utilities companies to be from renewable sources. "Illinois wants to reach 100 percent renewable energy by 2050 and to be carbon-free by 2030," says Nelson Gomez, CPA, a partner at CohnReznik LLP.

According to research from the Center for Climate and Energy Solutions, renewable energy is the fastest growing energy source in the U.S., increasing 100 percent from 2000 to 2018, and expected to grow another 54 percent by 2048. The rise of renewable energy is great news for CPAs.

"There is a tremendous amount of opportunity," Gomez says. "While there might be potential negative impacts from the coronavirus, I think there is tremendous optimism. As the sector grows, there is a need for experienced CPAs. There are a lot of financial and accounting needs that are unique to the industry."

A startup business in renewable energy, for example, could need assistance with audited statements that are consistent with GAAP standards, revenue recognition, tax issues, and

the accounting related to structuring deals. “These projects are heavily tax incentivized,” Gomez says. “As those incentives sunset, we have to think of new ways to finance the deals.”

While Gomez sees a lot of potential in consulting for renewable energy firms, he emphasizes that CPAs need to immerse themselves in the industry.

“It’s continually evolving,” he says. “The structures, markets, and trends. There is continuous change as states take on more goals for clean energy. Staying on top of that and being truly involved in the industry is a challenge. It requires a large investment of time.”

TRANSPORTATION AND TRUCKING

Transportation, particularly trucking, is another industry seeing a rise in demand. Freight hauled by trucks is projected to grow by more than 25 percent and revenues by more than 53 percent, according to the 2019-2030 forecast released by the American Trucking Associations in August 2019.

Small firms—from a single truck to a few trucks—appear to be growing faster than large companies, says Kathy Orlando, CPA, CEO and president of Kathleen Orlando & Associates Inc., who has been working with trucking firms for the last decade. Orlando says her firm’s most valuable services are helping clients manage payroll, as well as assisting small trucking firms in managing their costs.

“A lot of time they need to get financing,” Orlando says. “I have a cost accounting background. I can look at cost-per-mile or cost-per-day to let them know their break-even point. We have to work with financing companies to show our drivers in their best light.”

Succeed in doing that with one client and you may land others. Word-of-mouth is everything among small trucking firms, Orlando notes: “Once you become known, instead of having one client, you might have three or four. A personal referral is worth a lot.”

In some cases, Orlando starts by handling personal taxes of trucking companies and lets them know she is also capable of handling their business needs. However, small trucking firms are usually not businesses with high profit margins. “These drivers don’t have the funds to pay big accounting bills,” Orlando says. “You have to be conscious of that so you don’t do too much work for them and be too far down the pecking order to get paid. You want to keep things current and keep the dialogue regular.”

Rob Jonker, CPA, managing partner of Jonker & Associates, suggests starting with a small to medium-sized intermodal company that is looking to expand to get a feel for the industry before taking on larger clients. “It’s really critical in that business that you get to know all the moving parts,” Jonker cautions.

If a CPA has worked with one manufacturing firm, for example, Jonker says understanding the next manufacturing client is going to be a lot easier. That’s not necessarily so for

transportation, which has a separate set of costs. “Our most common service is making sure our clients, particularly small trucking firms, have capital,” explains Jonker. “We also help control for variables.” For example, what does the company do if a driver is unable to deliver a load by tomorrow? “You have to make sure your owner has back-ups for any contingency,” Jonker says.

DISTRIBUTION AND WAREHOUSING

Illinois’ distribution and warehousing industry is also seeing a major boom, driven by the prevalence of e-commerce, among other factors.

“It’s a broad industry in Illinois and the Chicago area,” says Bill Finestone, CA, CPA, managing partner of Lipshultz, Levin & Gray LLC, which consults with startups as well as billion-dollar businesses. “If you don’t have it as a piece of your practice, then I think you are missing out on a lot of clients.”

His firm commonly helps such clients with financial reporting to banks, investors, and other lenders—including conducting audits—as well as basic tax work. “A lot of our clients are doing business across the country and, increasingly, overseas,” Finestone says. “Whether that changes as a result of the pandemic remains to be seen.”

