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CHAIRMAN
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PRESIDENT/CEO
Jodi Ann Ray, CAE, CCE, IOM

EDITORIAL BOARD CHAIRMAN
Aaron Borden, CPA

Staff
MANAGING EDITOR
DeLynn Deakins
ddeakins@tscpa.net
972-687-8550
800-428-0272, ext. 250

TECHNICAL EDITOR
Brinn Serbanic, CPA, CFP®
technicaleditor@tscpa.net

COLUMN EDITORS
Jason B. Freeman, CPA, JD
Mano Mahadeva, CPA, MBA
Don Carpenter, MSAcc/CPA

WEB EDITOR
Wayne Hardin
whardin@tscpa.net

CONTRIBUTORS
Melinda Bentley; Sarah Brown; Roxanne LaDu; Rhonda Ledbetter;
Craig Nauta; Kim Newlin; Catherine Raffetto; John Sharbaugh, CAE

DIRECTOR, MARKETING AND COMMUNICATIONS
Melinda Bentley, CAE

CLASSIFIED
DeLynn Deakins
Texas Society of CPAs
14651 Dallas Parkway, Suite 700
Dallas, Texas 75254-7408
972-687-8550
ddeakins@tscpa.net

Editorial Board
Arthur Agulnek, CPA-Dallas; Aaron Borden, CPA-Dallas; Don Carpenter, CPA-Central Texas; Melissa Frazier, CPA-Houston; Jason Freeman, CPA-Dallas; Michael Hallick, CPA-Dallas; Baria Jaroudi, CPA-Houston; Brian Johnson, CPA-Fort Worth; Jennifer Johnson, CPA-Dallas; Tony Katz, CPA-San Antonio; Joseph Krupka, CPA-Dallas; Randy Lokey, CPA-Dallas; Mano Mahadeva, CPA-Dallas; Alyssa Martin, CPA-Dallas; Stephanie Morgan, CPA-East Texas; Marshall Pitman, CPA-San Antonio; Kamala Raghavan, CPA-Houston; Barbara Scofield, CPA-Permian Basin.

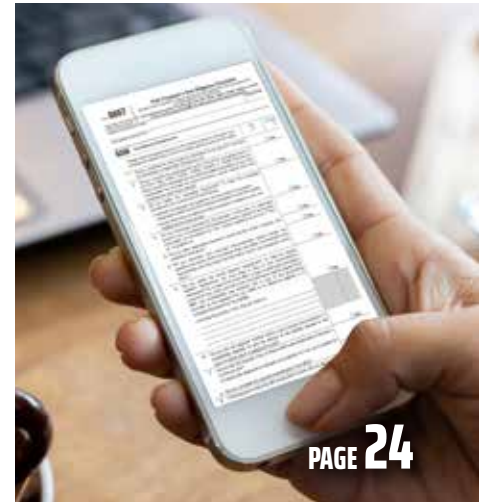
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WHAT DO YOU THINK!

I want to hear your feedback and questions during my chairmanship at TSCPA. Drop me a note at chairman@tscpa.net. I'd love to hear from you!

RE-ENERGIZING OUR BRAND



By TXCPA Chairman Stephen Parker, CPA-Houston

Welcome to our second digital-only issue of *Today's CPA*! You count on the Society for a wide array of resources to help you stay up-to-date on critical professional issues and *Today's CPA* consistently delivers on that expectation. We hope this easy-to-access format will be useful to you during this busy time of year.

This issue is also our first to exhibit our new visual identity. At Advocacy Day and the Midyear Board of Directors and Members Meeting in January, we unveiled our refreshed brand to the leadership. Members also saw the refresh in communications from both TXCPA and their local chapters.

The brand refresh is just one of the steps we are taking to improve our overall service to our members. Our new visual identity lays a foundation on which we can focus our messaging, programs and services to be aligned with our brand promise to promote and protect

the profession, and connect and promote members. Together, as a brand family of TXCPA, our local chapters and our related entities, we're positioning ourselves as the largest, most influential association of accounting and finance professionals in Texas, dedicated to supporting one another, and promoting and protecting the value of the CPA designation.

You can read more on page 17 about the rebranding process and how member input played a big role in the final visual identity. Importantly, this refresh will enable us to remain relevant and magnetic to future CPAs, which will help us continue to grow and stay strong as an organization that connects, protects and advances Texas CPAs.

We hope you'll find our new look and feel to be reflective of a vibrant organization you're proud to call your professional home! ■

Stephen Parker, CPA, is a partner in PwC's Houston assurance practice. He can be contacted at stephen.g.parker@pwc.com.

UNCLAIMED PROPERTY – MAYBE A LITTLE SPRING CLEANING IS NEEDED

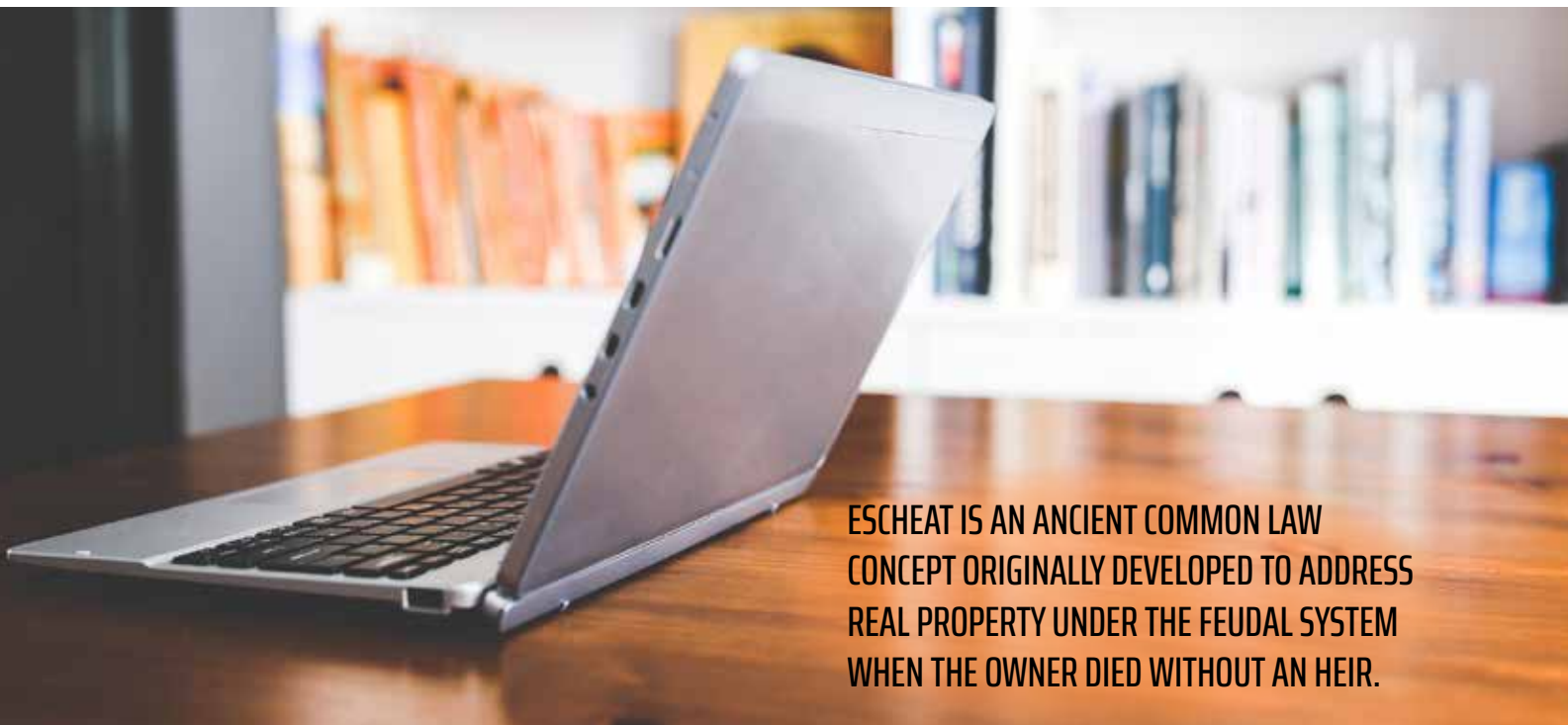
By Don Carpenter, MSAcc/CPA

When reviewing the accounts receivable subledger, have you noticed the odd lingering credit balance from the customer who overpaid or returned goods that just cannot get cleared because the customer can no longer be located? Or what about the payable balance where all efforts to pay the vendor have met with no success? These balances may not be material, but may require explanations in an analysis of the accounts. The organization may even have a policy of clearing those balances periodically to clean up the financial statements.

These lingering balances, although immaterial, belong to someone (possibly a customer, employee or supplier) and fall under the escheat rules that govern unclaimed property. Escheat is an ancient common law concept originally developed to address real property under the feudal system when the owner died without an heir. The property then went to the Crown in an effort to prevent land from becoming unproductive due to lack of ownership.

The concept has evolved to encompass all unclaimed property, including financial and even intangible assets. Management of unclaimed assets is regulated and enforced by the various states. Unclaimed property must be delivered to the state and becomes the property of the state until such time as its rightful owner claims the item.

What is the responsibility of the holder of unclaimed property? That depends on the state that governs the particular unclaimed asset, which is generally determined by the last known address of the rightful owner. If the owner's address is in Texas, then Texas law governs compliance. But if the last known address is in California, California law governs even though the holder of the property may be operating from a Texas establishment. In today's age of internet commerce, it is almost a requirement that most companies be familiar with the unclaimed property laws of all states or have access to a service provider who can provide such information.



ESCHEAT IS AN ANCIENT COMMON LAW CONCEPT ORIGINALLY DEVELOPED TO ADDRESS REAL PROPERTY UNDER THE FEUDAL SYSTEM WHEN THE OWNER DIED WITHOUT AN HEIR.

Using Texas rules as an example, the holder must first determine that the item qualifies as unclaimed property. For an unclaimed paycheck or utility deposit, the abandonment period is one year. But for financial assets, such as a bank account or safe deposit box, the period is much longer at five years. Most property, such as customer receivables or supplier payables, require a three-year dormancy period.

Once qualified as unclaimed property, the holder must send a letter to the last known address of the owner if the balance is greater than \$250. If no response is forthcoming, the holder of the property must provide a report to the Texas Comptroller listing all unclaimed property (even balances less than the \$250 notification threshold) and then shortly thereafter transfer ownership of the property to the state. Transfer of most unclaimed property is generally as simple as cutting a check for the balance of accounts. But in the case of tangible property, such as the contents of a safe deposit box, transfer of the tangible property is required. Each state will have its specific dormancy periods and procedures for relinquishing property.

One last complicating factor concerns determining which state has a claim on the property when there is no address for the rightful owner. The U.S. Supreme Court established priority rules in *Texas v. New Jersey* in 1965. After the priority given to the state of the owner, second priority is given to the state of domicile of the holder. For corporations, the domicile is the state of incorporation. For unincorporated entities, domicile may be defined as the principal place of business or place of formation.

Delaware has been quite active in enforcing unclaimed property regulations given the high number of entities that are incorporated within the state and the likelihood that the second priority rule applies. Following Delaware's lead, other states have responded with audits of businesses

that have a prominent presence within the state. The enforcement efforts of the various states have streamlined to multistate unclaimed property audits outsourced to third party specialists. Non-compliant businesses are subject to interest and penalties on any retained property and there is no statute of limitation restricting the years states may audit.

Many states have implemented voluntary disclosure programs that waive or reduce interest and penalties to encourage businesses to become compliant. Voluntary disclosure requires that a business continue to be compliant going forward. Disclosure requirements have received increased emphasis, as revenue sources in some states have declined and fiscal budgets have become tighter over the past few years.

Most states maintain websites with a list of unclaimed property that has been relinquished by holders. There is generally no statute of limitations for rightful owners to reclaim the property from the state. Several enterprises that specialize in locating owners and notifying them of possible claims in exchange for a commission upon successful reimbursement by the state have emerged over the past few years.

In addition to being compliant as a holder of unclaimed property, businesses should consider periodically reviewing state websites for possible claims. Given the complexity that arises from business acquisitions and combinations, successors in interest may find that material reimbursements are available.

Managers may be well advised to review accounts receivable and accounts payable for possible unclaimed property balances and become familiar with the procedures that govern administration of these funds. ■



Westwood Wealth Management | Houston
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Houston, Texas 77024
T 713.683.7070
westwoodgroup.com

Our Advice.

From left: Tom Williams, Donnie Roberts, Maureen Phillips, Leah Bennett, Shelitha Smodic, Allen Lewis, Susan Wedelich



Kevin Barnhart, CPA



Wendi Christian, CPA, CGMA



Veronda Willis, Ph.D., CPA, CGMA

A FOCUS ON CHAPTER PRESIDENTS IN BUSINESS AND INDUSTRY

By Rhonda Ledbetter, TXCPA Volunteer and Governance Specialist

Celebrating the diversity of career options CPAs enjoy, in this issue we're shining a light on three chapter presidents who work in fields other than public practice. They are currently employed in manufacturing, financial services and higher education. In alphabetical order, the participants are:

Kevin Barnhart, CPA

Ledwell & Son Enterprises, Inc., Texarkana Chapter

Wendi Christian, CPA, CGMA

5Point Credit Union, Southeast Texas Chapter

Veronda Willis, Ph.D., CPA, CGMA

University of Texas at Tyler, East Texas Chapter

CPA Careers, Job Experiences

We opened the dialog by asking about jobs they have held since receiving their CPA license. All three started in public accounting, but moved into diverse realms. Two have been in the health care industry. Other organizations included a multinational corporation with energy as its core business, an air conditioning and heating company, a bank and credit unions. The number of staff at their employers has ranged from 50 to almost 30,000 worldwide.

Currently, Barnhart is controller at Ledwell, a company that builds custom-manufactured truck bodies and trailers, as well as parts and service for those products. Christian works as VP of accounting at 5Point. Willis is associate professor and director of the Master of Accountancy Program at UT Tyler.

When asked about their interesting job duties over the years, both of those who have worked in health care cited that field. Barnhart said, "My hospital experience led to being put in

charge of our self-funded health insurance plan at the manufacturing plant where I currently work.”

Christian referred to her former job as IT audit manager with a large health care company. “Learning about the industry and the role IT plays in it was very challenging,” she commented, adding “Sometimes audits were conducted at the facilities, so I got the reward of meeting the people working within the facilities to help patients.”

From her days in industry, Willis said, “I traveled to London once a quarter to gather accounting information and meet with staff there.” In addition, she explained, “I was on the SAP Implementation Team, where we tested how accounting information would be entered into the enterprise resource planning system and how it would be reported.”

Talk of a busiest season led in several directions. At the privately held manufacturing company, a crunch time for accounting functions is January-March. A Call Report for the credit union is due to the national regulatory body after each quarter and financial statements must be provided for the monthly board of directors meeting. In the university, the beginning and the end of each semester are times of work compression; at the beginning, students are trying to make sure they’re in the right classes and the end requires wrap-up before final grades are due.

Work/Volunteer Skills and Chapter Involvement

Many of the skills needed to be volunteer leaders have been learned in business. Learning to work with all types of people who have various levels of education and work experience – with compassion and empathy – is crucial. Truly valuing other opinions is important. Also, time management is needed to fit chapter leadership into a life full of career and personal obligations.

