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**COVID-19**

# 7 Reasons Accounting Firms Should Embrace Cannabis Clients in a Post-COVID World

It's time for accounting professionals to embrace the cannabis industry. As accountants, we have the opportunity to be at the forefront of this exciting industry growth and have the ability to lend a sense of legitimacy to our clients' businesses.

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In 2020, retail marijuana sales increased by 40%, five new states legalized marijuana use, and the U.S. House passed a historic measure to decriminalize marijuana. Suffice it to say, the cannabis industry is booming and expected to reach \$37 billion by 2024. Cannabis businesses bring in large amounts of revenue, and they need help managing their money, especially when it comes to deciphering the complicated tax laws surrounding Schedule I substances.

However, so many accountants shy away from cannabis because of legality concerns, leaving untold amounts of money on the table by not embracing the cannabis industry. As a result of my experience working with cannabis businesses, I can tell you that they make awesome clients and need our accounting expertise more now than ever now that their industry is on the verge of full legitimacy. It's an exciting time to be at the forefront of this buzzworthy industry! If you've found yourself holding back from serving the cannabis industry, here are a few things worth considering.

## **The Rise of Cannabis Sales**

Cannabis use is up, especially with more people at home due to COVID, and it shows no signs of slowing down. Retail marijuana sales are on track for a 40% increase in 2020 over 2019 and are projected to reach \$37 billion by 2024. Deemed an “essential” business by the U.S. government this year, the cannabis industry has proven pandemic-proof. Now that it has been legalized in many states and is widely accepted, it’s no longer taboo or frowned upon as it once was. In fact, because cannabis use is increasingly commonplace and accepted, many different businesses sell trendy CBD and hemp products.

## **The Complexity of Cannabusinesses**

Cannabis businesses need your help now more than ever. Their finances are more complicated than most companies you probably work with due to more compliance requirements than their non-canna related counterparts and complex tax laws. IRS Tax IRC 280E classifies cannabis as a Schedule I illegal substance, preventing cannapreneurs from deducting operating expenses. Accounting professionals can help cannapreneurs remain in compliance with 280E while maximizing the cost of goods sold, therefore maximizing tax deductions.

In order to increase their deductions while maintaining 280E compliance, many cannabis business owners have organized their structure into two or more businesses. They’ll need help figuring out how to organize their business and manage the extra layer of complexity that multiple businesses can bring.

## **The Cash Conundrum**

Many banks hesitate to work with cannabusinesses because the federal government does not recognize cannabis as a legal substance. And because many cannabis business owners are unable to find banks willing to work with them, these businesses are frequently forced to keep large amounts of cash on hand.

As you know, cash can be difficult to track and is more prone to fraud, theft, and safety risks. Cannabis business owners need our help to put proper cash management procedures in place and define the internal controls to make sure proper procedure is followed. We can help them manage their cash, keep accurate records, and find compatible banks where available.

## **The Profit Potential**

According to the American Cannabis Company, more than a quarter of dispensaries generate annual revenues exceeding \$1 million, with another 15 percent reporting

annual revenues between \$500,000 and \$1 million. Cannabis businesses often have high revenue, and it's only increasing. As a result, there are plenty of opportunities to carve out a very profitable niche for yourself in this industry. With the sales of cannabis continuing to rise, the growth potential for accountants and bookkeepers serving the industry is immense. We can help them achieve higher profitability, therefore be very valuable to them.

### **The Risk Factor**

You may be worried about supporting an “illegal” industry, but there is little liability for accountants supporting cannabis businesses. As an accounting professional, you already carefully vet the companies you work with to ensure they have good internal controls and processes. It's the same with cannabis businesses. You'll want to help them keep accurate records and practice good risk management, just like you do with any other client.

If you're concerned about the risk to your current non-canna clients, you can split your business into two entities—one that deals with cannabis businesses and one that doesn't. I've done this myself in my own business by serving cannabis businesses with Accounting for Green and serving non-cannabis businesses through Automated Accounting Services. Regardless of how you decide to proceed, consider working within the cannabis industry. Working with cannabis clients, although complex, can be rewarding and profitable.

### **The Future Burns Bright**

With more and more states extending the legalities of cannabis each election cycle, the federal government embracing the cannabis industry becomes a nearer certainty. On December 4th, 2020, the House passed the Marijuana Opportunity Reinvestment and Expungement (MORE) Act, a bill to decriminalize cannabis. If the bill passes the Senate, each state will gain the power to determine legality instead of the federal government. Right now, if a state passes legalization, cannabis businesses are still subject to federal restrictions. Even if it doesn't pass the Senate this time, as the buzz builds, the future of the cannabis industry burns brighter.

Since it's increasingly likely that Congress will remove the Schedule I status soon, now is the time to get your foot in the door and establish your industry expertise. You'll be ahead of the curve as cannabis becomes even more mainstream.

### **The Workaround**



Even if you're uncomfortable with Schedule I complications, you can still help this growing industry (and profit from it!) without working directly with dispensaries or grow operations. Cannabis companies frequently have up to 5 ancillary businesses that don't touch the plant itself (real estate, management, licensing, marketing/branding, paraphernalia, packaging, different companies for each state to keep reporting segregated by-laws). Each of those needs accounting support and services and the business potential is enormous.

## Embracing the Cannabis Industry

It's time for accounting professionals to embrace the cannabis industry. As accountants, we have the opportunity to be at the forefront of this exciting industry growth and have the ability to lend a sense of legitimacy to our clients' businesses. It's never been a more exciting time to keep your business in the green as a cannabis accountant.

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Monique Swansen, founder and CEO of Automated Accounting Services and Accounting for Green outside of Boston helps visionary cannapreneurs automate and outsource their financial needs. She also consults with accounting businesses looking to move into the cannabis space. Learn more at [automatedaccountingsvc.com](https://automatedaccountingsvc.com). IG [@afgcannabis](https://www.instagram.com/afgcannabis) Twitter [@AFGcannabis](https://twitter.com/AFGcannabis)

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