JULY
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TODAY'S CPA

Texas Society of Certified Public Accountants

A CONVERSATION WITH TXCPA CHAIRMAN JERRY SPENCE

CORONAVIRUS IMPACT

COVID-19 STRATEGY AND TACTICS

DISRUPTING TECHNOLOGIES

GUIDE TO DATA VISUALIZATION

CPE: KEY PERFORMANCE INDICATORS

JULY AUG 2020

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ORGANIZATIONAL FLEXIBILITY

By TXCPA Chairman Jerry Spence, CPA-Corpus Christi

Share Your Thoughts

I'd love to hear your feedback and answer your questions. Drop me a note at chairman@tscpa.net.

Unprecedented, strange, tragic, unjust – all words we've heard too frequently in 2020. As we move into our new TXCPA year, we are leaning heavily on one of our four guiding principles – organizational flexibility – to help us adapt, drive change, and move forward as an organization and as a profession.

TXCPA's guiding principles were developed in 2017. Organizational flexibility at the time was more about responding to new technologies and ways of doing business. Today, flexibility is essential in how we operate. TXCPA, our chapters, our members and their firms and companies have had to change focus quickly to respond to the pandemic, new legislation and societal unrest.

In response to COVID-19, the Society and our chapters quickly moved live programs to an online format and found ways to keep members engaged and connected virtually to the news and resources they needed. We immediately advocated for changes in legislation and extensions of deadlines to help CPAs better guide their clients and employers through pandemic-related financial issues. And, as we move into recovery, we'll continue to shift our focus to what you need for advising your clients, employers and communities.

As we watched social and racial injustice and inequities take over headlines, we mobilized our Diversity and Inclusion Committee, top leaders, and the TXCPA membership to take a stand for change and not remain silent. These difficult, but necessary, conversations will continue, and we'll put what we learn into action as we work to be a more inclusive and diverse profession serving an ever-diverse population.

We are grateful for the patience and flexibility our members have shown throughout these significant events. We know you are working harder than ever. We're encouraged by the increased engagement we've seen as members reach out to TXCPA and fellow members and rely on the strength of our professional community.

Thank you for your membership in TXCPA! I look forward to the work we will do together as we keep a close eye on what you need and where we need to flex to provide maximum value for you.

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PREPARING FOR A POTENTIAL AUDIT OF YOUR CLIENT'S PAYCHECK PROTECTION PROGRAM LOAN

By Juan F. Vasquez, Jr., Jaime Vasquez and Victor J. Viser

Businesses with Paycheck Protection Program loans have used PPP loan funds despite the lack of clear guidance on several aspects of the program. This article discusses three areas of potential review or audit by lenders, the SBA and/or the IRS.

First, applicants were required to make a good-faith certification concerning need for a PPP loan. This good-faith certification may be subject to review by the SBA, especially for borrowers with loans in excess of $2 million. Second, when borrowers submit their application for loan forgiveness, they must provide documentation substantiating eligible expenses. Third, when the business completes its federal income tax return, it may decide to deduct under 162 of the Code business expenses that were forgiven as part of its PPP loan. If the business takes this deduction, it may be subject to audit by the IRS. These review/audit risks can be prepared for and are considered in turn.

Defending the Good-Faith Certification

Businesses must be ready to defend the good-faith certification made when they applied for their PPP loans and potentially when they signed their promissory notes. The certification states, "that the uncertainty of current economic conditions makes necessary the loan request to support the ongoing operations of the eligible recipient." To make the certification in good faith, businesses must take into account two factors:

- Their business activity at the time the certification was made; and
- Whether they had access to other sources of liquidity, the use of which would not be significantly detrimental to their business.

Business Activity

Importantly, for purposes of the good-faith certification, business activity is determined as of the date of the application. A business, therefore, will want to support the narrative by showing that its business activity was negatively affected by COVID-19 at the time of its application. Part of this can be the number of jobs potentially impacted. This should be done through a combination of financial records and analysis and secondary sources. With regard to financial records, year-over-year comparisons of revenue, sales or other industry-specific metrics can be used to show the decline relative to the prior year, as well as highlighting the days leading up to the application date to further emphasize the declines in business activity.

With regard to secondary sources, consider referencing ordinances that prohibited business activity and/or specifically targeted the business. Note that multiple ordinances were likely in effect before the application date. Industry-wide or regional trends/projections published by trade associations around the application date are also relevant.

Finally, if applicable, a business should note whether it was experiencing, or expected to experience, supply chain disruptions.

Liquidity

The second factor, access to liquidity, is also important. With regard to private businesses, access to sources of liquidity will be a significant factor. Although there is not a requirement to utilize a line of credit to secure a PPP loan, a private business with access to a line of credit may determine the amount of available credit at the application date. If the line of credit is not fully exhausted, the business should argue that its historical use is for a certain purpose and shifting the funds away from such purpose would be significantly detrimental to the business. For example, a hypothetical business might argue that it relies on the line of credit to purchase inventory before its busy summer season and to divert such funds to payroll would prevent the business from being able to meet demand.

Additionally, the business should review the terms for the line of credit in case there are any restrictions that would be applicable.

Documenting Eligible Expenses

Businesses must be able to provide comprehensive documentation to substantiate all eligible expenses. This documentation will be reviewed by the lender servicing the PPP loan and possibly the SBA during the loan forgiveness application process. Potential loan forgiveness is primarily based on the total amount of eligible expenses made during the eight-week or 24-week covered period following the first disbursement of PPP loan funds, subject to the requirement that 60% or more of such expenses be for eligible payroll costs (paid or incurred during the covered period) and up to 40% of eligible expenses for non-payroll costs.

With regard to payroll costs, the business must provide:

- Bank account statements;
- Tax forms, including federal payroll tax filings and state wage reporting and unemployment insurance tax filings; and
- Payment receipts, cancelled checks or account statements documenting employer contributions to employee health and retirement plans.

With regard to non-payroll expenses, the business must provide documentation verifying the existence of the obligations and/or services prior to February 15, 2020 and eligible payments made during the covered period. For business mortgage interest payments, this includes a copy of the lender amortization schedule and receipts or cancelled checks or lender account statements from February 2020 and the months of the covered period through one month after the covered period.

For business rent or lease payments, this includes a copy of the current lease agreement and receipts or cancelled checks; or lessor account statements from February 2020 and from the covered period through one month after the end of the covered period. For business utility payments, this includes a copy of invoices from February 2020 and those paid during the covered period; and receipts, cancelled checks or account statements verifying eligible payments.

While a business may provide additional documentation if requested and file an appeal following a full or partial denial of loan forgiveness, the appeal process is unknown at this time.

Ordinary Business Expense Deduction

Following IRS Notice 2020-32, Senate Finance Committee Chairman Chuck Grassley stated, "[w]hen we developed and passed the Paycheck Protection Program, our intent was clearly to make sure small businesses had the liquidity and the help they needed to get through [the COVID-19 pandemic]. Unfortunately, Treasury and the IRS interpreted the law in a way that's preventing businesses from deducting expenses associated with PPP loans. That's just the opposite of what we intended and should be fixed."

The Small Business Expense Protection Act of 2020 was introduced in the Senate shortly after IRS Notice 2020-32 was issued, confirming that business expenses forgiven as part of a PPP loan would be deductible under 162 of the Code as ordinary business expenses. As of this writing on June 19, 2020, the bill is currently with the Senate Finance Committee and the House Committee on Ways and Means.

If the Small Business Expense Protection Act of 2020 or similar legislation is not passed, the IRS position laid out in IRS Notice 2020-32 will be subject to Court challenge as being inconsistent with Congressional intent and may ultimately be entitled to little or no deference. Notices carry less weight and may not be relied upon by courts in their analysis.

Further, there will be an added element of confusion to an already interesting 2020 filing season. Consider, for example, a CPA tax preparer taking a return position that PPP loan amounts forgiven were also deductible business expenses. Technically, that position would be inconsistent with IRS guidance contained in IRS Notice 2020-32. Would the CPA need to report the position on a Form 8275 Disclosure Statement? Should the CPA request an opinion of counsel that the position

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is supported by the plain language of the statute and/or comports with legislative intent?