MANY OF THE SKILLS NEEDED TO BE VOLUNTEER LEADERS HAVE BEEN LEARNED IN BUSINESS.

Involvement in the chapter began in various ways. For all three, it started with encouragement from an experienced leader. Barnhart remembers, “I began attending meetings with our CFO, Mark Van Herpen, soon after moving to the area.” He modestly jokes, “I was nominated to a board position during a meeting that I missed and the rest is history!”

Christian got involved with her previous chapter, San Antonio, through their Career Awareness Committee. She named Fred Timmons as her mentor. “He was enthusiastic and he wanted you to know that you belonged there,” she said.

Willis also started her participation in the San Antonio Chapter; she volunteered to go to a high school and teach in the National Endowment for Financial Education Financial Literacy Program. When she moved back to Tyler, Kathy Kapka got her involved on the East Texas Chapter diversity committee; then, she started working with the chapter board of directors.

Career Rewards and Challenges

Barnhart is lucky enough to see, every day, the tangible output of the company where he works. Ledwell clients include the equipment rental, transportation, fire, waste, energy, governmental, agricultural and construction industries. Many of the products that are created there are a direct result of clients’ specific needs. He enthuses: “I enjoy seeing the heavy equipment being developed. Even though I’m not in the shops actually building them, I enjoy knowing that I had a part in it.”

For Willis, a career reward is the opportunity to develop unique projects in areas such as Excel, current technology and auditing so that university students can learn the accounting and information systems they will need to be successful in their jobs. Another aspect is that her job led to serving as chapter advocate and faculty advisor for Beta Alpha Psi at UT Tyler. She has traveled to Arkansas to initiate new Beta Alpha Psi chapters and across the U.S. for their conferences.

She goes on to say: “It’s so rewarding to watch students walk across the stage both at graduation and at the CPA Swearing-In Ceremony. Also, it’s rewarding to see a student’s excitement when they get their first internship or job offer. When they attain their goal of graduation and/or passing the CPA exam, it’s worth any challenges that I might have faced in helping them.” Later on, she receives emails from former students thanking her and expressing that they realize how much they actually learned.

Turning the conversation to their challenges, Barnhart observes: “In large part, our success is dependent on our customers’ successes. We can’t grow if they aren’t also doing well.” Continuing to move forward and to groom potential replacements are issues on Christian’s mind. A recent challenge for her has been moving into the realm of teaching at the college level. Along those lines, Willis

faces the challenge of inspiring students to be life-long learners instead of memorizing information for an exam.

The Next 10 Years

The group talked about big developments they foresee in the next 10 years that will be game-changers for CPAs working in industry – all of which involve technology. In addition to software changes, there will be a dramatic increase in dependence upon IT. With moves toward leaner staff and streamlining processes, IT and data analytics will become more important in CPAs' decision-making.

IN THE NEXT 10 YEARS, IT AND DATA ANALYTICS WILL BECOME EVEN MORE IMPORTANT IN CPAS' DECISION-MAKING.

Willis envisions that accountants will be required to use technology efficiently to analyze the large amount of data available. "With the onset of artificial intelligence (AI), blockchain and data analysis, accountants must make sure that they stay relevant and know that what accountants have traditionally done in the past (general entries, ticking and tying numbers, developing financial

statements, etc.) is changing rapidly. Accountants are now business advisors who ensure that internal controls are in place and work properly, analyze data efficiently and provide useful information for decision-making purposes."

Advice to Students

To close the discussion, participants shared the advice they would give to students who are considering a career in accounting. Barnhart's suggestions were: "Make Excel your best friend. Also, become the best user of your company's software."

Christian emphasized: "As soon as you graduate, sit for the CPA exam. Don't wait."

From Willis, "Take technology classes, such as data analytics and Excel, to set you apart from the traditional accounting student." She continues: "If you truly enjoy accounting, don't give up. This is a rewarding field. Accounting does take a lot of patience and a lot of practice, but it's worth it."

Are you a business and industry member? Contact your chapter president or executive director to see how you can become involved in a committee or in community service projects. ■



2019 TXCPA ADVOCACY DAY, MIDYEAR BOARD OF DIRECTORS AND MEMBERS MEETING



Members of TXCPA and the Board of Directors met in Austin at the end of January, with the beginning of the 86th Texas legislative session as the backdrop. They digested an expert election analysis and session preview, took away key points on effective advocacy and learned why their role matters. Time for visits to their legislators at the Capitol was a crucial part of the event. Please see the Capitol Interest article in this issue for more information.

An exciting reveal took place at the beginning of Advocacy Day with the announcement of the TXCPA brand refresh, culminating months of research and input by a task force of members from around the state. The rebrand is helping TXCPA to focus our messaging, programs and services and be aligned with our brand promise to promote

and protect the profession and connect and promote members.

State of the Society

During the Midyear Board of Directors and Members Meeting, [Chairman Stephen Parker, CPA-Houston](#), shared an update about TXCPA's work on behalf of members. Efforts are concentrated in five focus areas for the 2018-2019 year:

- Engage and grow our community;
- Fuel our chapters;
- Re-energize our brand;
- Advance the future of learning;
- Successfully navigate Sunset Review.

To grow our community, we look at the professional life cycle of accountants. An important discussion revolves around how to attract a higher number of

talented students into college-level accounting programs. Then, we must help them see the lifelong value they will gain from working toward the CPA certificate. We're continually striving to strengthen relationships with educators so that we can support their efforts. We're also developing bonds with students who serve as campus ambassadors, connecting their peers with our message.

At all levels of our organization, we're delving deeply into the value proposition that we offer to current and prospective members. We're centering our attention on the products and services that have the most value.

The 2018 Member Survey results show an increase in satisfaction with TXCPA. We

got the message that members want: superior CPE content that is accessible, relevant and affordable; timely, up-to-date information; and an advocate for the CPA.

We also asked what challenges them. The top two responses were: keeping up with change and finding qualified staff.

A task force is working to fuel our chapters. Its purposes are to:

- Develop potential initiatives related to our chapter network that will allow us to best serve the needs of current and future members;
- Implement pilot projects that will serve members and provide support for chapters;
- Develop foundational documents or processes to outline and clarify roles, responsibilities and performance metrics.

We are working on increased availability of shared resources, expanded chapter leader training, reports and metrics for chapters, and defining clarity and alignment. Our goal is to provide a more efficient way for members to get the tools they need to be successful.

CPE Advisory Board Chair Edie Cogdell, CPA-San Antonio, CGMA, outlined the CPE Foundation's plans. A Learning Management System will include on-demand content created for members delivering CPE on hot topics quickly and nimbly.

CPE partnership agreements will make efficient use of state- and chapter-level resources to offer well-rounded options. Starting in the 2019-2020 service year, a free four-hour ethics course online will be provided to TXCPA members to assist them in complying with this state requirement.

There has been a stream of information during the past year about plans to assist the Texas State Board of Public Accountancy in successfully

TXCPA'S LEARNING MANAGEMENT SYSTEM WILL INCLUDE ON-DEMAND CONTENT CREATED FOR MEMBERS DELIVERING CPE ON HOT TOPICS QUICKLY AND NIMBLY.

navigating [Sunset Review](#), perhaps most important of the five focus areas. On our website and in a variety of TXCPA communications, we will keep you informed about our progress throughout the legislative session. Our work is possible because of our members' time and commitment.

Washington Update

[AICPA Executive Vice President – Advocacy, Mark Peterson](#), touched on political and regulatory developments at the national level. He opened by explaining that AICPA is continually working to position the profession in the best place for success.

The 2018 midterm elections brought a nearly historic level of turnover to the 116th United States Congress, which brings a loss of institutional knowledge among officeholders and their staffs. Many of the officeholders are there for the first time. This offers an opportunity to serve as a resource to them. He emphasized the importance of one-to-one grassroots relationships.

There are currently eight CPAs in Congress, including Mike Conaway and Bill Flores from Texas. During the government shutdown, AICPA was frequently in touch with IRS officials to discuss penalty relief, online access and other issues.

Over the years, there have been multiple attempts to curtail the attestation requirement under SOX 401(b). The likelihood of Congressional action to do so is now reduced, due to the Democratic party's majority in the House of Representatives. The

SEC is also reviewing thresholds for the requirement independently of the Public Company Accounting Oversight Board (PCAOB).

As provided within SOX, PCAOB currently keeps its investigations and disciplinary proceedings confidential and nonpublic. In 2017, a Senate bill was introduced (but not enacted) to promote transparency by permitting PCAOB to allow its disciplinary proceedings to be open to the public. AICPA opposed this effort and will continue to do so.

In the interest of fighting terrorism, an anti-money laundering and beneficial ownership bill has been under development. There is a potential risk to the profession through the manner in which auditors' work is characterized, so AICPA is working with the bill sponsors.

Anti-arbitration legislation affects business contracts by making arbitration unenforceable or invalid. Attention on this has emerged after a barrage of accusations regarding workplace sexual harassment. House Democrats might move legislation that bans predispute arbitration agreements covering sexual discrimination disputes.

A Fiscal State of the Nation Resolution, which AICPA supports, would require the Comptroller General to report to a joint session of Congress on the GAO's audited financial statements of the federal government. At the end of the 115th Congress, the bill had 139 cosponsors. There is bipartisan work to sign on additional sponsors before its introduction. AICPA

supports the additional transparency this resolution would provide policymakers and the public.

AICPA has a deep history of tax advocacy. It is involved in the issues arising from tax reform implementation, including Section 199A, international tax and client meals. As it gathers input from members and state societies, information is channeled to the IRS. It has recommended technical corrections and penalty relief, and recently sent a comment letter regarding draft Tax Reform 2.0.

With regard to IRS services and reform, AICPA is working with other stakeholders to plan recommendations for the tax preparer unit to alleviate taxpayer suffering. Just a few of the topics include transcript delivery services, a practitioner's service division and preparer regulation. Other hot topics include state and local tax deduction, disaster relief and taxation of the digitalized economy.

AICPA also monitors state advocacy developments around the country. A current issue of great concern involves a nationwide project to attack the licensing of professionals and occupations. Proponents

of licensing reform argue that consumers suffer economic losses because occupational licensing restricts competition. Almost half of the states expect some type of related legislation during 2019. If bills are passed in as few as a couple of states, there could be an effect on mobility for the CPA profession. AICPA is working with state societies and other learned professions to provide thought leadership in reframing the narrative and to oppose such measures if they arise in the states.

Other Business

The Treasurer's report was made by Ben Simiskey, CPA-Houston. The report included details on how the Society and chapters are working together to streamline the membership dues structure and hold CPA dues at their current rate for the 2019-2020 year.

The Annual Meeting of the Accounting Education Foundation was conducted and trustees were elected. Please see Figure 1. Steve Goodman, CPA-Houston, was recognized as the newest Kenneth W. Hurst Fellow.

The results of TXCPA's electronic election were announced. Please see Figure 2. Also, there was a vote to ratify the chairman-elect's appointees.

A report on the TXCPA [CPA-PAC](#) was given. Fundraising awards were presented to chapters. Please see Figure 3.

Upcoming Events

All members are warmly encouraged to participate in the 2019 Annual Meeting at the Sheraton New Orleans, June 21-22. They are also welcome at the next Midyear Board of Directors and Members Meeting at the Omni Houston Hotel, Jan. 24-25, 2020.

Figure 1.

TXCPA Accounting Education Foundation Trustees Elected at Midyear Board of Directors and Members Meeting January 30, 2019

Terms begin June 1, 2019 and end May 31, 2023

- Blaise Bender (San Antonio)
- Nancy Foss (Austin)
- Selena Jefferies (Texarkana)
- Fred Timmons (San Antonio)



Figure 2.
New TXCPA Leaders for 2019-2020

Terms begin June 1, 2019, unless otherwise indicated.

Chairman-elect, Chairman in 2020-2021
Jerry Spence (Corpus Christi)

Treasurer-elect, Treasurer in 2020-2021
Edie Cogdell (San Antonio)

Secretary, Term ending May 2020
Mark Goldman (San Antonio)

Executive Board, Terms ending May 2022
Mohan Kuruvilla (Houston)
Tim Pike (Dallas)

Chairman-elect Appointees to the Executive Board, Terms ending May 2020

Ratified by vote of the Board of Directors at this meeting

Jimmy Hudson (Permian Basin)
Tram Le (Fort Worth)
Kate Rhoden (Austin)

Director-at-Large, Terms ending May 2022

Ryan G. Bartholomee (Permian Basin)
Russell J. Chimeno (Southeast Texas)
Travis L. Garmon (San Angelo)
Jimmy J. Hudson (Permian Basin)
Natalie K. Klostermann (Corpus Christi)
Joshua LeBlanc (Southeast Texas)
David J. Morales (Corpus Christi)
William D. Schneider (Dallas)
Lindsey Skinner (Central Texas)
Shelly R. Spinks (Central Texas)
Michael S. Thomas (East Texas)
Laura J. Williams (East Texas)

Director-at-Large Replacements

Blaise Bender (San Antonio) – *Term ending May 2021 – replacement for Edie Cogdell*
David Colmenero (Dallas) – *Term ending May 2020 – replacement for Jose Luna*

Christi Mondrik (Austin) – *Term ending May 2020 – replacement for Sean Skellenger*

Committee on Nominations,

Terms ending May 2020
Wayne Barton (East Texas)
Jacob Briggs (Fort Worth)
Jennifer Brown (Austin)
Tom DeGeorgio (Houston)
Mary Pat Jones (Southeast Texas)
Natalie Klostermann (Corpus Christi)
Sharon Lukich (Dallas)
Mike Meurin (San Antonio)
Angela Ragan (Central Texas)
Diane Terrell (Abilene)

As immediate past chairman of TXCPA, Stephen Parker (Houston) will automatically serve as the chair of the Nominations Committee. Sharon Lukich was appointed as vice chair. In accordance with TXCPA Bylaws, the two previous past chairs, Jim Oliver (San Antonio) and Kathy Kapka (East Texas), will serve as members of the 2019-2020 Nominations Committee.

Stephen Parker's appointee to the 2019-2020 Nominations Committee is René Peña (El Paso).

The following names will be submitted to the AICPA Nominating Committee as recommendations from Texas to serve on the **AICPA Council**. All terms begin May 2020.

One-Year Designee, Term ending 2021
Lei D. Testa (Fort Worth)

Terms ending 2023

Jason Freeman (Dallas)
Alyssa Martin (Dallas)
Stephen Parker (Houston)
Ramsey Womack (Houston)

Figure 3.
CPA-PAC Awards for 2018

The following awards were presented to chapters for their work encouraging members to donate to the CPA-PAC.

Highest Percentage of Fundraising Goal

Large Chapter – Austin
Medium-sized Chapter – Central Texas
Small Chapter – Southeast Texas

Highest Percent Increase in Members Contributing

Large Chapter – Austin
Medium-sized Chapter – East Texas
Small Chapter – Southeast Texas





TXCPA EXCHANGE

TXCPA Exchange Expanding in 2019

*Members across the state
are connecting every day
on TXCPA Exchange*

Ask for guidance from your peers. Add your expertise to a discussion thread. Browse the searchable member directory to find someone with specific experience. And most importantly, update your profile and add your photo to help others find you.