Odds are that growth among distribution and warehousing businesses will still offer new opportunities: Some CPAs may conduct research and development for tax credits or do cost segregation studies to reduce checks and liabilities, while others develop accounting systems. “Clients have a lot of inventory that needs to be tracked,” Finestone says. “You need to have a really good system in place to work out the real costs to get the pricing right and physically track the goods.”

Distributors and warehouses must track how much product is on hand, where it is, how much it costs, and be able to predict future needs, and that tracking system must integrate with the accounting system. CPAs can be an enormous help in managing these challenges.

“We can set up systems to do that,” Finestone says. “I would say that’s a very good source of business for CPAs.”

CPAs can also assist clients with budgeting, forecasting, cash flow projections, and liquidity analysis, along with making sure clients are in compliance with any bank covenants, he says.

In recent years, many distribution centers have begun working directly with end-users rather than middlemen. “That raises other issues, like sales tax, where CPAs are needed,” Finestone says.

To find clients in distribution and warehousing, Finestone recommends joining industry groups—the narrower you can define that, the better—and, if possible, speaking at their events.

“The key is to differentiate yourself,” Finestone says. “That comes through personal services. Smaller firms might be better positioned than larger firms to provide that.”

It’s always helpful to have specialized knowledge of the industry for which a CPA is consulting, Finestone adds: “When a client comes across an issue, it might be the first time they’ve seen it. It shouldn’t be the first time their CPA has seen it. We work as a vehicle to transfer knowledge based on experience.”

HOME HEALTHCARE

As baby boomers continue to retire and age, the need for home healthcare is projected to increase. According to the U.S. Bureau of Labor statistics, the number of home healthcare workers is expected to increase by 511,300 from 2018 to 2028.

The best thing about this? While the home healthcare industry is likely to see major growth, the actual business needs are simple. “I would say it’s pretty straightforward. There is nothing really specialized from an accounting standpoint that needs to be done,” says David Robbins, CPA, partner of Nieminski Robbins & Associates CPAs LLC.

Robbins’ firm handles all aspects of accounting for home healthcare clients, including payroll, bookkeeping, tax returns and, more recently, Paycheck Protection Program (PPP) loans. The biggest challenge for CPAs serving this industry—outside of helping them prosper during a pandemic—is understanding the Medicare system since the bulk of payments come from Medicare.

CANNABIS

Not surprisingly, the state’s cannabis industry is on the rise following the legalization of adult-use recreational marijuana on Jan. 1, 2020. Tony Michelotti, CPA, a partner at Eder, Casella & Co., is seeing a lot of startup companies seeking assistance with the application process, structuring a legal entity, raising capital and, perhaps most difficult, navigating their banking needs.

“From a federal level, cannabis is still illegal,” Michelotti says. “FDIC-insured banks can’t serve these businesses until legislation is passed to allow it. We help connect them to credit unions or find other ways to manage all the cash that comes in.”

CPAs need a deep understanding of both federal tax laws and state legislation and regulation to best serve cannabis businesses. Neil Prasad, partner in the Chicago office of Marcum LLP, stresses that a thorough understanding of the cannabis industry is critical. Prasad has been working with cannabis cultivators and dispensaries across the U.S. for the last eight years and in Illinois for the last two.

Specifically, he says CPAs need a complete understanding of Internal Revenue Code 280E, which prevents cannabis companies from taking tax deductions or credits. “CPAs that do

audits also need to understand how it will impact financial statements,” Prasad says.

That said, there’s a lot of potential for CPAs consulting to the cannabis industry. “I think it’s an opportunity with growth for everybody,” Prasad says. “Not just with cultivators and dispensaries but with all the ancillary providers in the supply chain.”

GROWING TOGETHER

Within rapidly expanding industries like these, CPAs and their clients can form a strong symbiotic bond. While CPAs are eager to serve resilient businesses, their sound and strategic advice can help a booming business grow even more.

Finestone urges CPAs to differentiate themselves: “Be proactive for your clients. Take general advice and customize it to particular clients.” That’s how you stand out. And that’s how you flourish in the Land of Lincoln.