ABOUT THE AUTHORS

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ENDNOTES

SBA, Paycheck Protection Program Loans Frequently Asked Questions (FAQs), § 39 (as of May 27, 2020).

Pub. L. 116-136, *Coronavirus Aid, Relief, and Economic Security Act*, § 1106(f) (Mar. 27, 2020) (hereinafter CARES Act). "Eligible expenses" are expenses made for payroll and non-payroll costs during the covered period that are subject to loan forgiveness, so long as 60% or more are for payroll costs, they are paid or incurred during the covered period, and various.

Supra note 4, at § 31.

CARES Act § 1106(e)

If a borrower received a PPP loan before June 5, 2020, it may choose either the eight-week or 24-week covered period. A borrower that receives a PPP loan on or after June 5, 2020 must use the 24-week covered period. Pub. L. 116-142, *Paycheck Protection Program Flexibility Act of 2020* § 3(b)(1) (June 5, 2020) (hereinafter.

85 FR 20811, 20814; SBA IFR 2020-37; Flexibility Act § 3(b)(1).

CARES Act § 1106(e); SBA Form 3508, Loan Forgiveness Application, 10 (revised June 16, 2020) (hereinafter SBA Form).

SBA Form at 10.

IFR 2020-33.

Chuck Grassley, Bipartisan Senators Introduce Bill to Clarify Small Business Expense Deductions Under PPP (May 6, 2020).

S. 3612, *Small Business Protection Act of 2020*, 116th Cong. (May 5, 2020).

Rev. Proc. 89-14. See also, Juan F. Vasquez, Jr., Jaime Vasquez, and Victor J. Viser, "Who CARES About Tax Issues for Small Business: A Review of the Tax Forgiveness, Tax Deduction and Other Tax Issues Associated with the CARES Act's Paycheck Protection Program (PPP)," 47 Tex. Tax Lawyer 1 (Spring 2020).

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A GUIDE TO DATA VISUALIZATION

By Olivia Kleiner

As the field of accounting merges with data analytics, creating sharp visualizations is essential to effectively working with clients. Concisely conveying solutions to clients has always been an invaluable skill for a CPA, but it has grown even more important as the role of accountants shifts to analysts. With the transformations in the profession, CPAs need to become well-versed in tools that summarize large data sets clearly – data visualization tools.

Data Visualization: The Basics

Data visualization involves taking large sets of data and summarizing them through graphs and other visual elements (Data Visualization Beginner's Guide: A Definition, Examples and Learning Resources). Its ultimate goal rests in seeing trends and outliers in data easily – the audience can understand data at a glance. Instead of poring over a massive spreadsheet for analysis, users can immediately pinpoint what's important through graphs and charts.

Several visualization tools exist for CPAs. The first will probably sound familiar: Excel. As any accountant worth their salt knows, it's easy to create graphs in Excel. All it takes is inserting a chart based on the data. Another tool, Tableau, has become increasingly popular over the past few years. In contrast to Excel, Tableau describes its appeal on its website: "Leave chart builders behind... Interactive dashboards help you uncover hidden insights on the fly" (Tableau Desktop).

Unlike Excel, Tableau offers more types of visualizations that are live and interactive, taking data visualization to the next level. Lastly, Power BI, sold by Microsoft, consists of features similar to Tableau; Microsoft defines it as a "collection of software services, apps and connectors that work together to turn your unrelated sources of data into coherent, visually immersive and interactive insights" (Blythe and Sparkman). According to Tamara Scott, a research and content manager at TechnologyAdvice, Tableau better fits the needs of data analysts and Power BI suits a more general audience (Scott).

Examples of Visualizations

To show the capabilities of data visualization tools, a few examples from Tableau are provided below. Unless specifically noted otherwise, all visuals are created by the author of this article.

Here, it's apparent at a glance that Massachusetts has the highest tax rate compared to neighboring states. This simple geographic visualization demonstrates where the company has the heaviest tax burden. In a presentation, the extraneous information (the Tableau interface) would not be included. In this instance, it's shown to demonstrate the ease of creating the graph. By choosing one dimension for the column and one for the row, users can put together a slick presentation slide for analysis.

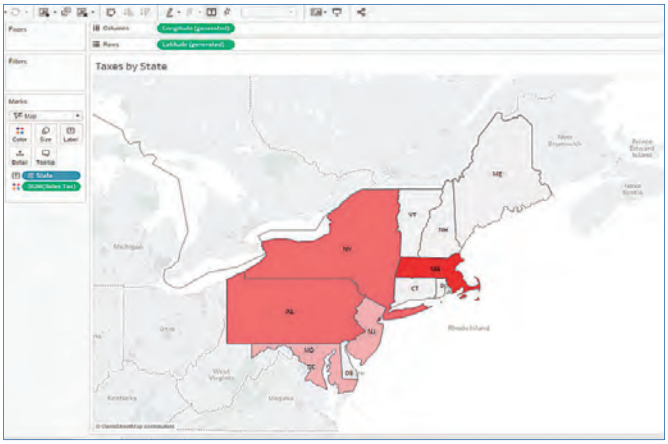
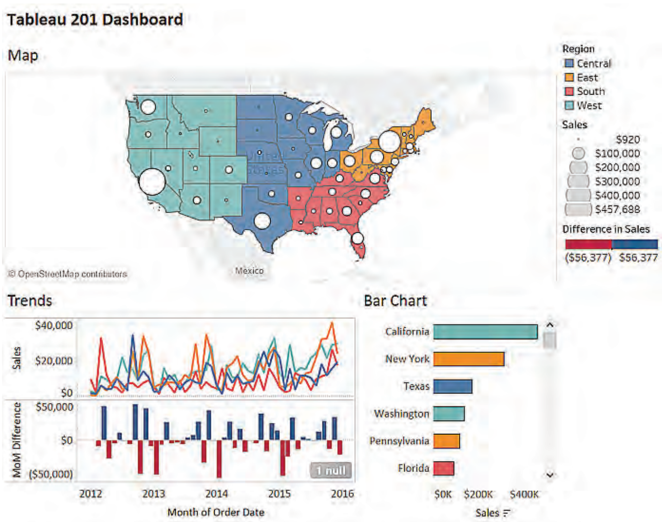


Tableau makes visualization intuitive through providing a pop-up with all of the recommended visualizations, as shown.

Hovering over a specific type gives an explanation of what data is needed for that particular visualization; in this particular example, it informs the user that scatter plots require two to four measures. Based on what types of data the user selects (whether dimension or measure), Tableau recommends the most effective visualization. The user can then choose the option they want and clean up the result as needed. Below are just a few examples of different visualizations in Tableau (Scott).



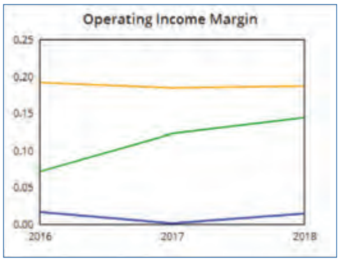
Best Practices for Visualization

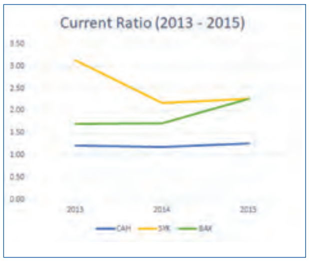
Creating illustrations like graphs can seem daunting, but fortunately, the tools listed above make it easy. To create effective visualizations, leverage the following ideas for best practice.