NEW IN 2019 – we're adding TWO new specific discussion communities for tax issues and practice management issues. Log in today to join these new communities and maximize your use of TXCPA Exchange! Visit exchange.tscpa.org.

SPOTLIGHT ON THE TEXAS LIONS CAMP: A MAGICAL PLACE FOR SPECIAL NEEDS CHILDREN

By John Eads, CPA-Dallas, CGMA

A 10-year-old boy in a wheelchair talked to me about his week at Texas Lions Camp that summer. He told me: "I spend 51 weeks of the year in a place made just for you and one week in a place made just for kids like me. And it's like heaven on Earth." His words brought tears to my eyes then and still do every time I retell his story.

Since 1953, Texas Lions Camp, founded by Lions members, has been providing a fun-filled camping experience for children with special medical needs, while helping campers gain confidence and build self-esteem. Enrollment for this no-cost magical experience is now open at www.lionscamp.com. Summer 2019 session dates and applications for various medical conditions are available on the camp website.

Texas Lions Camp serves children ages six through 16 who have 48 different physical disabilities, Type 1 diabetes, cancer and Down

syndrome. The application requires submission of medical information by the child's physician. Additionally, a Lion sponsor is required. Any Lion in Texas may serve as a camper's sponsor and parents may contact their local Lions Club for assistance.

Located on 515 acres in the beautiful Hill Country outside Kerrville, Texas Lions Camp is supported by the 24,500+ Lions of Texas and their friends, including nonprofit

foundations, corporations and businesses. Chartered in 1949, the camp has welcomed more than 73,000 children in the past 70 years of operation. We are celebrating our 70th anniversary year. The camp is accredited by the American Camp Association and is licensed by the Texas Department of State Health Services. Texas Lions Camp received a prestigious four-star rating from Charity Navigator in 2018 and is recognized as a gold-level charity by GuideStar. Texas Lions Camp is an IRS approved 501(c)(3) charitable organization.



Personally, I have been a Lion since 1966 and my real love is the Texas Lions Camp. My wife and I have volunteered there for more than 40 years. We have seen first hand the incredible difference Texas Lions Camp makes in the lives of the campers. One summer, I spent a day assisting a young girl who could not walk. I managed to talk her out of her wheelchair. We played "horse," wherein I became her legs as she rode on my shoulders most of the day. We participated in many outdoor activities, from hiking and playing ball to dancing and singing around the camp fire. It was one of the best days of my life. The joy and freedom that child experienced is forever embedded in my memory.

One of my goals is that each of the 1,500 camper slots be filled again this summer and achieving it begins with enrollment. Priority is given to new campers and positions are assigned by the order in which completed applications are received. Camp sessions are one-week long and begin each summer in June and end the second week of August.

We need the help of CPAs in Texas. We have found that no matter how much we work on getting the word out about our camp, we are still the best-kept secret. Please help us find eligible children in your communities, and using your client relationships and other business resources, connect us with potential individual and corporate donors and put us in touch with planned giving attorneys and foundations.

We are currently embarking on a master plan that will change the infrastructure of our campus and bring it into the 21st Century by creating new housing for our campers (old structures are over 60 years old), add new capacity with four camps instead of one, and create new avenues of activities and recreation for serving our children. The plan has both capital and endowment elements. In addition to accepting cash donations, memorials and honorariums, we offer many opportunities to make gifts to the camp through wills, life insurance, appreciated marketable securities, gift annuities and other planned giving avenues.

Lions serve. We've created a place where children with special needs find facilities designed for them – and tailored activities allowing them to experience the thrill of therapeutic horseback riding, fishing, swimming, climbing a rock wall or zip lining – even if their arms



and legs don't work on the ground. We help children with diabetes learn how to manage their disease while enjoying sports. We offer life-changing experiences for campers with Down syndrome and cancer. Miracles happen at camp every summer, all day long and we change children's lives. Ask their parents. Texas Lions Camp is magical for special needs children.

If you know a child who potentially could benefit from Texas Lions Camp, check out our website (www.lionscamp.com). Encourage the parent to complete the application. Let's make a positive difference in a child's life.

John Eads, CPA, CGMA, is the current president and chairman of the board of Texas Lions Camp. He has been on the executive committee of the board for the past five years, and is a member and former chair of the Texas Lions Camp Planned Giving and Endowment Committee. He was named to the Texas Lions Hall of Fame in 2010. He has received the highest award of Lions Clubs International, the Ambassador of Goodwill. He has been a Lion member for over 50 years. He is also a practicing CPA in the Dallas area and past president and chairman of the board of the Texas Society of CPAs and the Society's Dallas Chapter.



RE-ENERGIZED AND REFRESHED



One of our five focus areas for 2018-2019 is to re-energize our brand to help ensure that we continue to attract and be magnetic to members. Earlier this year, we unveiled a refreshed visual identity and brand for your professional home!

Our previous logo and brand were created more than 40 years ago. Over the years, we've established a strong identity as the professional organization serving 28,000 CPAs in Texas, and now it was time to build on that foundation and update our look and feel to not just remain relevant, but also stand out.

This refresh focuses on reinforcing the Texas Society of CPAs and our 20 chapters and related entities as a brand family. Our chapter network is vital to the success and future of TXCPA, giving members a place to connect locally and serve their communities. Working together, we can extend our reach and more efficiently and effectively serve and support our members.

TEXAS-SIZED REFRESH

The most noticeable change is a shift from **TSCPA** to **TXCPA**, which gives us the opportunity to clearly show who we connect, protect and advance – Texas CPAs. Now, we can show our Texas pride and distinguish ourselves from the Texas State Board of Public Accountancy (TSBPA) and other state CPA societies. This isn't a change to our name. We're still the Texas Society of CPAs. We've just given our acronym and logo a Texas-sized update.

Chapter names strengthen the brand with the use of TXCPA. For example, the Houston CPA Society is referenced TXCPA Houston and the Brazos Valley Chapter of the Texas Society of CPAs is now simply TXCPA Brazos Valley.

Other exciting updates to our logo include fresh, dynamic colors that carry on our traditional use of blues; a star in the A that gives a nod to being known as the Lone Star State; and bold representation of CPA, three letters that make our members and us stand out.

MEMBER INPUT AND LEADERSHIP GUIDANCE

A process that began two years ago culminated in a brand assessment provided by branding firm Arrow out of Austin. Members provided input and insights during the process through focus groups and an all-member survey.

Our chairman, with the support of the Executive Board, appointed a Brand Implementation Task Force to implement recommendations included in a report from Arrow. Task Force members are Brandon Booker – Fort Worth, Sheila Enriquez – Houston, Kate Rhoden – Austin, Bill Schneider – Dallas, Jeannette Smith – Rio Grande Valley, Priscilla Soto – San Antonio, AJ Taylor – Brazos Valley, Stephen Parker – chairman, and Jodi Ann Ray – president & CEO. (Melinda Bentley, director of marketing and communications, serves as staff liaison.)

FUTURE GROWTH

By remaining relevant and magnetic to future generations of Texas CPAs, TXCPA can continue to grow and stay strong as the largest, most influential association of accounting and finance professionals in Texas. We hope you'll find our new look and feel to be reflective of a vibrant organization you're proud to be a part of.

Go to tscpa.org to see the new look and feel of the TXCPA website. Designed to create an improved experience for members, the cleaner layout, improved navigation and more intuitive features enable you to find the information and resources you need quickly and easily.

TAKE NOTE

SAVE THE DATE:

TXCPA's 2019 Annual Meeting of Members and Board of Directors Meeting

June 21-22, 2019
Sheraton New Orleans

Learn more on our website
tscpa.org

Simplify and Maximize Your Membership Renewal with TXCPA's Group Billing Program

If you have more than one TXCPA member who works in your organization, you're eligible for group billing benefits. TXCPA's Group Billing Program is tailored to meet your unique needs and participation in this specially designed program ensures that your membership dues investment returns the highest value available. Learn more about [the benefits](#) of the Group Billing Program on our website. Contact Stephanie King at sking@tscpa.net or 800-428-0272, ext. 233 to enroll today!

Stay Connected With TXCPA – Update Your Contact Information and Email Preferences

Have you updated your email address and preferences recently? Make sure you're getting the most from your membership! Use the [Member Update Form](#) so you don't miss valuable updates and resources from TXCPA. If you have trouble logging in, please call member services at 800-428-0272 or 972-687-8500, option 1.

Steve Goodman Receives 2019 B&I Award



Steven R. Goodman

TXCPA congratulates Steven R. Goodman, CPA-Houston, CFP®, on being named as the recipient of the 2019 B&I award. The award honors CPAs who have spent their careers in B&I and have made significant contributions through their influence and impact on others in the accounting profession.

Goodman is the founder and president of Goodman Financial Corporation, which was registered in 1989. As

president, his responsibilities include firm management, and maintaining client and firm relationships.

Goodman has given back to the CPA profession for many years. He was TXCPA's 2008-2009 chairman and continues to be involved with his TXCPA chapter and the Society.

He also contributes to the CPA community through his firm Goodman Financial. He actively seeks team members with CPA backgrounds when making employment decisions, providing CPAs with an alternative to the more traditional positions found in accounting firms or roles in industry. Further, he works to ensure his employees see the value in the CPA license.

Whether it has been through traveling across the state to meet with members and students when he was TXCPA chairman or his more recent one-on-one conversations with B&I CPAs at events, Goodman shares his story and inspires others with his own passion for the profession.

Nominate a Member for a TXCPA Award

If you know TXCPA members who are deserving of recognition, be sure to nominate them for an award! TXCPA's Awards Committee is now seeking nominations for Meritorious Service to the Profession, Distinguished Public Service, Outstanding Committee Chairman, Distinguished Member, Honorary Member and Young CPA of the Year.

Nominations are due May 1, 2019. View the [awards criteria here](#).

CGMA® Designation: Next Testing Window for the Exam

The Chartered Global Management Accountant (CGMA®) designation recognizes U.S. CPAs and CIMA members who work in management accounting roles. The designation is a respected complement to your CPA license.

Candidates for the CGMA designation must pass a strategic and comprehensive examination. The exam is available four times a year during five-day testing windows. The next testing window is May 21-25, 2019, with a registration deadline of May 7, 2019. To learn more about the program and register for the exam, go to the CGMA website at cgma.org.



Accountants Confidential Assistance Network Resources - 10 Tips on Dealing With Tax Season Stress

For the last 25 years, the TXCPA Peer Assistance Foundation has made a positive impact on the CPA profession in Texas through administration of the Accountants Confidential Assistance Network (ACAN). We're celebrating ACAN and the work they do to help CPAs, exam candidates and accounting students learn how to merge healthier living with a demanding accounting career.

Tax season can be an exhausting time of year for CPAs. There's no way to avoid the long working hours required, but we offer these tips from *Forbes.com* on dealing with the high stress levels to help you survive and thrive during busy season.

- 1. Each day, set reasonable and achievable goals** - As you work through your daily priorities, you'll also see your total tax season goals being accomplished.
- 2. Focus on a single task** - Avoid switching from task to task, such as interrupting your work to respond to emails.
- 3. Take a break** - Our brains weren't meant to focus on work for eight to 10 hours straight, so make sure you look up from your computer once in a while or take a few minutes away from the spreadsheet.
- 4. Guard your time** - It's important to learn how to say no to what you can, while setting realistic boundaries around times of availability, hours for drop-ins, having an open office, etc.
- 5. Spend time outside** - Even if it's only for a quick break, getting out of your office for some fresh air does wonders to help clear your mind.

6. Get in some exercise - As little as 10 minutes of exercise gets you going and can boost your brainpower; taking the time to exercise for 30 minutes or more gives you even greater benefits.

7. Get more sleep - To help you do this, cut back on caffeine and alcohol, get plenty of natural sunlight during the day, stick to a consistent bed time routine, and have a regular bed time and wake time.

8. Step away from the technology - Block out times where you won't check your phone or tablet, and shut off all your devices at least 90 minutes before you're trying to get some sleep.

9. Develop positive relationships at work - Your friendships with co-workers can give you an outlet to share your thoughts and challenges.

10. Plan a vacation - Give yourself something to look forward to after a long, busy tax season.

Challenge yourself to incorporate as many of these small changes as possible into your routine. If you commit to following at least one of these tips every day, you may start to see an improvement in your stress levels within a few weeks.

For more information about ACAN, call 866-766-2226 or visit www.tscpa.org/advocacy/acan. Watch your TXCPA communications throughout 2019 for more health and wellness tips from ACAN.



2019 SPRING AND SUMMER TXCPA CONFERENCES

Mark your calendar now for TXCPA's popular, live learning opportunities being held this spring and summer. Come for the sessions, benefit from the networking and leave with knowledge to advance your career.

**Texas CPA Technology
Conference**

Addison, May 6-7
Houston, May 9-10

**Financial Strategic Leaders
Conference**

San Antonio, May 10

Energy Conference

Austin, May 13-14
Houston, August 28

**Nonprofit Organizations
Conference**

Dallas, May 20-21

**Audits of Employee Benefit
Plans Conference**

Houston, May 30

**Texas School District
Accounting & Auditing
Conference**

San Antonio, June 3-4

CPE by the Sea Conference

Galveston, June 12-14

**Current Issues in Accounting
and Auditing: An Annual
Update**

Grapevine, June 17

**Advanced Health Care
Conference Plus Pre-
Conference Workshop**

San Antonio, July 21-23

**Texas State Taxation
Conference**

Houston, August 5

**Forensic, Litigation
and Valuation Services
Conference**

San Antonio, August 8-9

**Advanced Estate Planning
Conference Plus Pre-
Conference Workshop**

San Antonio, August 14-16

To learn more and register, go to [tscpa.org](https://www.tscpa.org).



Kathy Brents, CPA, CBI
Broker, Managing Member

Christy Hudson, CBI
Broker

Contact Us



813 Oak Street 10A #298
Conway, AR 72032



Office - 866.260.2793
Kathy Cell - 501.514.4928
Christy Cell - 501.499.4357



kathy@accountingbizbrokers.com
christy@accountingbizbrokers.com
accountingbizbrokers.com

Selling your accounting firm is complex.
Let us make it simple.



IDEAS YOU WON'T FIND ON THE WEB

How do you stay on top of your professional game? Reading daily email news summaries? Professional journals? Peers in the office? Conferences and other continuing professional education? While each of these activities can provide insight, there's no place that summarizes computer technology better than TXCPA's technology conference. The independent advice, direct application to professional accounting and updates on trends in the market are presented in a succinct fashion in keynote and breakout sessions again this year.

What Are the Learning Opportunities? The plenary sessions are designed to provide perspectives on key issues, including personal privacy, productivity boosters, Excel's best new features and an overview of all technologies. Whether you make the decisions for an entire organization or simply for yourself, there will be content in each of the sessions you can use today and into the future.

While you may have attended both the technology conference and all-day CPE classes in the past, the K2 team always brings something new to every course. Topics at this year's conference include:

- New generation communications, such as 5G and Wi-Fi 6;
- Advanced Excel functions, including Power Query, new artificial intelligence features and some of the best new features of Excel 2019;
- Coverage of Power BI to help with your advanced reporting needs;
- PDF tools and virtual technologies;
- Blockchain;
- Dark web; and
- Personal technologies for your home and office.

And We Are Not Done Yet ... Members learn from other members. The technology conference gives you the opportunity to renew old friendships, make new ones and re-establish contact with your state society colleagues. Besides, getting out of the office and into a learning environment for two days is a great way to recharge your batteries, and gain insights to use in your business and personal life. We look forward to seeing you at this year's conference!

**Texas CPA Technology Conference
May 6-7, 2019
Crowne Plaza Dallas – Addison
May 9-10, 2019, Norris Conference
Center City Centre – Houston
Learn more and register on our [website](#)**

About the Author:

Randy Johnston is a shareholder in K2 Enterprises, LLC, a leading provider of CPE to state CPA societies. He also owns Network Management Group, Inc., a managed services provider that provides around-the-clock support from Boston to Honolulu. Concepts for this article were extracted from the 2019 K2 Technology Conference materials and from Johnston's own experience working with technology at various firms in the United States.



THE CLOCK IS RUNNING

The legislative session has been underway now for a few months and things are starting to heat up as the session moves forward. In early February, Governor Greg Abbott delivered his State of the State address, in which he identified the top priorities he would like the legislature to focus on in this session.

In his remarks, Abbott heaped praise on the Texas economy and noted that it was a primary reason the state attracts around 1,000 new residents every day. Then he moved on to identify his list of "emergency items" for legislators, things he feels are necessary to assure that Texas will continue to be the economic envy of the rest of the country. In the Texas Legislature, lawmakers cannot take up proposed legislation for votes on the House or Senate floor during the first 60 days of the session unless the matter relates to one of the governor's emergency items. Thus, what the governor puts on his list is important.

Abbott had six items on his emergency list this year and half of them related to schools and education. His agenda consisted of:

- School finance reform;
- Increasing teacher pay;
- School safety;
- Mental health programs;
- Property tax reform;
- Disaster response.

One item on the governor's emergency list that was no surprise was his call for property tax reform. After all, Abbott, Lt. Governor Dan Patrick and Speaker of the House Dennis Bonnen held a joint press conference at the beginning of the legislative session where they declared that property tax reform was a priority for legislative action this year and they stated their intent to work cooperatively to achieve that goal. Identical

John Sharbaugh, CAE, is TXCPA's managing director of governmental affairs. Contact him at jsharbaugh@tscpa.net.

bills on property tax reform (SB 2 and HB 2) were introduced early in the House and Senate and in his State of the State address, Abbott acknowledged and applauded the Senate and House leaders for advancing those bills.

TXCPA Advocacy Day and Sunset Legislation

In late January, TXCPA hosted its traditional Advocacy Day for the CPA profession. Hundreds of TXCPA members from around the state convened in Austin to learn how to be effective advocates for the profession and to meet with their legislators to discuss issues of concern. The number one priority for TXCPA and the CPA profession in this legislative session is to assure passage of the Sunset legislation that will continue the Texas State Board of Public Accountancy (TSBPA) and the Texas Public Accountancy Act (TPAA). The Sunset legislation (HB 1520 and SB 613) was introduced in the later part of February and the sponsors are Rep. Senfronia Thompson (D-Houston) and Senator Kirk Watson (D-Austin). In addition to pushing for its passage, TXCPA is working to have the bill amended to include provisions related to CPA firm mobility.

HUNDREDS OF MEMBERS PARTICIPATED IN TXCPA'S ADVOCACY DAY FOR THE PROFESSION.

Texas passed legislation in 2007 that provides a practice privilege to CPA firms from other states for all services except audit and attestation services. The standard that is

now in the AICPA/NASBA Uniform Accountancy Act (UAA) has been adopted in 26 other states so far and extends the practice privilege to any service CPA firms provide, including audit and attest services. The goal is to change our accountancy law to expand the current firm privilege to all services and conform with the national standard.

The purpose is to ease cross-border/state practice and is similar in nature to the individual mobility concept that has now been adopted in all states except one. Texas has had individual mobility in place since 2001. Initiatives like individual and firm mobility take time to accomplish, since every state has to pass legislation to implement the concept. But it is a goal worth pursuing, as it makes sense and recognizes the global environment that CPAs now practice in thanks to technology and ease of travel.

Property Tax Reform Moving in the Senate

The main feature of the legislation to reform property taxes (HB 2 and SB 2) would force local taxing authorities to get voter approval before they could increase property tax revenues more than 2.5 percent. Current law sets that cap at 8 percent and requires the voters to petition for an election to approve higher increases, whereas SB 2 and HB 2 would automatically require an election to exceed the 2.5 percent cap. In the last session of the legislature, there were several bills to place caps (at higher levels than 2.5 percent), but none passed. Trying for an even lower threshold this year may prove challenging to pass. Perhaps the strategy is to use the 2.5 percent as a starting point, assuming a compromise might yield success at a higher level.

The proposed legislation is opposed by many local governments that say the state should not be butting into their business. They note that this proposed cap will severely affect their ability to provide needed services to their constituents. On the other side of the debate, many taxpayers are supportive of the proposal to slow the increase in their property taxes, which have increased significantly for many homeowners over the past decade as a result of rising property values and tax increases. Some are also concerned that unless something is done to slow the rate of increase in property taxes that the Texas economy will suffer as fewer businesses and people will choose to move to Texas.

Education Funding and Property Taxes

There are some who think the proponents of property tax reform at the state level are being hypocritical when they want to limit the ability of local authorities to raise property taxes without providing more assistance from the state. According to the Legislative Budget Board (LBB), the state's share of school funding was around 48.5 percent in 2008 and dropped to 38 percent of the total in 2019. As a result of this drop in the state's funding level, local authorities have had to make up the difference and their major tool to accomplish that is the local property tax.

That's the challenge the legislature and local governments are facing. This is probably the biggest and hardest issue the legislature will deal with this session. My guess is we likely won't see the final resolution until late in the session. And the clock is now winding down on the amount of time left to reach some kind of agreement, as the legislature is set to adjourn on May 27.

GET READY FOR FORM 8867

And Related Due Diligence Required By the PATH Act and the TCJA

By Aaron P. Borden, JD, CPA

Form 8867, and the related due diligence required under Treas. Reg. § 1.6695-2, has historically been associated with the Earned Income Tax Credit and was rarely required in most CPAs' practices. However, Form 8867, and the related due diligence, will have a much more prominent role in most return preparers' practices beginning in the 2019 filing season. In fact, return preparers will likely find that Treas. Reg. § 1.6695-2 due diligence is required for almost every Form 1040 return impacted by dependents.¹ This increase in required due diligence is a result of several recent legislative changes.

The first factor expanding the required due diligence arises from the combined impact of the Protect Americans from Tax Hikes Act (PATH Act) and the Tax Cuts and Jobs Act (TCJA). The PATH Act extended the Treas. Reg. § 1.6695-2 due diligence requirements to tax returns claiming the Child Tax Credit. While this change increased the frequency of the required due diligence beginning in 2016, the impact of this change will be compounded for the 2018 through 2025 tax years as a result of the TCJA's significant expansion of the Child Tax Credit.

For 2018 through 2025 tax years, the Child Tax Credit, in essence, replaces the dependency exemption for most taxpayers. Almost all individual taxpayers will be able to claim the Child Tax Credit, because the phase out does not begin until the taxpayer's modified AGI reaches \$400,000 for joint filers and \$200,000 for all other filers (compared with the pre-TCJA phase out that began at \$110,000 for joint filers, \$55,000 for married filing separate and \$75,000 for head of household).

In addition, the TCJA expands the categories of dependents who qualify for the Child Tax Credit by creating a \$500 credit for qualifying relatives. Prior to the TCJA, children under the age of 17 were qualifying children for Child Tax Credit purposes. Under the TCJA, the taxpayer's children ages 17 through 23, lineal ancestors, stepparents, aunts, uncles, nieces, nephews, certain in-laws and certain other dependents who live with the taxpayer are qualifying relatives who may give rise to the Child Tax Credit.

The second factor expanding the due diligence requirements is in connection with certain other tax positions. In 2016, the PATH Act also expanded the Treas. Reg. § 1.6695-2 due diligence requirements to tax returns claiming the American Opportunity Credit and the Additional Child Tax Credit, and in 2018, the TCJA expanded the associated due diligence requirements to the head of household filing status.

¹ While the dependency exemption is temporarily removed by the TCJA, the determination of dependents remains relevant. For instance, head of household filing status and the Child Tax Credit require a consideration of taxpayers' dependents.





UNDER FINAL REGULATIONS ADOPTED NOV. 5, 2018, COMPLETING FORM 8867 IS AN ESSENTIAL PART OF THE DUE DILIGENCE PROCESS.

As a result, for the 2018 and subsequent tax years, return preparers are required to complete Form 8867 and the related due diligence in connection with any return claiming the Child Tax Credit, the Additional Child Credit, the American Opportunity Credit or the head of household filing status.

Due Diligence Required

The return preparer due diligence requirements are found in Treas. Reg. § 1.6695-2. Under final regulations adopted Nov. 5, 2018, completing Form 8867 (based on information provided by the taxpayer) is an essential part of the due diligence process. However, there are additional due diligence requirements that return preparers often overlook, including: (1) completing the applicable worksheets prescribed by the IRS or recording in one or more documents the method and information used to make the computations,² (2) meeting the knowledge requirements concerning the basis for the benefits claimed on the return and contemporaneously documenting inquiries and responses related to meeting the knowledge requirements,³ and (3) retaining the documents used in preparing the return for three years.⁴ A return preparer who completes and files Form 8867, but fails to comply with the additional requirements, has not satisfied the due diligence requirements of Treas. Reg. §

1.6695-2 and may be subject to penalties.

Penalties for failure to be diligent are usually associated with the return preparers' failure to meet the knowledge requirements in Treas. Reg. § 1.6695-2(b)(3). This provision states that a return preparer: (1) must not know that any information used to determine the taxpayer's eligibility is incorrect, (2) must not have reason to know that any information used to determine the taxpayer's eligibility is incorrect, (3) may not ignore the implications of information furnished to, or known by, the return preparer, (4) must make reasonable inquiries if the information appears to be incorrect, inconsistent or incomplete, and, arguably most important, (5) must contemporaneously document in his/her file any inquiries made and the responses to those inquiries.

As detailed below, the examples in the regulations focus on when information should appear incorrect, inconsistent or incomplete to the return preparer and when a return preparer can rely on existing knowledge to satisfy the knowledge requirement.

> Incorrect Information Requiring Additional Inquiries

The regulations provide the following example of a situation where additional inquiries are required, because the information provided by the taxpayer should appear incorrect to the return preparer.

² Treas. Reg. § 1.6695-2(b)(2).

³ Treas. Reg. § 1.6695-2(b)(3).

⁴ Treas. Reg. § 1.6695-2(b)(4).

W engages Preparer F to prepare her federal income tax return. During Preparer F's standard intake interview, W states that she is 50 years old, has never been married and has no children. W further states to Preparer F that during the tax year, she was self-employed, earned \$10,000 from her business and had no business expenses or other income. Preparer F believes W may be eligible for the Earned Income Tax Credit. To meet the knowledge requirement, Preparer F must make reasonable inquiries to determine whether W is eligible for the Earned Income Tax Credit, including reasonable inquiries to determine whether W's business income and expenses are correct, and Preparer F must contemporaneously document these inquiries and the responses.⁵

The regulations do not explain why additional due diligence is required in this fact pattern. However, the fact pattern suggests that return preparers should suspect that this information is incorrect when a self-employed individual indicates that he/she did not incur any business expenses. In this example, the facts are particularly suspect, because the taxpayer reports self-employment income in an amount that would maximize the taxpayer's Earned Income Tax Credit. Therefore, the return preparer must make additional inquiries to confirm that the taxpayer has not omitted business expenses to maximize her Earned Income Tax Credit.

> Inconsistent Information Requiring Additional Inquiries

The regulations provide the following example of situations where the information provided by the taxpayer appears to be inconsistent.

In 2018, Q, a 22-year-old taxpayer, engages Preparer C to prepare Q's 2017 federal income tax return. Q completes Preparer C's standard intake questionnaire and states that she has never been married and has two sons, ages 10 and 11. Based on the intake sheet and other information that Q provides, including information that shows that the boys lived with Q throughout 2017, Preparer C believes that Q may be eligible to claim each boy as a qualifying child for purposes of the Earned Income Tax Credit and the

ALSO SEE THE REGULATIONS FOR AN EXAMPLE THAT INDICATES ADDITIONAL DUE DILIGENCE IS REQUIRED WHEN A 32-YEAR-OLD TAXPAYER SEEMINGLY QUALIFIES FOR THE AMERICAN OPPORTUNITY TAX CREDIT.

Child Tax Credit. However, Q provides no information to Preparer C and Preparer C does not have any information from other sources to verify the relationship between Q and the boys. To meet the knowledge requirement, Preparer C must make reasonable inquiries to determine whether each boy is a qualifying child of Q's for purposes of the Earned Income Tax Credit and the Child Tax Credit, including reasonable inquiries to verify Q's relationship to the boys. Preparer C must also contemporaneously document these inquiries and the responses.⁶

In this example, the inconsistent information is clearly the taxpayer's age in relationship to her children's ages and the return preparer must conduct additional due diligence to confirm the relationship.

The regulations also provide an example that indicates additional due diligence is required when a 32-year-old taxpayer seemingly qualifies for the American Opportunity Tax Credit.⁷

> Incomplete Information Requiring Additional Inquiries

The regulations provide the following examples of situations where additional inquiries are necessary, because the taxpayer did not provide complete information.

In 2018, R, an 18-year-old taxpayer, engages Preparer D to prepare R's 2017 federal income tax return. R completes Preparer D's standard intake questionnaire and states that she has never been married, has one child, an infant, and that she and her infant lived with R's parents during part of the 2017 tax year. R also provides Preparer D with a Form W-2 showing that she earned \$10,000 during 2017. R provides no other documents or information showing that R earned any other income during the tax year. Based on the intake sheet and other information that R provides, Preparer D believes that R may be eligible to claim the infant as a qualifying child for the Earned Income Tax Credit and the Child Tax Credit.

To meet the knowledge requirement, Preparer D must make reasonable inquiries to determine whether R is

⁵ Treas. Reg. § 1.6695-2(b)(3)(ii)(G).

⁶ Treas. Reg. § 1.6695-2(b)(3)(ii)(A).

⁷ Treas. Reg. § 1.6695-2(b)(3)(ii)(H).

eligible to claim these credits, including reasonable inquiries to verify that R is not a qualifying child of her parents (which would make R ineligible to claim the Earned Income Tax Credit) or a dependent of her parents (which would make R ineligible to claim the Child Tax Credit). Preparer D must contemporaneously document these inquiries and the responses.⁸

In 2019, S engages Preparer E to prepare his 2018 federal income tax return. During Preparer E's standard intake interview, S states that he has never been married and that his niece and nephew lived with him for part of the 2018 taxable year. Preparer E believes S may be eligible to file as head of household and claim each of these children as a qualifying child for purposes of the Earned Income Tax Credit and the Child Tax Credit, but the information furnished to Preparer E is incomplete.