- **Keep things simple.** Described as the "golden rule" of data visualization, keeping things simple is key to effective communication (10 Data Visualization Tips). Avoid having every color of the rainbow on the graphs – remember that people should understand quickly, which won't happen if they have to decode the visualization. Fonts should be easily readable and colors shouldn't be too similar. Avoid falling into the trap of using every option possible (Data Visualization Beginner's Guide: A Definition, Examples and Learning Resources).
- **Label items clearly.** A graph that only has the y-axis labeled is a graph that's missing key information. Not only can a poorly labeled illustration be difficult to follow, it can also be misleading. Make sure the labels aren't too wordy, either. Concise labels help avoid both of these problems (Data Visualization Beginner's Guide: A Definition, Examples and Learning Resources).
- **Begin with the end in mind.** Know what the goal of the visualization is. Is it illustrating the geographic reach of a company or analyzing outliers in purchase orders? Have a clear end game – it will make it easier to quickly select the best visualization.
- **Make sure to choose the right type of visualization.** A graph can be a better illustration than a pie chart for survey results, especially when comparing two responses. A map that demonstrates different tax rates can be more effective than a graph. It all depends on the end goal (Data Visualization Beginner's Guide: A Definition, Examples and Learning Resources).
- **Use the data-ink ratio.** This boils down to "show the data above everything else" and ties back to the earlier rule of "keep things simple" (10 Data Visualization Tips). This includes avoiding visuals cluttered with special effects such as 3-D graphics. Cutting out unnecessary parts of the visualization, such as borders, makes a sharper visual.
- **Be aware of the possibilities offered.** Tableau isn't just a visualization tool; it also provides tools for analytics and calculations. Doing basic research as to what each tool offers can be invaluable help later!
- **Document steps if necessary.** Through taking notes on what worked or what didn't, users can create a handy guide to refer back to later. Instead of struggling to remember how to create a trickier type of visualization, a quick check of notes will suffice.
- **Remember that many resources exist for assistance.** Help is only a quick Google search away. Forums and walk-through videos are available for almost every issue imaginable.

Best Practices in Action

Putting these tips into practice, the following graphs demonstrate the strengths and pitfalls of creating visualizations. Of these two graphs, one better encompasses the best practices of data visualization.





Keeping the best practices listed above in mind, the second graph (Current Ratio), created by Jermaine Phua, reveals itself as a better visualization. Although some of the differences are subtle, these small changes have a big impact.

Current Ratio has clearer labels (such as the key to the different colors at the bottom). Although the first graph is simpler, it lacks enough detail for deeper analysis. The second graph strikes the balance between detail and simplicity: it achieves the goal of being able to understand data at a glance.

Leveraging the Tools

Overall, leveraging these data visualization tools allows for clearer reporting and deeper insights. Although the tools may seem intimidating at first, most of them are intuitive to use and very user-friendly, especially Tableau.

As CPAs move into analytics roles, learning how to best leverage these visualization tools will be a worthy (and necessary) investment of time.

ABOUT THE AUTHOR:

Olivia Kleiner is a student at the University of Texas at Dallas pursuing her Masters in accounting. She plans to work for the Government Accountability Office after graduation. She may be contacted at oliviabethkleiner@gmail.com.

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Practice Ready Program Offers a Valuable Real-World Learning Opportunity for Students

To help accounting graduates become more hirable, TXCPA and Thomson Reuters have partnered to create Practice Ready for Tax & Accounting Students. This online learning program infuses traditional academic programs with experiential learning to provide the tools, insights and experience needed to work at a firm or corporation. **And it's FREE for TXCPA student members!**

Students who complete the coursework receive a badge certifying them as Practice Ready. For more details about the program, visit bit.ly/txcpapilot today.

TXCPA Houston Welcomes New Executive Director Mark Allen, CAE

In April, Mark Allen, CAE, joined TXCPA Houston as its new executive director. He was previously CEO for membership organizations serving professionals at independently owned funeral homes.

Recently, he held the post of executive director for the International Order of the Golden Rule, an international association based in Austin. Welcome to the TXCPA family, Mark!

Renew Your TXCPA Membership

If you haven't renewed for 2020-2021 yet, be sure to renew online at tscpa.org or call us to renew by phone so you don't lose access to exclusive content, discounts and resources designed to lead you through the challenges ahead. Please call our member service team at 800-428-0272, option 1 if you need personal assistance or would like to discuss your options for membership renewal. We are grateful for the opportunity to work with and for you in 2020-2021!

TXCPA Exchange is More Active Than Ever!

Members across the state are building community and connecting on TXCPA Exchange! The impacts of COVID-19 make it important to maintain the connection to your professional community to ask questions, offer feedback and actively exchange ideas with your colleagues.

In addition to our general All Member Forum, there are three interest-area communities – Tax Issues, CPA Practice Management and Nonprofit Accounting. Be sure to log in today and join the conversation.

Next *Today's CPA* Magazine is Digital Only

The September/October issue of *Today's CPA* will be digital only. You'll be able to enjoy the convenience of this valuable member resource delivered on your device or home or office computer. Be sure to watch your inbox for a link to the digital version of *Today's CPA* coming in September.

TXCPA Recognizes 2020 Rising Stars

TXCPA congratulates the 2020 Rising Stars honorees! Through the Rising Stars Program, TXCPA recognizes CPA members 40 years old and younger who have demonstrated innovative leadership qualities and active involvement in TXCPA, the accounting profession and/or their communities.

The Awards Committee named the following 14 up and comers. They will be featured in an upcoming issue of *Today's CPA*.

Jessica Banitt - Houston Chapter
Angela Banks - Dallas Chapter
Morgan Birdwell - Southeast Texas Chapter
Shehan Chandrasekera - Houston Chapter
Kelly Higginbotham - Houston Chapter
William Holisky - San Antonio Chapter
Kimberly Knox-Lewis - Fort Worth Chapter
Emily Landry - Fort Worth Chapter
Christopher Lanier - Southeast Texas Chapter
Kelley Lau - Houston Chapter
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Shawnee Miller - Central Texas Chapter
Manu Sadiev - Houston Chapter
Sean Shepard - Dallas Chapter

TXCPA Passport is an Excellent Value for Members

The TXCPA Passport provides special savings for TXCPA members. This subscription for on-demand CPE gives you one year of unlimited access to a catalog of CPE courses available to watch anytime. The catalog currently features more than 150 hours of programming, with new courses in the queue to be added throughout the year.

To learn more, visit our website at tscpa.org. Invest in a TXCPA Passport and upgrade your CPE experience!

Submit an Article to *Today's CPA* Magazine

The editors of *Today's CPA* are seeking article submissions for the magazine. *Today's CPA* is a peer-reviewed publication with an Editorial Board consisting of highly respected CPA practitioners.

The publication features articles and columns that focus on issues, trends and developments affecting CPAs in all facets of business. If you would like to submit an article for consideration or to learn more, please contact Managing Editor DeLynn Deakins at ddeakins@tscpa.net or Technical Editor Brinn Serbanic, CPA, CFP™, at technicaleditor@tscpa.net.

TAX CONSIDERATIONS FOR BUSINESSES CONSIDERING BANKRUPTCY

By David Gair and Brian Clark

"How did you go bankrupt?" Bill asked. "Two ways," Mike said. "Gradually and then suddenly."

Ernest Hemingway, The Sun Also Rises (1926).

The COVID-19 pandemic has been horrendous in both human and economic costs. As of the end of May 2020, there were approximately 1,750,000 positive cases and over 100,000 deaths in the U.S. and they were continuing to climb.[i] By comparison to the country's wars, only the Civil War and World War II resulted in more U.S. deaths.[ii]

The combination of a global pandemic and sagging energy industry leads many economists to suggest growth will remain sluggish. Like Hemingway's Mike, a company's fortunes can decline over time, but its crash can be sudden. High profile companies in a variety of industries have already filed for bankruptcy, including J. Crew, Pioneer Energy, Pier 1, McDermott International, and Dean & Deluca.

Companies forced into bankruptcy or financial restructuring have debt and liquidity problems. The issues are loaded with tax consequences, such as income from the cancellation of indebtedness, loss of tax attributes and potential payroll tax liability risk for owners.

However, tax considerations alone are rarely the reason businesses seek bankruptcy protection or restructure debt. Although not the main driver, tax considerations are important, and thoughtful front-end planning can maximize tax benefits of bankruptcy and workouts. This

article focuses on certain significant business bankruptcy and workout considerations, but does not attempt to cover all tax issues.

Exclusion of COD Income

The federal income tax consequences of restructuring a financially distressed business depend on whether the business is in bankruptcy, whether it is a pass through entity or C corporation, the nature of its debt, and the transactional structure chosen to address its debt.

Debtors typically recognize income (called "COD" income) to the extent they are relieved of an obligation to pay debt.[iii] However, a debtor can sometimes exclude recognition of some or all COD income arising from the repurchase, cancellation or satisfaction of its debt for less than the outstanding balance.[iv] The most common COD income exclusions apply to insolvent debtors or those in bankruptcy.[v]

A TRAP FOR THE UNWARY SPRINGS UP IF THE MODIFIED DEBT DOES NOT INCLUDE ADEQUATE STATED INTEREST ...

The COD rules are complex and require in-depth study. Special rules apply to farm indebtedness, real property business indebtedness, related parties and principal residences.[vi] COD income exclusions are also affected by tax classification. For example, insolvency of an S Corporation is determined at the corporate level, but partnership insolvency is mainly determined at the partner level.[vii]

Bankruptcy COD income exclusions are granted by the court or pursuant to a plan approved by the court, meaning that some debtors may be ineligible for discharge, like corporate debtors in a Chapter 7 bankruptcy.[viii] Companies in a "reorganization" bankruptcy might avoid COD income altogether, but at the cost of reducing favorable tax attributes, starting with net operating losses (NOLs).[ix]

Insolvency COD income exclusions apply to debtors outside of bankruptcy proceedings. It excludes COD income up to the amount of the taxpayer's insolvency.[x] "Insolvent" means the excess of liabilities over the fair market value of assets immediately before discharge.[xi]

As an example, if a corporation has assets worth $100 and debts of $150, it is insolvent by $50. If the corporation's creditors cancelled their debts in exchange solely for debtor stock worth $100, the corporation has COD income of $50, which is excluded under Code § 108 because it does not exceed the amount of the corporation's insolvency. If the creditors had accepted stock worth $80 and forgave the remaining $20, the corporation would have $20 of COD income that would not be excludable under Code § 108, because the $70 of forgiven debt exceeds the insolvency amount by $20.

The insolvency exclusion applies the same tax attribute reduction rules as the bankruptcy exclusion.[xii] The burden of proof to establish insolvency rests with the taxpayer.[xiii] Retaining qualified appraisers and valuation experts when valuations are at issue is advisable.

Code § 108 only applies to COD income. Debtors should ensure that a workout transaction not be structured as, or deemed to be, a sale or exchange. A sale or exchange does not trigger potentially excludible COD income, but instead results in non-excludible ordinary or capital gain or loss.

Assume an insolvent debtor agreed to sell its sole asset, a building, to a third party for an amount less than the nonrecourse debt encumbering the building. The buyer conditioned the sale on cancellation of the debt, to which the lender agreed if it were assigned the sales proceeds. On first pass, it appears the debtor has COD income shielded by the insolvency exclusion. However, because the seller disposed of the building and debt in an integrated transaction, the debt discharge is not COD income potentially excludible by Code § 108, but instead sale proceeds in a taxable exchange.[xiv] This is just one example of a transaction that may appear to result in COD income exclusion, but is instead a taxable sale.

Debtors may also engage with creditors in pre-bankruptcy workouts by reducing interest rates or principal or deferring payments on existing debt. Changing debt terms may have significant tax consequences. The analysis requires three steps:

1) Did a "modification" occur;

2) If so, is it "significant"; and

3) If significant, determine the tax consequences.[xv]

The Code requires evaluating "significant" debt modifications using a hypothetical transaction exchanging old debt for modified "new" debt.[xvi] The debtor is treated as paying the old debt with cash equal to the issue price of the new debt, not the new debt's face amount.[xvii] For nonpublicly traded debt, the issue price is its stated principal amount if it includes adequate stated interest.[xviii]

A trap for the unwary springs up if the modified debt does not include adequate stated interest, because the debtor will constructively pay off the old debt's principal with the lesser priced "new" debt, resulting in COD income. As an example, if a debtor partnership and its lender modified debt, but did not provide adequate stated interest, the partnership would have COD income allocable to its partners. The difference between the old debt's principal amount and the new debt's issue price is deductible as original issue discount by the partnership and taxable to the lender over the remaining term of the debt.

Basic Code § 382 Limitation Issues

Corporate debtors should also be aware of the possible effects of Code § 382, which operates to prevent a "loss corporation" from offsetting taxable income after an ownership change with pre-ownership change losses. Non-bankruptcy restructurings by insolvent debtors typically eliminate all debtor NOLs if the workout involves an ownership change under Code § 382.[xix]

For instance, assume a corporate debtor owes its lender $100 million, but negotiates to retire the debt for $90 million of corporate stock representing more than 50 percent of all the corporation's stock. The corporation has $15 million of NOLs and is insolvent by $10 million immediately before the restructuring. Outside bankruptcy, the corporation will generate $10 million in COD income, which is likely excluded under the insolvency rules. The corporation's NOLs will be reduced by $10 million and its remaining $5 million of NOLs are lost because the corporation underwent an ownership change for Code § 382 purposes when the corporation itself was worthless.[xx]

Outside bankruptcy, Code § 382 limits the use of pre-ownership change tax attributes to the product of the fair value of the loss corporation's equity immediately before the ownership change multiplied by the applicable long-term tax-exempt rate (currently around 1 percent[xxi]).

Inside bankruptcy, the rules are more lenient. In the foregoing example, instead of being eliminated, the corporation's remaining NOLs can receive a relaxed Code § 382 limitation or no limitation at all.[xxii]

Code § 382 also limits pre-ownership change built-in gains and losses. The premise of these rules is that items of unrecognized gain and loss at the time of an ownership change may be treated as if they were recognized at such time.

Focusing only on the built-in gain rules and ignoring specific exceptions[xxiii], a gain on the disposition of an asset recognized within five years of an ownership change (to the extent the gain was built-in at the time of such change), will increase the Code § 382 limitation in the year of recognition.[xxiv] The total increase is limited to the net unrealized built-in gains on all assets of the corporation, reduced by recognized built-in gains for prior years ending in the recognition period.[xxv]

If a target corporation has appreciated assets at the time of ownership change that may be disposed of post-ownership change, it may be able to use NOLs to offset the built-in gains on asset sales for five years.

Type G Reorganizations

The Code provides a special form of reorganization in bankruptcy that mitigates some of the negative tax consequences of financial restructuring.

IN SOME CASES, A TAXABLE ASSET SALE MAY BE MORE BENEFICIAL THAN AN INSOLVENCY REORGANIZATION.

Nature and Benefits of Insolvency Reorganizations

Insolvent corporate debtors can transfer their assets to other corporations during bankruptcy proceedings in furtherance of their rehabilitation efforts. The Type G reorganization provides a mechanism to accomplish those efforts wholly or partially tax-free while the debtor is in Title 11 bankruptcy.[xxvi]

Code § 382 allows the survival of large NOLs if a bankrupt corporation can effect a Type G reorganization.[xxvii] A prominent example of a transaction structured in bankruptcy is the Sears' bankruptcy, in which Sears' qualified creditor could inherit Sears' NOLs and tax attributes in a Type G reorganization, permitting the creditor to offset future taxable income with Sears' massive pre-ownership change NOLs.[xxviii]

In some cases, a taxable asset sale may be more beneficial than an insolvency reorganization. For example, if a corporation controlled by the bankrupt corporation's creditors purchases assets in a taxable transaction, it receives a basis step-up. If cost recovery deductions exceed the value of the losses the creditor could retain as a transferee in an insolvency reorganization, the reorganization is less desirable. In effect, the bankrupt corporation's losses can reduce or eliminate its gain from the asset sale, converting its losses into depreciation and amortization deductions for the creditor.[xxix]

Statutory Requirements

Type G reorganizations require meeting certain statutory and common-law tests. In addition to requiring a "plan of reorganization," there are three statutory requirements:

1) The corporation transfers all or part of its assets to an acquiring corporation;

2) The transfer occurs in a Title 11 or similar case; and

3) Stock or securities of the acquiring corporation are distributed in a transaction qualifying under Code §§ 354, 355 or 356.