To meet the knowledge requirement, Preparer E must make reasonable inquiries to determine whether S is eligible to file as head of household and whether each child is a qualifying child for purposes of the Earned Income Tax Credit and the Child Tax Credit, including reasonable inquiries about the children's residency, S's relationship to the children, the children's income, the sources of support for the children and S's contribution to the payment of costs related to operating the household. Preparer E must contemporaneously document these inquiries and the responses.⁹

The second example above was modified in the final regulations to clarify that the IRS believes additional due diligence is required in that fact pattern, because the information is incomplete. This modification, combined with the first example, suggests that the IRS believes additional due diligence is required anytime the facts indicate that the qualifying child or other qualifying relative might be a dependent of someone other than the taxpayer.

> Reliance on Existing Knowledge

In certain circumstances, a return preparer may satisfy the knowledge requirement based on existing knowledge without having to make additional inquiries. The following examples in the regulations illustrate situations in which the return preparer may be able to satisfy the knowledge requirement based on existing knowledge.

Returning to taxpayer Q above (a 22-year-old taxpayer who has never been married and has two sons, ages 10 and 11), as part of preparing Q's 2017 federal income tax



return, Preparer C made sufficient reasonable inquiries to verify that the boys were Q's legally adopted children. When preparing Q's 2018 federal income tax return, Preparer C is not required to make additional inquiries to determine the boys' relationship to Q.¹⁰

Returning to taxpayer R above (an 18 year-old taxpayer who has never been married, has one child, an infant, and lived with her parents during part of the 2017 tax year), Preparer D previously prepared the 2017 joint federal income tax return for R's parents. Based on information provided by R's parents, Preparer D has determined that R is not eligible to be claimed as a dependent or as a qualifying child for purposes of the Earned Income Tax Credit or Child Tax Credit on R's parents' return. Therefore, Preparer D is not required to make additional inquiries to determine that R is not her parents' qualifying child or dependent.¹¹

However, the knowledge requirement must be satisfied with pre-existing knowledge that was acquired in the context of the preparer's tax return preparation practice and the preparer may not rely on pre-existing knowledge acquired from outside social interactions. The following example from the regulations illustrates this distinction.

Returning to taxpayer S above (never married and his niece and nephew lived with him for part of the 2018 taxable year), Preparer E knows from prior social interactions with S that the children resided with S for more than one-half of the 2018 tax year and that the children did not provide over one-half of their own support for the 2018 tax year.

To meet the knowledge requirement, Preparer E must make the same reasonable inquiries to determine whether S is eligible to file as head of household and whether each child is a qualifying child for purposes of the Earned Income Tax Credit and the Child Tax Credit. This includes reasonable inquiries about the

⁸ Treas. Reg. § 1.6695-2(b)(3)(ii)(C).

⁹ Treas. Reg. § 1.6695-2(b)(3)(ii)(E).

¹⁰ Treas. Reg. § 1.6695-2(b)(3)(ii)(B).

¹¹ Treas. Reg. § 1.6695-2(b)(3)(ii)(D).

children's residency, S's relationship to the children, the children's income, the sources of support for the children and S's contribution to the payment of costs related to operating the household. Preparer E must contemporaneously document these inquiries and the responses.¹²

The above examples reinforce the requirement to contemporaneously document the inquiries made and the responses to those inquiries to satisfy the knowledge requirement of due diligence. During the comment period for the regulations, one commenter recommended that the IRS permit return preparers to demonstrate satisfaction of this requirement through other forms of evidence, such as testimony. The IRS rejected this suggestion and reiterated that contemporaneous documentation is an important requirement for improving compliance and reducing the error rate in tax returns.

Due Diligence Penalty

Section 6695(g) imposes a \$500 penalty¹³ on return preparers for each failure to be diligent. Prior to recent changes, each failure to be diligent was a per-return penalty. However, after section 6695(g) was expanded by the PATH Act and the TCJA, the regulations provide for a separate penalty for each credit or head of household claimed on a return; thus, the IRS may impose multiple penalties on a return preparer in connection with a single return. The IRS' position is illustrated by the following example from the regulations.

Penalty Relief Under Treas. Reg. 1.6695-2(d)

The regulations provide an exception to penalty at the IRS' discretion. Under Treas. Reg. § 1.6695-2(d), the penalty will not be assessed if the return preparer can demonstrate to the satisfaction of the IRS that, considering all the facts and circumstances, the return preparer's normal office procedures are reasonably designed and routinely followed to ensure compliance with the due diligence requirements, and the failure to meet the due diligence requirements with respect to a tax return was isolated and inadvertent.

Additional Inquiries

Form 8867, and the related due diligence required under Treas. Reg. § 1.6695-2, will likely be

¹² Treas. Reg. § 1.6695-2(b)(3)(ii)(F).

¹³ The penalty is subject to an annual inflation adjustment and is currently \$520 per failure to be diligent.

THE REGULATIONS PROVIDE AN EXCEPTION TO PENALTY AT THE IRS' DISCRETION.

required on a significant number of individual tax returns for the 2018 and subsequent tax years. In light of this fact, return preparers must be alert to situations that require additional due diligence, because the information provided by the taxpayer is incorrect, inconsistent or incomplete. In these situations, the return preparer must make additional inquiries and contemporaneously document the inquiries and responses to avoid the \$500 penalty imposed under section 6695(g) for each failure to be diligent.

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About the Author:

Aaron P. Borden, JD, CPA-Dallas, is an associate at Meadows, Collier, Reed, Cousins, Crouch & Ungerman, L.L.P. His practice is focused on representing taxpayers in tax controversies with the IRS and the Texas Comptroller, and representing white-collar defendants in criminal investigations and controversies initiated by the Department of Justice, IRS and other government agencies. Contact him at aborden@meadowscollier.com.



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CPAS ACTING AS INTERIM CFO: HOW TO MANAGE THE RISK

By Alvin Fennell III and Joseph Wolfe

Connor Franklin was a CPA providing bookkeeping and tax services to a fast-growing online retailer named Cats Eats, which sold gourmet pet food.¹ One day, the owner told Franklin: "Business is booming! I want to hire a CFO, but I can't afford one yet. Can you step in on a temporary basis to help out?"

What should Franklin do? What would you do?

Franklin wondered if he might be getting in over his head. If something went wrong, could it get him in trouble? He briefly considered calling his insurance agent to find out if his professional liability policy would cover the services, but discarded the idea.

Franklin wanted to add "Chief Financial Officer Services" to his list of marketable skills, so he accepted the engagement. Over the next month, the owner increasingly relied on Franklin's experience and knowledge of the company's operations while he tended to growing the business. To make him feel like part of the "family," he had business cards printed up with Franklin's name, the company's cat paw logo and the title Chief Financial Officer.

As time went on, Franklin became more involved in Cats Eats' activities. Time demands on the owner were great; he was training 10 employees who had been added in just the past three months. The company had grown to more than 50 employees in less than a year, and he couldn't keep up with all of the day-to-day management activities or the tax, accounting and legal compliance requirements.

One day, the owner told him: "Put on your human resources hat. I want you to interview two job candidates



for the new IT manager's job and give me your recommendation."


Franklin had interviewed and hired a number of employees over the years and felt he could handle this assignment. The first candidate was a 62-year-old woman who had provided IT support for Cats Eats since it was founded and had performed contract work for the owner for 20 years. The owner told Franklin she was undergoing kidney dialysis. The interview went well,

but Franklin had some concerns about her qualifications to integrate the company's existing e-commerce platform with an ERP system the owner was considering purchasing.

The second candidate was a recent Stanford University graduate who was relatively untested, but had hands-on experience helping a friend with a system integration project for his online business. Franklin was impressed with his extensive knowledge of e-commerce business operations.

Following the interviews, Franklin told the owner: "I would recommend the Stanford grad. He has a lot less experience, but he's very knowledgeable, has done some system integration work and is willing to work for less money. He'll give your company more mileage in the long run. But I think you should interview both of them yourself and consult with an employment lawyer before making your decision."

The owner conducted a brief telephone interview with the recent graduate and hired him – without consulting his attorney. Several months later, the other candidate who interviewed for the position found out about the new hire and filed an age discrimination complaint against Cats Eats with the EEOC.



"CPAS ARE CONSULTANTS. ONCE YOU START PERFORMING MANAGEMENT DUTIES, OR YOUR CLIENT THINKS YOU ARE DOING SO, YOU'VE CROSSED THE LINE."

The owner immediately called Franklin. "The lawyers I have to hire to defend this are going to be expensive. You told me to hire the student! I hope you've got good insurance."

Franklin decided to terminate his engagement with the client and wrote off some unpaid fees. He forgot all about the client until a year later, when he was served with a lawsuit filed by Cats Eats. It turned out that the EEOC eventually issued a right to sue letter to the job candidate and she filed an employment practices lawsuit against Cats Eats.

The suit papers stated that Cats Eats was filing a cross-complaint for indemnity and contribution against Franklin and his CPA firm for the claims made against the company, alleging professional negligence. Cats Eats had already incurred more than \$50,000 in defense costs in the employment practices case, which was still ongoing. At this point, Franklin called his insurance broker.

"I probably should have contacted you sooner," he said. Franklin's story ends with the words insurance professionals hate to utter and policyholders fear to hear: "You may have a coverage problem."

CPAs and Management Responsibilities

"Professional liability insurance policies generally exclude coverage for services rendered when the policyholder also performs management duties or assumes management responsibilities on behalf of the client," says Dave Sukert, JD, a senior vice president at Aon Affinity.

"It doesn't matter whether a formal title like CFO is used to describe these activities," said Sukert. Once an allegation is made that a CPA performed management duties for a client, it raises a potential insurance coverage problem associated with exclusions that exist in all professional liability policies. "CPAs are consultants. Once you start performing management duties, or your client thinks you are doing so, you've crossed the line."

If Franklin had been hired as an individual by Cats Eats to serve as CFO, he would have been afforded coverage under the company's directors' and officers' liability insurance policy, presuming they maintained this coverage. But in this case, the owner of Cats Eats didn't want to incur the cost of either having a CFO on staff or purchasing additional insurance coverage. It was cheaper and easier to hire Franklin's CPA firm to render the services he wanted.

"The irony of these types of situations," said Sukert, "is that the CPA is accused of having made bad management decisions for the client, but doesn't receive the benefit of insurance coverage under the client's D&O policy. The CPA has also jeopardized insurance coverage under the CPA firm's professional liability policy. It's a lose-lose situation. They could end up footing the bill to hire their own attorney to assist them in disputing a coverage position taken by their professional liability insurer."

An Old Issue, Now an Emerging Risk

"This issue has been around for 20 years," said Ken Mackunis, president of the AICPA Professional Liability Insurance Program. "Today, many clients run their businesses online and with the technology available, they can ramp up business growth in months, rather than years. Many of these owners lack the skills to manage rapid business growth, so they turn to their CPA. It's a great new business opportunity."

"The good news," Mackunis said, "is that CPAs do not have to decline this type of work. It is possible for a CPA to render the services needed by the client, but practitioners should seek guidance in addressing the liability exposures and framing their role before agreeing to perform these services."

The client may not fully understand what services they need. They may need consulting and controller-type services to manage day-to-day accounting and tax functions, rather than a CFO. When CPAs frame the engagement as consulting, accounting and tax services, they minimize the risk that the client will expect them to assume management duties or functions. Once the client regards you as a decision maker, your liability exposures change.

"If your client actually needs a temporary CFO," said Mackunis, "consult with both your lawyer and your insurance broker about potential legal and insurance coverage issues before deciding how to proceed."

Depending on the circumstances, it may be appropriate to have your lawyer draft an independent contractor agreement that limits your legal liability and present this to the client for consideration. When doing this, clearly communicate that you will be working as an independent contractor to the client's firm and that your CPA firm will not render these services, and confirm this in writing.

While this will result in payment of income taxable to you individually, it may be a more effective way to protect both you and your CPA firm from liability under the circumstances and help out the client.

When CPAs frame the engagement as consulting, accounting and tax services, they minimize the risk that the client will expect them to assume management duties or functions.

Risk Management Guidelines for CPA Firms

Be specific when you market your services. The work needed by these types of clients usually consists of traditional tax, accounting and consulting services. Promoting managerial or CFO services in advertising materials creates an expectation that you can serve in a senior management role for clients. A more effective means of communicating about your services is to promote it as "... outsourced tax, accounting and consulting services."

Do NOT make managerial decisions.

Regardless of whether the individual rendering services is an owner or an employee of the CPA firm, it is important to stay in a consulting role. Provide written recommendations to the client, requiring the client to make all management decisions, and to provide their decision and instructions in writing. Emails can be written quickly and serve as important evidence in the event of a misunderstanding or dispute later. Franklin did all his communicating by phone. If there had been an email chain confirming the conversations he had with the business owner, the lawsuit by the client likely never would have been filed – and if it did, the written communications would have served as critical evidence both in defending Franklin and in avoiding a coverage issue.

Do NOT sign contracts for the client. Binding agreements and contracts should be left to the business

owner. Only parties vested with the necessary written legal authority should enter into agreements on behalf of a business.

Clarify your role in the engagement letter. Issue an engagement letter that clearly defines the scope of services to be rendered. Clearly state the professional standards that apply to the services to be performed. In most cases, these will be the Statements on Standards for Consulting Services (SSCS) and the Statements on Standards for Tax Services (SSTS). During the engagement, the client may also request that financial statements be prepared or compiled for their use; these services are subject to the Statements on Standards for Accounting and Review Services (SSARS). When new services are added, issue an updated engagement letter that describes them and lists the applicable professional standards. Have the client sign and date the letter before rendering these services.

Stay within your scope of practice. Once the scope of services has been defined, do not stray into performing services not covered by the professional standards listed in the engagement letter. Review the content of SSCS, SSTS and SSARS. Performing management duties or making management decisions for a client are not within the scope of these standards.

Document, document, document. Document all conversations and recommendations in both the working paper file and a written communication to the client. Be concise when explaining your recommendations and providing the client with information needed to make business decisions. Specify the client's responsibility for making final decisions based on your recommendations.

Delegate responsibility to someone within the firm. Whenever possible, request that the client assign an executive with sufficient time and expertise to oversee all services provided by the CPA firm. Have this individual communicate the tasks to be performed, evaluate the adequacy and results of services rendered, and accept responsibility for all decisions made. In Franklin's case, this responsibility fell on the owner.

Do NOT take the title of CFO. Avoid referring to yourself as a client's "temporary" or "outsourced" controller or CFO. Controller and CFO are managerial titles and roles. Unlike Franklin, do not allow the owner to provide you with business cards or include office signage that lists you as CFO.

My Client is a Friend. He/she Would Never Sue Me

"We hear this all the time," said Sukert. "As a friend, you want to help. You want the business. Be careful. A CFO is a senior executive with responsibility for managing the financial affairs of a company. Your job is to analyze financial information and provide business recommendations to the client."

While the scope may also include performing accounting services, preparing financial statements, or providing tax advice and preparing tax returns, it's important to clearly describe the scope in the engagement letter. If the client wants to add services, issue an updated engagement letter before rendering the services.

It's not unusual for small business owners to attempt to deflect business decisions that are difficult or involve areas where they lack experience. However, they should not be delegating these responsibilities to their CPA firm. Bear in mind that even when a CPA-client relationship has been close for many years, that can change when clients find themselves facing a lawsuit or are in dire financial straits. Mindsets can change and in the event of a lawsuit, engagement letters and written communications serve as important evidence in proving what was agreed to, and what occurred.