The common-law requirements apply to all reorganizations other than recapitalizations under Code § 368(a)(1)(E) and include continuity of proprietary interest (COI), continuity of business enterprise (COBE) and a valid business purpose. Because Type G requirements can overlap with other reorganization definitions, parent-subsidiary liquidations and incorporation transactions, the Code prescribes that Type G requirements take primacy in the event of overlap.[xxx]

For example, when substantially all of a corporation's assets are transferred to another corporation, the resulting transaction resembles a Type C reorganization; however, if the transferor is in bankruptcy, Type G controls.

Nondivisive Type G reorganizations must meet the requirements of Code § 354. Code § 354 provides nonrecognition treatment in reorganizations when stock or securities of parties to the reorganization are exchanged. A simple example is nonrecognition afforded to target shareholders in a basic "Type B" reorganization where the target corporation's shareholders exchange target stock for acquiring corporation stock.[xxxi]

In a Type G reorganization, Code § 354 imposes additional requirements. First, the acquiring corporation must obtain substantially all of the transferor's assets.

Second, the transferor must distribute all stock or securities received from the acquiring corporation to its stock or security holders, which are generally creditors.[xxxii] When executed properly, the distributee recognizes no income, except to the extent consideration is attributable to accrued interest on the security holders' transferred securities.

Type G reorganizations can be divisive under Code § 355. Code § 355 applies to distributions by a controlling corporation of controlled subsidiary stock or securities, and provides nonrecognition treatment at the distributee level.

In a classic Code § 355 split-off, a controlling corporation distributes subsidiary stock to some existing stockholders in exchange for their controlling corporation stock. After the transaction, the distributee will have exchanged on a tax-free basis its controlling corporation equity for a split-off piece of the controlling corporation's business. In a Type G transaction, Code § 355 can facilitate tax-free distributions of pieces of the bankrupt corporation's business to its security holders in satisfaction of their claims. Code § 356 applies to boot included in Code §§ 354 or 355 transactions. In general, if a distributee receives property not permitted by the foregoing statutes, it recognizes gain.[xxxiii]

Common-Law Requirements

Common-law requirements of a Type G reorganization should be documented in the plan of reorganization and ancillary documents. COI is a measure of a security holder's continued investment in a modified corporate package. In an insolvency reorganization in a Title 11 bankruptcy, a creditor's claim against the bankrupt target can be a proprietary interest.[xxxiv] Therefore, if a bankrupt target's senior class of creditors, together with all junior creditors and shareholders not eliminated by the transaction receive a proprietary interest like stock in the acquiring corporation in exchange for their claims, the COI requirements can be met.

COBE generally requires that the acquiring corporation either continues the bankrupt target's historic business or uses a significant portion of the target's assets in a business. Because an insolvency reorganization is implemented to restructure financially distressed corporations, the corporation continues in a different form and COBE is relatively straightforward.

INSOLVENT CORPORATE DEBTORS CAN TRANSFER THEIR ASSETS TO OTHER CORPORATIONS DURING BANKRUPTCY PROCEEDINGS IN FURTHERANCE OF THEIR REHABILITATION EFFORTS.

Type G reorganizations also require a valid business purpose. Since insolvency reorganizations are typically undertaken to rehabilitate distressed corporations to allow them to continue as a going concern, the business purpose of this type of reorganization is clear.

Planning is Key

Do not let the tax tail wag the dog. It is almost never a good idea to file for bankruptcy merely for tax purposes. In fact, if tax is the only issue, a company runs the risk of not having a plan confirmed because courts can disallow plans if the principal purpose is the avoidance of taxes.[xxxv]

The decision to file should focus on the business realities imposed by creditors and prevailing economic forces. Importantly, obtain the advice of qualified bankruptcy counsel, tax counsel and valuation experts when considering bankruptcy or debt workouts.

Ideally, a restructuring and tax strategy is implemented well before a bankruptcy filing becomes necessary. If bankruptcy is unavoidable, make sure it is thoughtfully planned.

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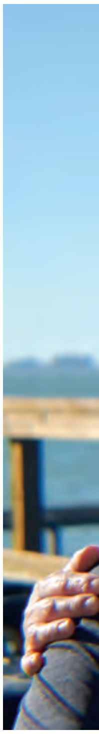
FOOTNOTES

[i] See https://coronavirus.jhu.edu/data.
[ii] See https://www.va.gov/opa/publications/factsheets/fs_americas_wars.pdf.
[iii] See Code § 61(a)(11). The "Code" refers to the Internal Revenue Code of 1986, as amended, and "Treas. Reg." refers to the Treasury Regulations promulgated thereunder.
[iv] Code § 108. Also see *United States v. Kirby Lumber Co*., 284 U.S. 1 (1931) (a taxpayer must recognize income when it settles its debt for less than face value) and *Slavin v. Commissioner*, T.C. Memo 1989-221 ("A taxpayer has been forgiven or released from a debt when the facts reasonably establish that the debt will probably never be paid, that the taxpayer does not intend to repay the loan and that the party who loaned the money does not intend to enforce its claim against the taxpayer").
[v] Code § 108(a)(1)(A), (B).
[vi] See Code § 108(a)(C)-(E).
[vii] Code § 108(d)(6), (7).
[viii] Code § 108(d)(2). See also 11 U.S.C. § 727.
[ix] See Code § 108(b); Treas. Reg. § 1.108-7(a)(1)(i)-(vii). Taxpayers may elect to first reduce the bases of depreciable property before using the general ordering rule. Code § 108(b)(5).
[x] Code § 108(a)(3).
[xi] Code § 108(d)(3).
[xii] Code § 108(b)(1); Treas. Reg. § 1.108-7(a).
[xiii] See *Welch v. Helvering*, 290 U.S. 111, 115 (1933) and *Bressi v. Commissioner*, T.C. Memo 1991-651 (citing Tax Court Rule

142(a) and *Welch*, 209 U.S. 111 (1933)). In certain cases, the burden of proof for relevant factual issues may shift to the IRS under Code § 7491(a).
[xiv] See 2925 Briarpark, Limited, T.C. Memo 1997-298, aff'd, 163 F.3d 313 (5th Cir. 1999). Also see *Commissioner v. Tufts*, 461 U.S. 300 (1983) (establishing that where a taxpayer disposes of property encumbered by a nonrecourse obligation exceeding the fair market value of the property sold, the taxpayer's amount realized on the sale can include the outstanding amount of the obligation).
[xv] See Treas. Reg. § 1.1001-3.
[xvi] Id.
[xvii] Code § 108(e)(10)(A).
[xviii] See Code § 1274; Treas. Reg. § 1.1274-2.
[xix] Code § 382(g).
[xx] See Code § 382(b), (e)(1). (Loss corporation's NOLs are subject to annual limitation equal to the value of old loss corporation immediately before the ownership change times the long-term exempt rate. The limitation is zero whenever the loss corporation is insolvent immediately before the ownership change.)
[xxi] Published rates are available at https://apps.irs.gov/app/picklist/list/federalRates.html.
[xxii] Code § 382(b)(1), (l)(6), and (l)(5).
[xxiii] See, e.g., Code § 382(h)(3)(B).
[xxiv] Code § 382(h)(1)(A).
[xxv] Id. See also footnote 23.
[xxvi] Code § 368(a)(1)(G) ("Type G" or "insolvency reorganization"). Title 11 refers to a case under Title 11 of the United States Code. Code § 368(a)(3)(A)(i). As a technical matter, a Type G reorganization can also be used in receivership or foreclosure type procedures in state or federal court. Code § 368(a)(3)(A)(ii). Unless otherwise noted, "reorganization" as used herein refers to transactions defined by Code § 368.
[xxvii] See Code § 382(l)(5).
[xxviii] See https://www.sec.gov/Archives/edgar/data/923727/000119312519012110/d687440dex9986.htm, as amended.
[xxix] The substitution of acquirer's higher cost basis in purchased assets for losses is often called a "Bruno's transaction" after In re PWS Holding Corp., Case No. 98-212 through 98-223 (SLR) (Bankr. D. Del), Second Amended Joint Plan of Reorganization dated Oct. 15, 1999, Second Amended Joint Disclosure Statement dated Oct. 15, 1999.
[xxx] See Code § 368(a)(3)(C). The foregoing control rule does not apply to the excess liability gain-recognition rule of Code § 357(c)(1).
[xxxi] See Code § 368(a)(1)(B) (a "Type B" reorganization).
[xxxii] Code § 354(a), (b). In other words, the bankrupt corporation exchanges its assets for acquiring's stock or securities and then distributes acquiring's securities to the bankrupt corporation's creditors. The asset exchange and distribution are shielded from corporate level tax under Code §§ 368(a)(1)(G) and 361, and at the security holder level by Code § 354.
[xxxiii] Code § 356(a).
[xxxiv] Treas. Reg. § 1.368-1(e)(6)(i).
[xxxv] 11 U.S.C. § 1129(d).

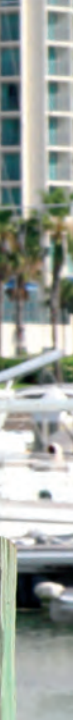


LOOKING AHEAD:

A CONVERSATION WITH TXCPA CHAIRMAN JERRY SPENCE

By: Jodi Ann Ray, CAE, TXCPA President and CEO

In June, TXCPA kicked off the 2020-2021 Society year. Jerry Spence, CPA-Corpus Christi, began his term as chairman. TXCPA President and CEO Jodi Ann Ray visited with Jerry about challenges and opportunities ahead, the benefits of service to TXCPA, and what inspires him.



You have been a CPA since 1987 and have practiced in both public and private sectors. What aspect of your work do you enjoy the most? What are some challenges you've faced?

I love working with our clients. It is such a pleasure to get to know the people behind the businesses we are serving, to understand the issues and opportunities they are facing, and to work with them to solve problems. It always feels like a big puzzle and it's important to put the pieces together in the right order.

It is a challenge to stay on top of all the changing regulations and continuously work to evolve our firm. I always say how surprised I am by how much I learn

during each tax season as we are continuously working to employ the best strategies for our clients. Even though our workload keeps us consistently busy, it is important to take the time to work on the business and adjust how we approach our work, and that includes everything from moving away from paper files to how we position our services for clients.

I appreciate all of the things we talk about through the Society. It makes me want to be better at what I do and how we serve our clients. We all need to work to stay current instead of operating in the past. I would much rather assist a client in developing a strategy for moving forward than learning afterward what actions have been taken and how we then address what I cannot change.

The coronavirus pandemic has significantly impacted our personal and professional lives. How is the current environment affecting your firm and your clients, and what are some of the issues facing the accounting profession in these unprecedented times?

At the onset of the pandemic, we were well set up to work from home, so that was an easy transition for us. In addition to a traditional tax season, we have been working with clients to help them determine what steps to take, whether they need to access some of the federal programs and how to do so. For most of us in public accounting, we are busier than we ever have been. After July 15, we will start to think about how to modify some of our work policies based on our experiences these last few months.

You have been involved with TXCPA and TXCPA Corpus Christi for a number of years, including serving as chapter president. Why is service in your professional organization so important to you and how has it affected your career?

I honestly feel like participating in the Society and serving the profession is something every professional needs to do – it is our responsibility. My involvement makes me a better professional. Those of us who choose to be involved have advantages and access to resources that other CPAs don't have because they haven't chosen to be engaged in the Society or the chapters. Through the Society network, I hear new ideas to better serve my clients and make our practice better. This statewide network of colleagues is incredibly supportive.

You will be TXCPA chairman during the next Texas legislative session in Austin. What are the priorities and what role should CPAs and the Society play in governmental affairs?

We need to continue our focus on protecting the license. There are forces outside the licensing environment that want to compete with the CPA profession and they will use the pandemic, or any other reason they can find, to argue about the value of their services and that does not protect the public.

The legislative environment and legislative agenda will look different this year. How the state balances the budget after significant revenue loss will be a considerable undertaking. TXCPA will be heavily engaged

as we know how it will impact our members and their clients and employers. Also, ensuring that there is not a sales tax on professional services is always at the top of our agenda.

During your term as TXCPA chairman, we will finalize a new three-year strategic plan. What do you want members to know about how TXCPA identifies its strategic priorities and how they can help TXCPA meet its objectives?

It's all about the members. Everything we discuss centers on how we can help our members and serve our chapters. We need chapter leaders and members to share what they might see and need so we can continuously adjust to meet those needs.

Having participated as a member of the Strategic Planning Committee, I have been really impressed with our process to date. We have met with the leadership of each chapter, conducted interviews with Strategic Planning Committee members and chapter executive directors, and engaged members at some of our largest meetings. We knew we had to face considerable change to meet the evolving needs of the profession. The pandemic has significantly accelerated that need for change.

We just completed five virtual strategic planning retreats to replace the in-person retreat that was planned for the beginning of June. I was surprised and pleased that the outcomes from those five sessions were so aligned. It provides a lot of confidence that our key objectives are bold, on track, and will give us the foundation to serve the profession well into the future.

What inspires you?

My family inspires me the most. My wonderful wife Patty is a teacher and has been so incredibly supportive on this journey. Our kids have been the center of everything we do, and it is rewarding to see them doing well and making their own path.

It seems like music and accounting run in the family. Our middle son is working in the firm and pursuing his CPA license – that will make three in addition to myself and my sister. My nephew just graduated from TCU with an accounting degree and will enter the master's program in the fall with the intent to sit for the CPA Exam.

On the music side, our oldest went to the Berkeley College of Music, and the youngest is a junior at the University of North Texas majoring in music and performing in a band. We are looking forward to his participation in a virtual showcase for the National Association of College Activities for an opportunity to perform at college events.

I would also say I am inspired, or perhaps motivated, by fear in some ways. I never want to let people down or lose someone's trust. I know I could be someone who could sit on the sidelines and let someone else step up. I like to participate, and I find it motivating to contribute and be part of something bigger than myself.

How did you decide to become a CPA?

I knew I wanted to study business and didn't know much about accounting. I had the impression that accounting was the top of the business school, so I decided that was likely the best place to be. It was very clear when I was in school that if you were in accounting, you were likely going to become a CPA. I did an internship at an oil and gas company, and they referred me for a position at a bank in the internal audit department. I was the first in my family to graduate with a four-year degree. I was determined to make the most of my education. Two years after graduation, I moved to Corpus Christi for a job and never looked back.

What advice do you have for students who are interested in the accounting profession?

Get your CPA license as soon as you can. Work on getting the CPA Exam behind you. Passing the Exam will set you apart from other candidates. This is such a diverse profession and there are so many things you can do in accounting. You simply cannot go wrong with an accounting degree.

If you understand accounting, you can pretty much do anything. If you understand financials, you can understand how a business operates. You have the opportunity and ability to set your own path, and you should always take advantage of it.

ABOUT THE AUTHOR:

Jodi Ann Ray, CAE, is TXCPA's president and CEO. Contact her at jray@tscpa.net.