If you receive an offer to work as an interim CFO or controller, call your professional liability insurance broker. Have a conversation. Come away with a plan to avoid putting yourself and your CPA firm at risk. Work with these simple precautions in mind and you'll better protect yourself, your CPA firm and your stress levels.

¹Connor Franklin is a fictional character. His story, though typical of the risks of accepting work as a temporary CFO, is used for illustrative purposes only.

About the Authors:

Alvin Fennell III is the vice president of underwriting at Aon Affinity, the administrators of the AICPA Professional Liability Insurance Program since 1967. Fennell has over 25 years' experience working with the program.

Joseph Wolfe is a risk management consultant working with Aon Affinity. Previously, he worked with the program's underwriter, CNA. Wolfe has 37 years' experience in the insurance industry. For more information, visit www.cpai.com.

THE WINNER IS ...

A Look at the Side Effects of Excessive Cellphone Use

By Jason MacGregor and David Hurtt

One of the most significant public failures for our profession in recent years occurred when a PwC partner was preoccupied with Twitter and failed to ensure that the true winner of the Academy of Motion Picture Arts and Science 2017 Best Picture was promptly and properly announced. While this was a simple human error unlikely to be repeated, why the error occurred may suggest a bigger problem for our profession.

When Apple first introduced the iPhone more than 10 years ago, it began an era where technology became omnipresent, where the line between home life and work life disappeared, and where a generation of future CPAs was raised addicted to their phones. Since at many accounting firms, most of the employees are under 30 years old, this means technology addicts outnumber the other employees. Many of these so-called millennials will check their phones nearly 150 times a day, spend hours on social media and send hundreds of text messages daily.

Much of the prior discussion on the intersection of cellphone use and the accounting firm has been on

when is it appropriate to use the device or what can be done on a personal device, but the discussion on how CPAs can mitigate the potential downside of cellphone use has been minimal. This article seeks to start that conversation by reflecting on several side effects of excessive cellphone use and suggesting some strategies to mitigate these effects.

Distracts When in Use and Not in Use

Millennials check their devices repeatedly throughout the day. Some users' lives are so fixated to their devices that they experience phantom notifications. Each of these alerts, whether real or imagined, can break one's focus and potentially distract the user. These constant pings may be somewhat responsible for the average college students' attention span shrinking from 12 seconds to 8.25 seconds over the last 15 years.

The issue of mobile device distraction has risen to the level of a national debate. States have instituted laws to ban drivers from using their cellphones. If accountants are similarly distracted by their cellphones, then there may be many adverse implications.

Impaired Professional Skepticism. Imagine an auditor interviewing a member of management about an unusual transaction, when his/her cellphone vibrates. As a cellphone addict, he/she feels compelled to check the latest message. Perhaps this urgency increases his/her willingness to accept management's explanation. Auditors are charged to act with a questioning mind, but is this possible if their mind is not engaged on the audit task, but on speculating what their most recent text says?





This suggests that even if compelled to engage in face-to-face interaction in a professional setting, a heavy user may lack the interpretation skills necessary to be effective.

Aversion to Social Interactions. Social anxiety disorder and general anxiety are known consequences of heavy cellphone usage. If a CPA avoids social interaction, then he/she will be less effective at maintaining positive client relations. Further, he/she may lack the ability to develop a social connection with the client, which may undermine the ability to foster the trust that is necessary for professional work.

Recommendation: Gamification. There are numerous training programs that can help a young professional learn the skills to be effective at oral communication. However, the solution requires a commitment from every level in the firm to developing these skills. Millennials are often resistant to critical feedback, so the development activities should be presented as an opportunity for growth and not a response to disappointing behavior. It may be helpful to structure the training activities with typical elements of game playing, such as competition with others and point scoring.

Inhibits Professional Development

The accounting profession is predicated upon a mentorship model in which seasoned professionals help guide younger professionals in their development within the firm. Heavy use of a mobile device may inhibit the mentorship relationship, because it reduces the young professional's responsiveness to feedback.

Narcissistic Personality. Heavy cellphone users develop narcissistic personality traits. These users may experience grandiose and attention-seeking behavior. Young professionals may struggle when given entry-level tasks, because they believe these tasks are beneath them. These tasks, which must be done, are often useful in demonstrating competence and are helpful in developing an understanding of the accounting processes. Further, the narcissist is resistant to corrective feedback.

Personification of Feedback. Heavy social media use may create a strong perceived bond between performance and personhood. Consider Facebook, where a user's self-esteem may be linked to how many people "like" their recent postings. Among heavy social media users in an academic setting, there is a stronger link between the student's grade point average and their satisfaction with life. This may indicate that heavy users' overall happiness is more closely linked to their performance reviews than less heavy users' overall happiness. In an accounting setting, when supervisors give feedback, they may unwittingly be

Overlooked Details. Tax professionals are often challenged to interpret laws and treaties where small details play a critical role in determining the appropriate accounting treatment. As a cellphone addict, the young professional may have a reduced attention span. This may lead him/her to accept the first seemingly acceptable treatment without completing his/her analysis. This phenomenon is often referred to as inattentive blindness.

Recommendation: Be Wise in Notification Settings. Many apps now provide users with considerable discretion on when/if they will be notified about new events. If one is extremely selective in what apps are permitted to interrupt one's routine, it is possible to minimize notifications.

Another strategy is to keep a simple smartphone usage log. This log can be shared with a trusted colleague who could offer suggestions for better control or perhaps even identify risk factors of addiction.

Promotes Anxiety

There are well documented mental health implications associated with heavy technology use. These heavy users view the world differently. Notably, they are more likely to be anxious. Separation from one's device for even 20 minutes can cause heavy users to become anxious. Anxiety is known to cause adverse outcomes, such as aversion to social interaction. An anxious CPA is particularly problematic.

While much of any CPA's work can be done in isolation, there are always some critical tasks that require discourse directly with others. Face-to-face interaction offers the potential for a multitude of information to be communicated through tone of voice or non-verbal cues. There are significant costs if anxiety causes an accountant to avoid personal interactions.

Low Acumen. In personal settings, a heavy cellphone user will favor written communication, such as text or email, to face-to-face communication. While this may be tolerable in that setting, the individual may not develop the skills to understand nuances in vocal tone or non-verbal signals.

assessing the value of the person being reviewed and not only the work product.

Recommendation: Carefully set mutually agreed upon expectations. It is simply impossible to tell young professionals to not be narcissistic or not take it personally. The mentor model offers the advantage of having a close associate offer gentle corrective feedback. However, this requires a long-term commitment and may not be effective at providing timely feedback. The alternative of frequent post-task feedback, which is frequently used in public firms, is also problematic, because it may provide greater stress than less frequent feedback.

We suggest feedback be moved to the planning stage. In the planning stage, invest the time to show the young professional how their assigned tasks are critical to the overall task. Perhaps even empower them to select among alternative tasks during the planning stage. With this approach, the young professional is choosing to do an entry-level task rather than being assigned an entry-level task. This planning-level feedback would provide opportunities to delineate the characteristics of acceptable or excellent performance. We are suggesting the gamification of the accounting profession: clear rules, points and winners. Rather than fearing the technology, CPAs could use the very things that make the technology appealing to evolve our profession.

Distorts Reality

Historically, the CPA Examination has served as a barrier to our profession. It prevented people without sufficient technical knowledge from becoming CPAs. However, a CPA's value lies not only in his/her technical knowledge, but in his/her judgement. Consistent with this contention, AICPA has significantly revised the entrance examination to shift the focus towards judgement and reduce the assessment of technical knowledge. This shift in focus on the CPA Exam may be necessary to communicate the importance of auditor judgement, but it is not sufficient to develop that judgement. The consequences of heavy cellphone use on audit judgement is concerning.

Researchers considered how cellphone use impacted pedestrian behavior on a college campus. They found that it dramatically impaired the effectiveness of pedestrians to safely navigate the campus. Notably, this was true with both mundane and cognitively complex navigation tasks.

Other researchers examined how cellphone use impacted drivers' behaviors. They found heavy cellphone users drive faster, change lanes more frequently, and have more instances of hard braking and high acceleration events

even when not on the phone. These types of behavior suggest a CPA who engages in excessive cellphone use could fail to correctly understand reality.

Unfounded Confidence. Most organizations depend on their accounting professionals to reach defensible decisions, especially when there are multiple possible accounting treatments. If the driving and walking experiments can be extrapolated to auditing, the heavy cellphone user will have a reduced ability to reach the correct decision, but they may be unaware of their inability. With this unfounded confidence, the CPA will fail to consider alternative solutions, fail to see the possible downside of decisions and be ill-prepared if the folly of his/her decisions is brought to his/her attention.

Risky Responses. Arguably the modern auditor's success depends less on how he/she plans an audit and more on how he/she responds to information acquired while gathering audit evidence. Corporate accountants must also be equipped to gather and process information. However, the heavy cellphone user seems to adopt riskier strategies. This could be the result of a cognitive bottleneck. The user simply lacks the cognitive resources to assess the risk factors, because so much cognitive capability is involved in monitoring and processing mobile device data.

Recommendation: Counter measures. Unfounded confidence and unnecessarily risky decisions are well-documented problems. The solutions generally involve self-reflection and tough questions. For example, to reduce unfounded confidence, CPAs should ask the question, "What are some alternative strategies/treatments?" A similar strategy may be employed to ensure people are aware of the risks associated with a decision.

Tip of the Iceberg

There is no easy solution when a generation of professionals must learn to cope with a serious addiction problem. This problem is compounded by the almost certain denial that this problem exists. See Figure 1 to take a cell phone addiction test.

When the Academy Award's best picture flub occurred, the accounting profession was put on notice that technology is dangerous. Some dismissed the occurrence as a one-off event that can be prevented through a new rule or problem unique to that firm, but what if this was the tip of the iceberg? Perhaps the previously awarded Best Picture, *Titanic*, offers the best advice: turn early, because if you wait too long, there is nothing you can do.



Figure 1. Roberts Cellphone Addiction Test

Check all that apply.

- Yes. The first thing I reach for after waking in the morning is my cellphone.
- Yes. I would turn around and go back home if I left my cellphone at home on the way to work.
- Yes. I often use my cellphone when I am bored.
- Yes. I have pretended to take calls to avoid awkward social situations.
- Yes. I find myself spending more and more time on my cellphone.
- Yes. I spend more time than I should on my cellphone.
- Yes. I get agitated or irritable when my cellphone is out of sight.
- Yes. I have gone into a panic when I thought I had lost my cellphone.
- Yes. I have argued with my spouse, friends or family about my cellphone use.
- Yes. I use my cellphone while driving my car.
- Yes. I have tried to cut back on my cellphone use, but it didn't last very long.
- Yes. I need to reduce my cellphone use, but am afraid I can't do it.

Results Key

8 + "Yes" answers: Evidence for habitual cellphone users.

5-7 "Yes" answers: You have crossed the tipping point and are moving towards a full-blown cellphone addiction.

3-4 "Yes" answers: You have not yet reached your tipping point, but need to carefully assess how your cellphone is impacting your life.

0-2 "Yes" answers: You are either living in a monastery or at least have the patience and self-restraint of a monk. Or, technology simply scares you.

About the Author:

Dr. Jason MacGregor is a widely published researcher whose work seeks to understand strategies to improve auditor effectiveness. He is currently an associate professor at Baylor University and holder of the Roderick Holmes Chair of Accountancy.

Dr. David Hurtt is currently a full professor at Baylor University. He is a graduate of Texas A&M and has been a CPA since 1985. His research has been published in the highest journals, including Accounting Review, Journal of Accounting and Economics, and Auditing.



GASB 77 – TAX ABATEMENT DISCLOSURES

By Izhar Haq, Ph.D., CPA; Keren Deal, Ph.D., CPA, CGFM; and Jason Gogue, Ph.D.

The Governmental Accounting Standards Board (GASB) issued statement No. 77, *Tax Abatement Disclosures*, in August 2015 for financial statements beginning after Dec. 15, 2015. GASB Statement No. 77 defines tax abatements as an agreement between a government and an entity in which the government forgoes tax revenues in return for a promise from the entity to take specific actions that contribute to the economic development that benefits the taxpayers of that government. Auditors of governmental financial statements need to have an understanding of what is required by GASB 77 to ensure compliance with the standard by the reporting governmental entity.

History of Tax Abatements

Tax abatements became popular in the early 1930s when southern governments used abatements as recruitment tools to attract industries to remote and/or rural areas in an effort to diversify their economies. Present day, tax abatements, most common in the form of tax credits or cash grants, are increasingly used by state and local governments to encourage business investment and job creation.

In the last 30 years, both the amount and variety of tax abatements have increased significantly as evidenced by the over \$6.4 billion in disclosed tax abatements awarded in the United States by state and local governments in 2017 alone. However, with these projects quickly escalating and totaling billions of dollars in tax abatements, the users of the government financial statements – the investors and creditors – desired to know more about the impact of the tax incentives from both the present and future perspectives.

Tax abatements are just one component of economic development incentives used by state and local governments to attract and keep companies. While it is difficult to determine an exact number of incentives provided by state and local governments in the past due to inconsistent disclosures, one estimate in 2012 was that

total economic incentives were around \$80 billion, with Texas accounting for approximately \$19 billion.

Texas Tax Abatements

In Texas, there are a number of different tax-related economic development programs. They include:

- Incentives types, such as property tax incentives (tax increment financing, tax abatements, value limitations and Freeport exemption);
- Local sales and use tax incentives (development corporation act and county assistance districts);
- State sales and use tax incentives (enterprise zones);
- Sales and use tax incentive (chapter 380/381 agreements);
- Sales tax and local fee waivers (neighborhood empowerment zones);
- And others, such as the NAFTA impact zones.

However, only two of the programs are considered tax abatement programs and, therefore, are subject to GASB 77 disclosure requirements. They are Tax Code Chapter 312, which addresses tax abatements for municipal and county governments, and Tax Code Chapter 313, which addresses tax abatements through value limitations for school districts.

Tax Code Chapter 312, also known as the Property Redevelopment and Tax Abatement Act, was passed by the state legislature in 1987. The Texas Comptroller of Public Accounts defines a tax abatement as “a local agreement between a taxpayer and a taxing unit that exempts from taxation all or part of the increase in the value of real property and/or tangible personal property for a period not to exceed 10 years.” Section A of the act covers general provisions, while Section B and C cover municipal and county reinvestment zones. A city or county must first establish guidelines and criteria for the tax abatement agreements. Then the city or county must

Tax Code Chapter 312 and Tax Code Chapter 313 are considered tax abatement programs and are subject to GASB 77 disclosure requirements.

establish a reinvestment zone, because only real property that is in a designated reinvestment zone can be subject to a tax abatement agreement.

Once a reinvestment zone has been established, a city or county can negotiate and approve a tax abatement agreement as long as the required procedures have been completed. The term of the tax abatement agreement can be up to 10 years. The designation of a reinvestment zone can be up to five years, and the established guidelines and criteria automatically expire after two years. Section 312 will expire on Sept. 1, 2019, unless a bill to extend the expiration date is passed by the Texas Legislature and signed by the governor.

Some argue that renewing section 312 is imperative to ensure that Texas is competitive in attracting businesses to the state, while others argue that it is a form of corporate welfare that shrinks the tax base for municipal and county governments.

Tax Code 313, also known as the Texas Economic Development Act (Texas Tax Code 313), was passed by the legislature in 2002. Through this act, school districts are able to provide incentives to businesses through value limitations. The Texas Comptroller of Public Accounts defines a value limitation as "an agreement between a taxpayer and a school district in which the taxpayer proposes to build or install property – and create jobs meeting certain wage and other requirements – in exchange for a 10-year limit on its taxable value for school maintenance and operations tax (M&O) taxes.

For the term of the limitation agreement, school M&O taxes are not levied on the property value in excess of the limitation amount. Section 313 allows school districts to grant property tax breaks to companies and those tax breaks are reimbursed to the school district by the state using general state revenues. Section 313 is considered by some to be Texas' biggest tax incentive. School districts are allowed to provide this incentive if the tax break is a deciding factor in the company's decision to invest in that locality.

The Texas Comptroller's biannual report estimated section 313 incentives to be valued at approximately \$326 million in 2016 and projected it to grow to about \$1.1 billion in 2022. The Comptroller's report also indicated that in 2015, section 313 incentives supported 10,818 jobs in Texas and added approximately \$754 million in wages.

Rationale for GASB 77

The intent of GASB 77 is to ensure that tax abatement information is properly disclosed not only about a reporting government's own tax abatement agreements, but also those tax abatement agreements of other governments that reduce the reporting government's tax revenues. It was the position of GASB that financial statement users should have information disclosed to them regarding agreements that either reduce revenues or limit the revenue raising capacity of a government.

Past disclosure of tax abatements by state and local governments was found to be sporadic and insufficient to meet the needs of the public. Many tax abatements were found to be not recorded at all in the accounting system of the reporting government, because the taxes were either never billed or collected. In addition, it was found that recapture provisions were not enforced when the beneficiary of the tax abatement failed to meet its financial investment or job creating commitment.

GASB 77 requires the disclosure of tax abatement information, because it is considered necessary for understanding the following in the reporting government's financial statements:

- The ability to meet current year's expenditures with current year revenues;
- Compliance with legal and contractual obligations that affect its financial statements;
- The sources and uses of its financial resources; and
- The financial position and economic condition, as well as how those two changed over time.

Legal Prohibition to Disclosing Tax Abatements

Governments legally prohibited from disclosing specific information about tax abatements that are required by GASB 77 may omit the information provided that they disclose the general nature of the tax abatement information omitted and disclose the specific source of the legal prohibition.

Tax Abatements Covered by GASB 77

Tax abatements or reductions can go by a number

of different names, including abatements, reductions, exemptions, deductions, credits, rebates, value reductions and incentives. The focus of GASB 77 is one of substance over form.

The objective of GASB 77 is to require the disclosure of an agreement between a reporting government and individual or entity in which the government reduces the individual's or entity's taxes in return for a commitment by the individual or entity to perform an action or actions that will result in some benefit to the government or its taxpayers.

FASB Position on Government Assistance

In July 2015, the Financial Accounting Standards Board (FASB) proposed Accounting Standards Update Topic 832 that would require disclosures of government assistance that companies receive, as well as disclosures on the effect of that assistance on the company's financial statements. The proposal would require companies to disclose the following:

- The nature of the assistance;
- The items in the balance sheet and income statement affected by the assistance; and
- Terms and conditions of the agreement.

Feedback from companies raised a number of concerns that would result from the implementation of the proposed standards, which included:

- Increase in compliance costs;
- Difficult to quantify;
- Disclosure of information that is considered proprietary; and
- Places businesses in legal jeopardy.

Currently, FASB is continuing to research the topic and get feedback from all constituents.

IASB Standard on Government Assistance

International Financial Reporting Standards IAS 20, which was effective in 1984, addresses companies' disclosure of government assistance that they receive. IAS 20 provides guidance on how to disclose the government assistance and how to account for it in the balance sheet.

Companies can account for the assistance using either the capital approach or the income approach. With the capital approach, the company recognizes the assistance as equity, while the income approach allows the company to recognize the assistance as profit or loss over a span of at least one period. The capital approach is favored by those who view government assistance as a financing device and, therefore, should not be reflected in the profit or loss of a company. The income approach is favored

by those who do not agree with treating the assistance as equity, since the assistance is received from an outside entity that is not a shareholder.

Additionally, since the assistance provided requires the company to incur certain costs, the income approach advocates argue that because the costs are reflected in the profit and loss of the company, the assistance should also be reflected in the profit and loss.

GASB 77 Compliance

Every year, state and local governments must find ways to both increase and maintain business investments and job creation through economic development packages for *Fortune* 500 companies, global brands and local startups. Rural America accounts for over half of the U.S. landmass, and state and local leaders are aware that they must rebrand their municipalities to both stabilize their current population while also attracting new residents to their communities. Often, the price tag of these growth initiatives is large amounts of foregone tax revenues by these government entities.

In 2013, GASB added the project on tax abatement disclosures to the board's technical agenda and noted that it had become apparent that tax abatements have a significant effect on a government's financial health. Per GASB, a government failing to disclose those tax abatements severely limits the financial statement user's ability to understand the impact of those abatements on the reporting government's current financial resources and whether the government entity will be able to meet its future financial obligations, such as bond and pension payments.

After two years of board discussions and comments

FIGURE 1. DISCLOSURE REQUIREMENTS

- Disclose own tax abatement separate from tax abatements of other governments that reduce the taxes of the reporting government
- Own tax abatements are to be disclosed by major program
- Tax abatements of other governments are disclosed by government and specific tax abated

Disclosure begins in the period in which a tax abatement agreement is entered into and continues until the tax abatement agreement expires

FIGURE 2. REPORTING GOVERNMENT'S OWN ABATEMENT DISCLOSURE ITEMS

- Name of program
- Purpose of program
- Type of tax abatement
- Amount of tax being abated
- Criteria for eligibility
- Mechanism for abatement
- Provisions to recapture abatements
- Types of commitments from recipients
- Amounts received or to be received from other governments
- Any other commitments associated with the abatement by the government
- Quantitative threshold for disclosure
- Information omitted due to legal prohibitions

FIGURE 3. REPORTING GOVERNMENT'S DISCLOSURE ITEMS OF OTHER GOVERNMENTS THAT AFFECT ITS OWN TAX REVENUES

- Name of government
- Type of tax abatement
- Amount of tax being abated
- Amounts received or to be received by the reporting government
- Quantitative threshold for disclosure
- Authority by which tax abatements are entered into

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About the Authors:

Izhar Haq, Ph.D., CPA, Brookville, New York, teaches for the School of Professional Accountancy and has over 20 years of accounting experience in senior positions in multinational corporations, as well as governmental and not-for-profit entities. He may be contacted at Izhar.haq@liu.edu.

Keren Deal, Ph.D., CPA, CGFM, Montgomery, Alabama, teaches for the School of Accountancy at Auburn University at Montgomery. She is a past president of the Montgomery Chapter of the Association of Government Accountants (AGA) and the current president of the Government Finance Officers Association of Alabama (GFOAA). She may be contacted at kdeal@aum.edu.

Jason Gogue, Ph.D., Montgomery, Alabama, taught for the department of management at Auburn University at Montgomery. Dr. Gogue died May 5, 2018.


from the profession, GASB issued Pronouncement 77 in an effort to ensure that any agreements that reduce or limit the revenue generating ability of a government are to be properly disclosed. Although GASB 77 requires the disclosure of tax abatements, it is not intended to communicate whether or not it was an effective or efficient use of taxpayer current or future resources for economic development or job creation.

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GO BEYOND DISRUPTION: THE FUTURE OF FINANCE

From the Association of International Certified Professional Accountants

A person is shown in silhouette from the back, looking out over a city skyline at sunset. The sun is low on the horizon, creating a warm, golden glow. The city buildings are silhouetted against the bright sky. The person is wearing a dark jacket and glasses.

We have entered the fourth industrial revolution – a period of innovation and acceleration expected to fundamentally alter how we live, work and relate to one another. It will, according to the World Economic Forum, drive transformation “unlike anything humankind has experienced before.”

It’s already having significant implications for business, where the speed of disruption driven by technologies like cloud computing, robotic process automation (RPA), artificial intelligence and Blockchain are forcing wholesale reinvention of business models and functions.



Nowhere is that more pronounced than in the finance function, which has to evolve at pace with the transformational change. For finance professionals, this means they will need to become adaptive learners constantly acquiring new skills. They will need to learn, unlearn and relearn to meet the demands of our new digital world. Lifelong learning and continued professional development will be critical for their future success.

That's why the Association of International Certified Professional Accountants (the Association), the unified voice of the American Institute of CPAs (AICPA) and the Chartered Institute of Management Accountants (CIMA), undertook a year-long research project to better understand the changing finance function and the skills and competencies professionals need to evolve.

"The digital transformation of finance brings enormous opportunity," said Ash Noah, CPA, CGMA, VP of CGMA External Relations at the Association. "With technology automating many routine processes and reporting, finance can focus on data analysis and producing the insights that drive business solutions. This is elevating the role of finance as a trusted partner to the business."

The Association's future of finance research project shares insights from interviews and roundtables with more than 800 business leaders and academics across 34 countries, as well as a global survey of nearly 5,000 finance professionals. From the research, four major themes emerged.

Changing competencies and mindsets: In the finance function of the future, the technical capabilities of robotics and algorithms combine with the creativity and empathy of human accountants. While competencies are still very important for the finance professional, it's a growth mindset that makes the greatest difference in the working environment.

The changing shape of the finance function: As expectations and skills evolve, the shape of the finance function migrates from a traditional hierarchical triangle to a structure where expert teams collaborate as equals to achieve shared corporate objectives.

Changing technology and finance: Advancements in technology will allow organizations, and in particular the finance function, to do more than they've ever done before. However, to capitalize on these technologies, the competencies of finance professionals will need to evolve.

The changing role and mandate of finance: The finance function has a mandate to go beyond its core accounting role. This changing mandate doesn't discard core accounting; it's still an essential foundation of the finance function. However, enabled by new technologies, the function is now capable of assessing a broader range of information and becoming a more influential player within an organization.

Important Insights for Finance Professionals: The Association has issued four reports on these themes, available for download at <http://www.cgma.org/resources/future-of-finance>. These reports provide important insight for members in business and industry and are equally beneficial for those in public practice. Members can use these reports to gain valuable perspective on the changing role of finance and what this means for them. The reports will also help CPAs drive a conversation with their organizations or clients on how to best prepare for the future.

"The emerging themes from our future of finance research represent horizon-scanning exercises for the finance profession," said Dr. Noel Tagoe, EVP of Management Accounting, Research and Curricula at the Association. "By sharing the findings, we're aiming to provide and empower finance professionals with new competencies and growth mindsets to help their organizations create and preserve value and to widen the remit of finance."

Insights gleaned from the research project will also be used to update the Chartered Global Management Accountant (CGMA) syllabus and learning pathway. Through the CGMA Finance Leadership Program, finance professionals develop the critical technical, business, leadership and communications skills required to be successful in business today.

To learn more about the Association's Future of Finance research project, visit cgma.org/resources/future-of-finance.

PREVIEWING SOME POTENTIAL IMPLICATIONS OF NEW EUROPEAN UNION RULES FOR U.S. AUDITORS

By Alan Reinstein, D.B.A., CPA, CGMA; Barbara Apostolou, Ph.D., CPA, CGMA; and Natalie T. Churyk, Ph.D., CPA

CURRICULUM: Accounting and Auditing

LEVEL: Basic

DESIGNED FOR: CPAs who work for or with entities impacted by European Union (EU) Directive 2014/56/EU

OBJECTIVES: Summarize and provide examples of several key EU provisions, and offer perspective on their potential impact on U.S. entities

KEY TOPICS: Mandatory audit firm rotation; restriction of non-audit services; use of international auditing standards; reporting requirements; and new PIE audit committee and auditor requirements

PREREQUISITES: None

ADVANCED PREPARATION: None

In June 2016, the European Union (EU) amended a Directive (2014/56/EU) to require its member states to change their statutory audit regulations of public interest entities (PIEs). The EU defines a PIE more broadly than a U.S. public company to include: entities listed on regulated markets and subject to EU member state law; listed and unlisted credit institutions that borrow or lend funds to or from the public; life, non-life or reinsurance insurance firms; and member states-designated entities such as PIEs (e.g., due to their size, nature or number of employees).

Member states can go beyond the Directive requirements. Upon summarizing and providing examples of several key EU provisions, we provide some perspective on their potential impact on U.S. entities.

Deloitte (2015) reports that, of the approximately 300,000 EU companies that must have statutory audits, about 30,000 fall within the PIE definition. U.S. companies with EU operations should also evaluate the impact of the new rules, because multinational entities often contain at least one EU PIE and many companies seek to keep one worldwide auditor. Directive 2014/56/EU also impacts European entities with U.S. operations, because their U.S. subsidiaries should understand the parent company's audit requirements.

Brief Summary of the New EU Framework

With their roots in the Sarbanes-Oxley Act (SOX) (2002), the new EU rules (EC, 2016) require all audit firms and statutory auditors to do the following:

- Introduce more robust independence requirements by cultivating higher quality organizational requirements for audit firms and statutory auditors;
- Provide investors with more informative audit reports that outline pertinent information regarding the entity being audited;¹
- Bolster the powers and competences of the competent authorities [e.g., the equivalents of the U.S. Securities and Exchange Commission (SEC) or Public Company Accounting Oversight Board (PCAOB)] tasked with public oversight of the audit profession; and

- Reaffirm the European Commission's (EC's) ability to adopt ISAs at the EU level.

As summarized in Exhibit 1, Directive 2014/56/EU:

- Transforms the audit role to one of statutory inspection;
- Requires mandatory audit firm rotation or audit tendering (allowing the current auditor to bid for audit renewal) and restricts bidders on becoming the new auditors;
- Limits the auditing firm from providing non-audit services (NAS) to audit clients;
- Mandates applicable international auditing standards; and
- Expands auditor and independent audit committee reporting and other responsibilities.

EU member countries should develop local statutory inspections for PIEs

with regulatory sanctions that include imposing restrictions or conditions, assessing regulatory penalties (fines), and suspending or withdrawing audit registration. Below, we analyze how these requirements will apply to auditors both in the EU and around the world and discuss some potential implications for U.S. practitioners.

Mandatory Audit Firm Rotation

Despite different levels of local competition and industry expertise, extended relationships between audit firms and their clients may threaten independence and professional skepticism. Effective June 17, 2017, PIEs must rotate their external audit firm every 10 years, which member states can extend by 10 years if the PIE undertakes a tender (20-year rotation), or by 14 years (24-year rotation) if, upon shareholder approval, the PIE contracts with more than one audit

firm (joint audit). A tender refers to a PIE's audit committee-managed public bidding process, with transparent audit firm selection criteria and a clearly articulated nature of the audit. Mandatory audit firm rotation seeks to reduce the negative impact of an extended relationship between an audit firm and its client and thereby improve audit quality (EC, 2016).