Snapshot of Service

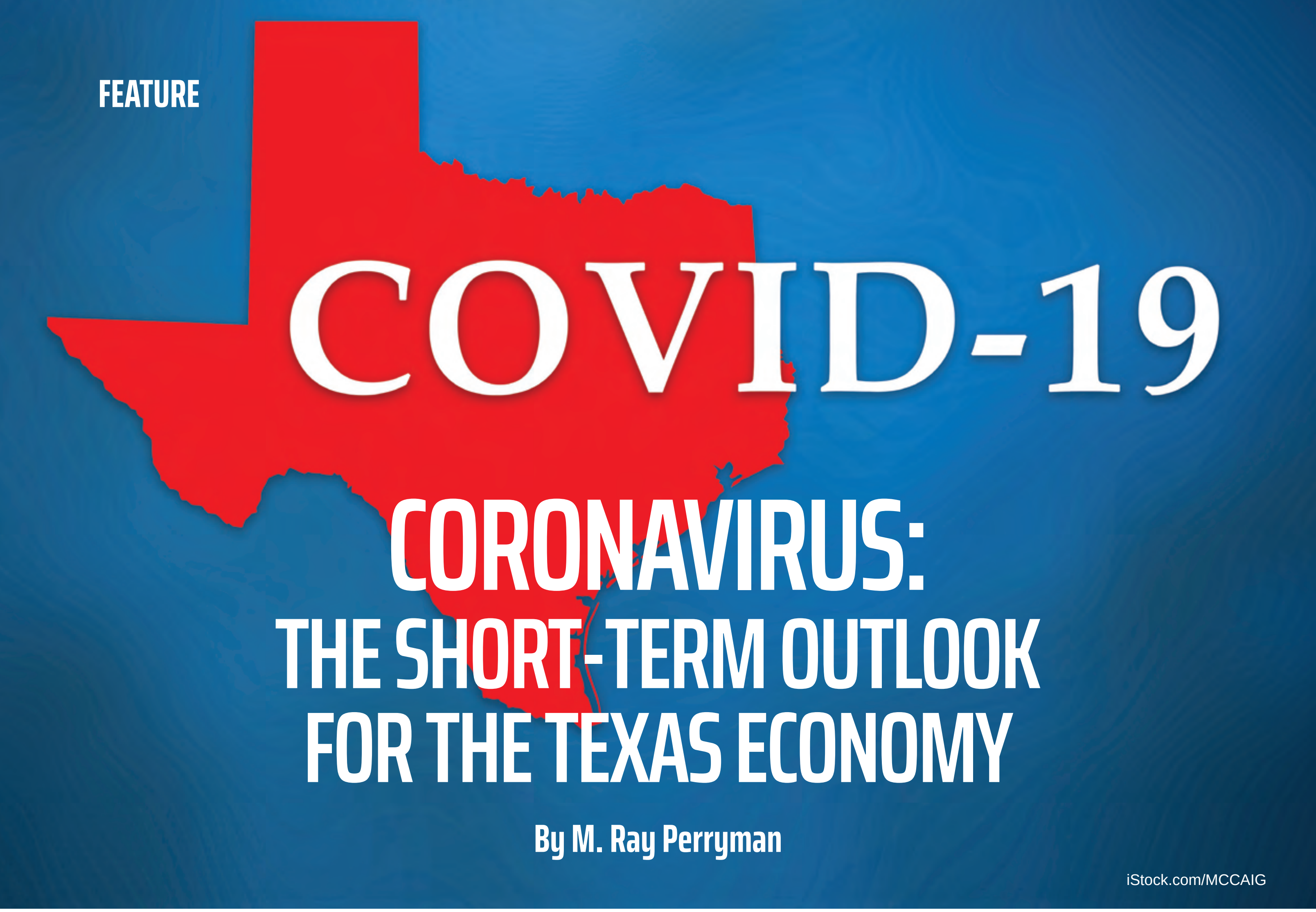
Jerry Spence, CPA-Corpus Christi

Membership
Joined TXCPA: 1998

Corpus Christi Chapter Service
Chapter Membership Chairman: 2002-2004, 2009-2010
Chapter Board Member: 2003-2005
Chapter Treasurer: 2005-2006
Chapter President-elect Nominee: 2006-2007
Chapter President: 2007-2008

TXCPA Service
Board of Directors: 2007-2009, 2010-present, chairman 2020-2021
Executive Board Member: 2013-2017, 2019-present
Treasurer: 2017-2018
AICPA Council: 2018-present
CPE Advisory Board: 2008-2017, 2019-2020
Nominations Committee: 2011-2012
Finance Committee: 2013-2020, chairman 2017-2018
Audit Committee: 2013-2018
CPA Practice Issues Committee: 2013-2020, chairman 2018-2019
Strategic Planning Committee: 2015-2017, 2020-present
Membership Committee: 2016-2017
TXCPA Insurance Trust: 2016-2018
Compensation Committee: 2016-present, chairman 2020-2021
CPE Task Force: 2016-2017
Investments Committee: 2016-2017
Awards Committee: 2017-2018
Accounting Education Foundation: 2019-2020
Governance Committee: 2020-present

Other Service:
Rotary Club of Corpus Christi
Corpus Christi Estate Planning Council
Most Precious Blood Catholic Church
Boy Scouts of America



CORONAVIRUS: THE SHORT-TERM OUTLOOK FOR THE TEXAS ECONOMY

By M. Ray Perryman

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The inevitable result of measures to "flatten the curve" and prevent a major spike in COVID-19 infections has been a strong shock to the economy. Many factors will determine the ultimate effects of the coronavirus on the economy, most of which are highly uncertain at present. The outcomes of reopening the economy and the capacity of businesses to resume normal activities are among myriad phenomena that will play a significant role.

Things are changing quickly and will no doubt be different when you read this article than they are as I write it (mid-June). The discussion below represents what we are seeing at this time.

The Perryman Group's forecast for the Texas economy calls for a significant drop in business activity for 2020, but a return to growth next year and even later this year. Measures taken to slow the spread of COVID-19 have had substantial negative effects, including causing downturns in key export industries such as oil and natural gas.

However, the state is well positioned for recovery and expansion once social distancing requirements can be relaxed and the economy fully reopens (assuming that major spikes in the virus do not necessitate additional business interruptions).

Economic Recovery from the COVID-19 Pandemic

The massive layoffs and sharp increase in unemployment has led to ubiquitous comparisons to the Great Depression. However, prior to the Great Depression, there were massive structural problems in the economy and policy responses were less well understood. The major harm of the Great Depression was not that joblessness likely spiked above 30%; it was, rather, that it remained there for almost a decade. Unlike the Great Depression, or even the dot-com debacle, the savings and loan mess in the 1980s or the more recent Great Recession, there is not an overarching major structural problem in the economy (such as an overheated market ripe for a crash) that has to be addressed. A combination of unique and unprecedented issues is causing slowing, but as they are dealt with, growth will pick up.

In fact, the May U.S. jobs report brought a gain of 2.5 million jobs and a decrease in the unemployment rate from 14.7% to 13.3%. It was an important positive signal, particularly given that many analysts were anticipating losses of another eight million or more. However, the situation remains challenging and fluid, and the recovery will likely be bumpy.

There are two countervailing forces in the job market. Many companies are continuing to struggle and lay off workers. While initial weekly jobless claims have fallen substantially from peak levels, they remain well above the previous records set during the 2008 recession. Simultaneously, as the economy reopens, some of the most labor-intensive segments (such as retail, bars and restaurants, and personal services) are hiring in large numbers. On balance, there was improvement in overall employment in May.

This pattern is certainly encouraging and consistent with our earlier assessment that, because there were no major structural problems in the economy, it could recover more rapidly than in 2008 (when it took 58 months to restore job losses). It is important, however, to keep things in perspective. The U.S. lost more than 20 million jobs in April and gained about 2.5 million in May, so there remains an enormous gap to bridge.

Much has been made of the fact that May brought the largest monthly gain ever recorded. While this statement is accurate, the increase restores only a fraction of the unprecedented prior loss. Some additional large net gains over the ensuing months may occur given the dynamics of reopening, but this pace will not persist indefinitely.