Directive 2014/56/EU does not change mandatory audit partner rotation standards – the EU uses an up-to-seven-year rotation, compared to the SEC's current five years. But the amended directive mandates a three-year cooling-off period for audit partners (compared to the SEC's one-year period), increasing the 2006 two-year Federation of European Accountants (FEE) requirements (2014).

Mandatory auditor rotation, coupled with joint audits, tendering and restricting NAS, all seek to broaden

EXHIBIT 1

Comparing New EU and Current U.S. PCAOB Audit Rules

Issue	New EU Rules (2016)	Current PCAOB Rules
Statutory inspection of audit firms	Countries should develop local statutory inspections for PIEs with regulatory sanctions that include imposing restrictions or conditions, assessing regulatory penalties (fines), and suspending or withdrawing audit registration	Publicly listed companies should follow PCAOB regulations
Mandatory audit firm rotation or audit tendering; restriction on who can bid	Audit firms should rotate every 10-20 years, after which the PIE can invite bids from firms that received under 15% of total audit fees from a PIE	Audit firm rotation not required
Restricts audit firm from providing non-audit services (NAS)	Expand list of prohibited NAS and cap fees of such services to 70% of the average of group statutory audit fees over previous three years	Prohibit listed NAS and disclose fees for audit firm-provided NAS
Mandates applicable international auditing standards	Should use International Auditing Standards (IAS) for all audits	Should use PCAOB Auditing Standards
Expanded auditor and independent audit committee reporting and other responsibilities	Auditors should report key risk areas of material misstatements, explain how financial statement irregularities were detected and make other related disclosures	Auditor reports must now disclose critical audit matters and other relevant, material items (Reinstein, Hepp and Weirich, 2018)

the concentrated EU audit market and disrupt the Big Four's domination of the EU audit markets, allowing small and mid-size firms to pursue new audit clients. Opponents of audit firm rotation argue that mandatory rotation could drastically increase audit costs by reducing competition and increasing audit firms' initial investments in such areas as understanding the risks, business processes, IT systems and other aspects of their new, complex audit clients (Arruñada and Paz-Ares, 1997).

Restriction of Non-Audit Services (NAS)

The Statutory Audit Directive of 2006 includes minimum requirements that forbid statutory auditors from providing certain NAS to audit clients, which are intended to promote consistency across member states (EC, 2010). Such prohibited NAS services should promote auditor independence in fact and appearance (Ratzinger-Sakel and Schönberger, 2015).

To reduce threats to auditor independence, the 2016 Directive, similar to SOX, lists forbidden NAS. This "blacklist" includes many tax and valuation services; services that affect any part of the management or decision-making process; services involved in promoting, dealing in or underwriting stock activities; legal services as a client advocate; and internal control design and implementation services connected with financial reporting. Member states can deviate from this blacklist to allow auditors to provide certain immaterial services.

Besides listing forbidden NAS for audit clients, the Directive caps the amount of total NAS fees at 70 percent of the average of group statutory audit fees over the prior three years. The cap does not apply to permissible NAS provided by members of the statutory audit firm's network. The EU fee caps will also likely limit the total NAS that SOX permits U.S. firms to perform in the EU, thus preventing firms from pricing audits as "loss leaders" to earn large non-audit fees (Thakrar, 2015).

The new NAS rules will likely affect large and small firms differently.

Mao, Qi and Xu (2017) found that firms located in regions with more developed credit market and legal environments will more likely hire members of the statutory audit firm's network than nonmembers; also, despite similar audit quality, non-Big Four member-auditors charge 3.9 percent higher fees than nonmember firms. Thus, the new NAS rules will likely affect large and small firms differently, depending largely with the market environment.

Reaffirmation of International Auditing Standards' Usage

Directive 2014/56/EU empowers the EC to mandate using International Standards on Auditing (ISAs) for all EU statutory audits. ISAs now largely converge with the American Institute of CPA's (AICPA's) Clarified Statements on Auditing Standards that govern U.S. nonissuers.² The competent authority in each member state should consider an entity's scale and complexity to determine the applicability of ISAs, as in auditing an international company's total pension liabilities.³ Again, member states may add further audit requirements considering national cultures and legal requirements.

Because ISAs are developed with proper due process, public oversight and transparency, global entities generally accept their results (EC, 2016). The 2016 Directive's new sanctions should increase the accountability of global audit firms, especially because many firms belong to international networks, whose clients often join international groups. To ensure compliance, the Directive (EC, 2016) mandates member states' minimum

requirements in developing measures (e.g., sanctions criteria) to punish auditors, audit committees and other violators.

U.S. auditors should also consider the Directive's contents. Then-PCAOB member Franzel (2016, p. 45) urged PCAOB "to require large auditing firms to produce a public annual report incorporating information about firm structure, client lists, independence practices, financial information and the effectiveness of the firm's control systems, similar to what is required by the European Union's Eighth Directive." PCAOB may well issue standards akin to Directive 2014/56/EU and AICPA's ASB may even follow suit for nonissuer audit clients.

Expanded Reporting Requirements

Both Directive 2014/56/EU and the related Regulation (EU) No 537/2014 dictate the audit report's content, distinguishing PIE from non-PIE audit reports. For example, the regulation requires PIE statutory audits to report key risk areas of material misstatement in the consolidated and annual financial statements and explain how they detected financial statement irregularities. Enhancing the information reported should help narrow auditing's "expectation gap" (EC, 2016). Overall, audit firms must now:

- Disclose the entity that retained them;
- Indicate the appointment date and period of uninterrupted engagement, including renewals and reappointments;
- Disclose key assessed fraud and non-fraud risks and responses to assessed risks;
- Confirm that the audit opinion is consistent with the separate required reporting to the audit committee;
- Attest that they performed no prohibited NAS and disclose all permissible NAS performed; and
- Provide an overall audit opinion.

Continued on page 46

For more information, number of CPE credit hours and to register, go to the CPE section of the website at tscpa.org or call the TXCPA staff at 800-428-0272 (972-687-8500 in Dallas) for assistance.

DATE	COURSE	CITY
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May 7	Personal & Professional Ethics for Texas CPAs	Houston
May 9	Personal & Professional Ethics for Texas CPAs	Dallas
May 9-10	2019 Texas CPA Technology Conference	Houston
May 10	Financial Strategic Leaders Conference	San Antonio
May 13-14	2019 Energy Conference	Austin
May 15	Determining How Much Money You Need to Retire: Practical Planning Strategies	Houston
May 16	Determining How Much Money You Need to Retire: Practical Planning Strategies	Dallas
May 17	Annual Update for Accountants and Auditors	Corpus Christi
May 20	New! A&A Hot Topics: Getting a Grip on the Big Issues Facing the Industry	Houston
May 20-21	2019 Nonprofit Organizations Conference	Dallas
May 21	New! Advanced Audits of 401(k) Plans: Best Practices and Current Developments	Houston
May 23	New! A&A Hot Topics: Getting a Grip on the Big Issues Facing the Industry	Dallas
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Continued from page 44

New PIE Audit Committee and Auditor Requirements

The Statutory Audit Directive (2006/43/EC) required PIEs to have audit committees to minimize compliance, operational and financial risks, and to create more effective systems of internal control. The Directive requires increased levels of communication between the auditor and the audit committee, using a separate report to the audit committee to explain the outcome, overall methodology, significant internal control deficiencies noted and the valuation methods applied throughout the audit. Traditionally, this additional report is not disclosed publicly, but the audit committee can disclose it if prompted by national law (EC, 2016).

The Directive requires increased levels of communication between the auditor and the audit committee.

The EU Directive expanded the audit committee's roles and responsibilities for financial oversight to include monitoring:

- Financial reporting processes;
- Audited financial reports;
- Financial reporting integrity; and
- Effectiveness of internal quality control, risk management systems and the internal audit function.

Specifically, except for certain special investment entities and subsidiaries, PIEs' audit committees should:

- Contain some nonexecutive members with auditing or accounting competence;
- Understand their company's business sector;

- Have most audit committee members be independent of the PIE; and
- Have the committee members or the auditee's supervisory body appoint the chair (Deloitte, 2015).

PIEs' audit committees must follow mandated procedures to select new auditors. These include:

- Inviting bids from audit firms that received below 15 percent of total audit fees from a PIE in the prior calendar year;
- Documenting the negotiation and selection of potential audit firms;
- Checking that bidders comply with the quality standards outlined in tender documents that follow EU or national laws; and
- Showing (upon request) the competent authorities that it completed the selection procedure fairly and unbiasedly (Grant Thornton, 2016).

Auditors must now explain the statutory audit results in a report to the audit committee that:

- Declares their independence from the client;
- Identifies all key audit partners involved;
- Notes the nature, frequency and extent of communication with the committee and management, including all meeting dates;
- Describes the scope and timing of the audit and the methodology used;
- Discloses the quantitative level of materiality applied to financial statement statutory audits and the bases for materiality decisions;
- Reports significant deficiencies in the audited entity's financial statements, actual or suspected noncompliance with laws and regulations, plus assesses the valuation methods applied to various items in the annual financial statements;
- Indicates whether the client provided all requested explanations and documents; and

- Discloses any significant difficulties or other significant matters that arose in performing the audit.

Mandates, Purpose and Questions

The new EU directive mandates audit firm rotation, restricts NAS, prescribes compliance with international auditing standards, expands auditor reporting requirements and requires PIEs to establish independent audit committees with expanded responsibilities. These provisions seek to increase investors' confidence, enhance the public's perception of audit firm independence and improve audit quality.

The Directive raises several questions: What will the implementation costs be? Will larger audit firms compete for audits that smaller firms previously conducted? Will audit firm rotation lead to increased audit fees, with qualified auditors moving to new engagements prior to rotating off an engagement? And, perhaps most importantly for U.S. auditors, will the EU's stricter requirements flow through to the U.S. via PCAOB or AICPA? These questions will only be answered with further experience and research.

About the Authors:

Alan Reinstein, D.B.A., CPA, CGMA, is George R. Husband professor of accounting in the School of Business Administration at Wayne State University. Contact him at a.reinstein@wayne.edu.

Barbara Apostolou, Ph.D., CPA, CGMA, is professor of accounting in the College of Business and Economics at West Virginia University. Contact her at barbara.apostolou@mail.wvu.edu.

Natalie T. Churyk, Ph.D., CPA, is William F. Doyle endowed professor of accountancy in the College of Business, Department of Accountancy, at Northern Illinois University. Contact her at nchuryk@niu.edu.

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Footnotes

¹ These reports should go beyond the typical standardized financial statement opinions.

² <https://www.aicpa.org/research/standards/auditattest/sas.html>

³ ISAs are in harmony with the AICPA-issued Clarified Statements on Auditing Standards (<https://www.aicpa.org/research/standards/auditattest/clarifiedsas.html>), but do not correspond to Auditing Standards issued by PCAOB (<https://pcaobus.org/Standards/Auditing/Pages/default.aspx>)

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CPE ARTICLE: PREVIEWING SOME POTENTIAL IMPLICATIONS OF NEW EUROPEAN UNION RULES FOR U.S. AUDITORS

By Alan Reinstein, D.B.A., CPA, CGMA; Barbara Apostolou, Ph.D., CPA, CGMA; and Natalie T. Churyk, Ph.D., CPA

Today's CPA offers the self-study exam for readers to earn one hour of continuing professional education credit. The questions are based on technical information from the preceding article. If you score 70 or better, you will receive a certificate verifying you have earned one hour of CPE credit – granted as of the date the test arrived in the TSCPA office – in accordance with the rules of the Texas State Board of Public Accountancy (TSBPA). If you score below 70, you will receive a letter with your grade.

1. A public interest entity (PIE) includes all of the following, except:

- A. Entities listed on regulated markets and subject to EU member state law
- B. Listed, but not unlisted credit institutions that lend or borrow funds to or from the public
- C. Life, non-life or reinsurance insurance firms
- D. Member states-designated entities such as PIEs (e.g., due to their size, nature or number of employees)

2. About how many EU entities must have statutory audits and how many fall within the PIE definition?

- A. 100,000 EU companies must have statutory audits and 10,000 fall within the PIE definition
- B. 200,000 EU companies must have statutory audits and 20,000 fall within the PIE definition
- C. 300,000 EU companies must have statutory audits and 30,000 fall within the PIE definition
- D. 400,000 EU companies must have statutory audits and 40,000 fall within the PIE definition

3. Per the new EU rules, all audit firms and statutory auditors should do the following, except:

- A. Cultivating higher quality organizational requirements for audit firms and statutory auditors
- B. Provide investors with more informative audit reports that outline pertinent information regarding the audited entity
- C. Rely less on the powers of the competent authorities (e.g., similar to the equivalents of SEC or PCAOB) that oversee the audit profession
- D. Reaffirm the European Commission's (EC's) ability to adopt International Standards on Auditing (ISAs) at the EU level

4. Directive 2014/56/EU generally performs the following, except:

- A. Requires mandatory audit firm rotation or audit tendering and restricts bidders on becoming the new auditors
- B. Limits the auditing firm from providing non-audit services (NAS) to audit clients
- C. Mandates auditors using applicable international auditing standards
- D. Lowers auditor and independent audit committee reporting responsibilities

5. PIEs must rotate their external auditors every X years, which member states can extend for another Y years if the PIE undertakes a tender or by Z years upon shareholder approval.

- A. X = 5; Y = 5; and Z = 6
- B. X = 7; Y = 7; and Z = 9
- C. X = 10; Y = 10; and Z = 12
- D. X = 10; Y = 10; and Z = 14

6. Opponents of audit firm rotation argue that mandatory rotation could drastically:

- A. Increase audit costs by reducing competition and increasing audit firms' initial investments in such areas as understanding new, complex audit clients
- B. Impair smaller CPA firms to have adequate capital to even bid on many audit engagements

- C. Cause larger firms to band together to lobby politicians to do their bidding
- D. Add unnecessary costs to the audit process, which many clients will not reimburse

7. The "blacklist" of forbidden auditors' non-audit services (NAS) includes the following items, except:

- A. Many tax and valuation services
- B. All services that affect any part of the management or decision-making process
- C. All services involved in promoting, dealing in, or underwriting stock activities
- D. All internal control design and implementation services

8. The EU Directive caps the amount of total non-audit services (NAS) fees at X% of the average of group statutory audit fees over the prior Y years.

- A. X = 50%; and Y = two years
- B. X = 60%; and Y = three years
- C. X = 70%; and Y = two years
- D. X = 70%; and Y = three years

9. PIEs' audit committees should perform each of the following procedures, except:

- A. Contain at least two nonexecutive members with auditing or accounting competence
- B. Understand their company's business sector
- C. Have most audit committee members be independent of the PIE
- D. Have the committee members or the auditee's supervisory body appoint the chair

10. Auditors must now explain the statutory audit results in a report to the audit committee that performs all of the following, except:

- A. Declares their independence from the client
- B. Describes the scope and timing of the audit and the methodology used
- C. Discloses the qualitative materiality decisions applied to financial statement statutory audits
- D. Indicates whether the client provided all requested explanations and documents

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\$635,000 gross. NE San Antonio metro area CPA firm. 53% tax (56% ind, 44% bus.), 47% write-up, experienced staff and seller available for transition assistance. TXC1069

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\$400,000 gross. W. of Ft. Worth CPA firm. Almost 50/50 between acctng and tax, strong cash flow, quality client base and knowledgeable staff in place. TXN1480

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