In addition, subsequent data releases may present a different picture. Job gains are based on a survey of establishments and could be notably revised downward in the next benchmarking if the number of operating locations has dropped. The unemployment rate is based on a survey of households and there may have been some individuals who were classified as employed who were not working due to COVID-19 closures; if these people had instead been counted as unemployed on temporary layoff, the overall unemployment rate would have been several percentage points higher (although the direction of movement should be similar). The Bureau of Labor Statistics has acknowledged this issue.

While The Perryman Group expects economic patterns for the next couple of years to be very different from the firm's projections prior to the outbreak, there is not yet evidence that the long-term outlook for the Texas economy should be modified. Based on current conditions (as of mid-June), it should take about two years to return to prior peak levels even with no major additional disruptions.

Oil Market Turmoil

In Texas, the oil situation is especially significant to the economy. At the beginning of this year, oil prices were trending in the upper $50s per barrel. As demand dropped in response to COVID-19 restrictions, spot prices fell to a fraction of that level and futures prices actually became negative at times as contracts neared maturity and traders scrambled to avoid having to take delivery of oil at a time when storage capacity would be largely exhausted.

The price decline is due to the combination of (1) plummeting demand as economies and industries around the world shut down due to COVID-19 and (2) rising supply, with threats of even more due to the collapse of talks earlier this year among major global oil producers to try to bring discipline to the market. The subsequent agreement by OPEC+, the U.S., and other nations is not sufficient to rebalance markets due to the unprecedented effects on demand of shutting down huge segments of the world economy, though it is an important step to keep the supply overhang from getting as big as it would otherwise. (As this is being written in June, prices have been restored to the mid- to upper-$30s per barrel.)

The Perryman Group's forecast for the Texas economy calls for a significant drop in business activity for 2020, but a return to growth next year and even later this year.

Industries Likely to Experience Largest Job Losses

The industries most likely to see the largest drops in the numbers of jobs include:

- Accommodations and food services,
- Retail trade,
- Manufacturing, and
- Mining (which is primarily oil and natural gas in Texas).

Although production costs are down sharply in Texas, they are not yet at a level to maintain viability at recent prices. As a result, the situation is leading to significant disruptions in the Permian Basin and the state's other production areas.

The industry has engaged in a rapid shutdown of drilling activity, which ripples through an enormous supply chain and supporting retail and service enterprises in the affected communities and the rest of the state.

Banks that have large energy company loan portfolios are being strained, and mid-stream and downstream investments are being deferred. Adverse effects on oil producing areas are being observed in a dramatic fashion, but the fallout from the situation involves all regions of Texas.

As the economy begins to recover from COVID-19 restrictions and travel prohibitions, oil markets can normalize expeditiously. Prices are already trending toward more normal levels and should recover to sustainable levels for West Texas producers (where costs were falling notably for years before the pandemic) in the next few months.

This is Not the 1980s

With the oil market in disarray, comparisons are being drawn to the horrific events of the 1980s. While such discussions are both natural and inevitable, they are also both misplaced and incorrect.

One key difference is the sheer speed of the downturn. The prior decline began in early 1982 and did not reach its nadir until a rapid fall in 1986. This time, it unfolded in a matter of weeks.

Moreover, the 1980s debacle occurred amidst a savings and loan and real estate crisis, and ill-conceived reversals in tax policy that led to massive failures throughout the financial system and took years to repair. It was further complicated by the complex geopolitics of the Cold War.

Today, a pandemic arose as the country was enjoying the longest expansion in history with no major structural dislocations. The 1980s downturn came on the heels of the 1970s embargo and energy crisis that brought major cutbacks in energy usage and sluggish demand. By contrast, the current situation arose as a manufacturing boom in emerging countries was driving solid global increases in consumption (and no export ban). Back then, production and known reserves had been declining for decades and the future of the industry was in doubt. "Peak oil" was a common mantra. Presently, we see that:

- Reserves are expanding,
- Technology is evolving rapidly,

- Costs are falling,
- Production is twice its prior peak, and
- There are centuries of supply.

The oil industry in the 1980s was heavily financed by institutional debt, leaving little flexibility to weather setbacks. (A drop of $1 per barrel in 1982 sent the sector reeling.) The recent expansion was fueled by infusions of private equity in the aftermath of the mortgage meltdown and the Great Recession; thus, it is more resilient.

The near-term situation in oil markets is undeniably severe, but it is a temporary aberration stemming from an unprecedented health issue. As the economy reopens, demand for oil will rise and markets will normalize. This is NOT the 1980s.

Travel Industry Slowdown

Travel has been one of the hardest hit industries during the COVID-19 pandemic. Even as restrictions can be reduced, it will take some time for the industry to recover. Airlines are beginning to add flights in response to increased demand as the economy reopens. While international travel will be somewhat slower to come back, some airlines (such as Southwest) are planning full and even expanding schedules by the end of the year.

American Airlines is expecting to fly about 55% of its domestic capacity in July compared to July 2019. Over time, as conditions become more normal, air travel will likely rebound.

The shift to more remote work and virtual meetings may decrease the need for business travel to some extent, but is unlikely to be a major deterrent to recovery of the travel industry over the long term. Obviously, it is important that the reopening be able to continue in a manner that avoids major spikes in the virus that necessitate additional curtailments.

Economic Outlook

The Perryman Group's most recent short-term projections for the national economy indicate a decline in real gross product at a -5.47% rate in 2020, representing a loss of more than $1.0 trillion. For 2021, real gross product is forecast to grow by $973.7 billion, a 5.40% rate. Job losses are forecast to total more than 9.818 million on an annualized basis in 2020 (a 6.49% decline), with 5.19% growth expected in 2021.

These job and output losses are reported on an annualized basis. Therefore, many more individuals are likely to be affected for a portion of the year (as an example, an annualized job can be three individuals who are each unemployed for four months) and the annualized loss in gross product will be much larger in the immediate future.

For 2020, The Perryman Group estimates that the Texas economy will experience significant losses due to COVID-19 and the associated disruptions in the oil market. Real gross product is expected to decline by $133.8 billion relative to 2019 levels (a 7.60% loss), while total employment on an annualized basis is likely to drop by almost 861,000 (down 6.48%). Note that job losses are expected to be concentrated in the spring and summer months with some improvement through the year, so reported losses at some points in time will be even higher.

While job losses are currently high and millions of Texans have filed initial claims for unemployment since March, many will return as social distancing requirements are relaxed. In addition, expected economic growth for 2020 has been foregone. When compared to baseline projections before the pandemic, real gross product losses for the year reach $206.3 billion, with more than 1.1 million fewer annualized jobs in Texas relative to pre-COVID-19 expectations.

For 2021, a notable improvement is projected. Gains in real gross product are forecast to be $154.4 billion (a 9.50% increase), while the number of jobs rises by almost 685,000 (up 5.51%). It is expected to take two to five years to return to the level of business activity the state would have otherwise experienced in the absence of COVID-19 and the related measures to prevent a spike in infections.

Today, a pandemic arose as the country was enjoying the longest expansion in history...

Well Positioned for Growth

Texas is facing COVID-19 issues, as well as a notable contraction in the energy sector. The state economy has been declining steeply at the time of this writing, but is projected to return to growth later this year (although, as noted, the year-over-year numbers are expected to be down considerably).

Because the underlying economy was strong prior to this situation, the decline is likely to be more of a pause than a fundamental change, particularly if safe and effective measures to resume activity are successful. There will definitely be some lasting shifts in both attitudes and actions. Certain behaviors will change and we will forever view the economy through a different lens.

Corporations will likely focus more on the quality of local educational institutions, health care facilities, internet capabilities, equality, and other issues in making investment and location decisions. Greater innovation in health and safety will be a priority.

Diversification of sourcing for inputs may well bring new opportunities for domestic manufacturing and it's likely that interregional competition will be intensified.

Through all of this transformation, however, there is nothing to suggest that the long-term potential of the global economy has been diminished. Texas will clearly face challenges going forward, including providing adequate educational resources and infrastructure development, but remains well positioned for future growth.

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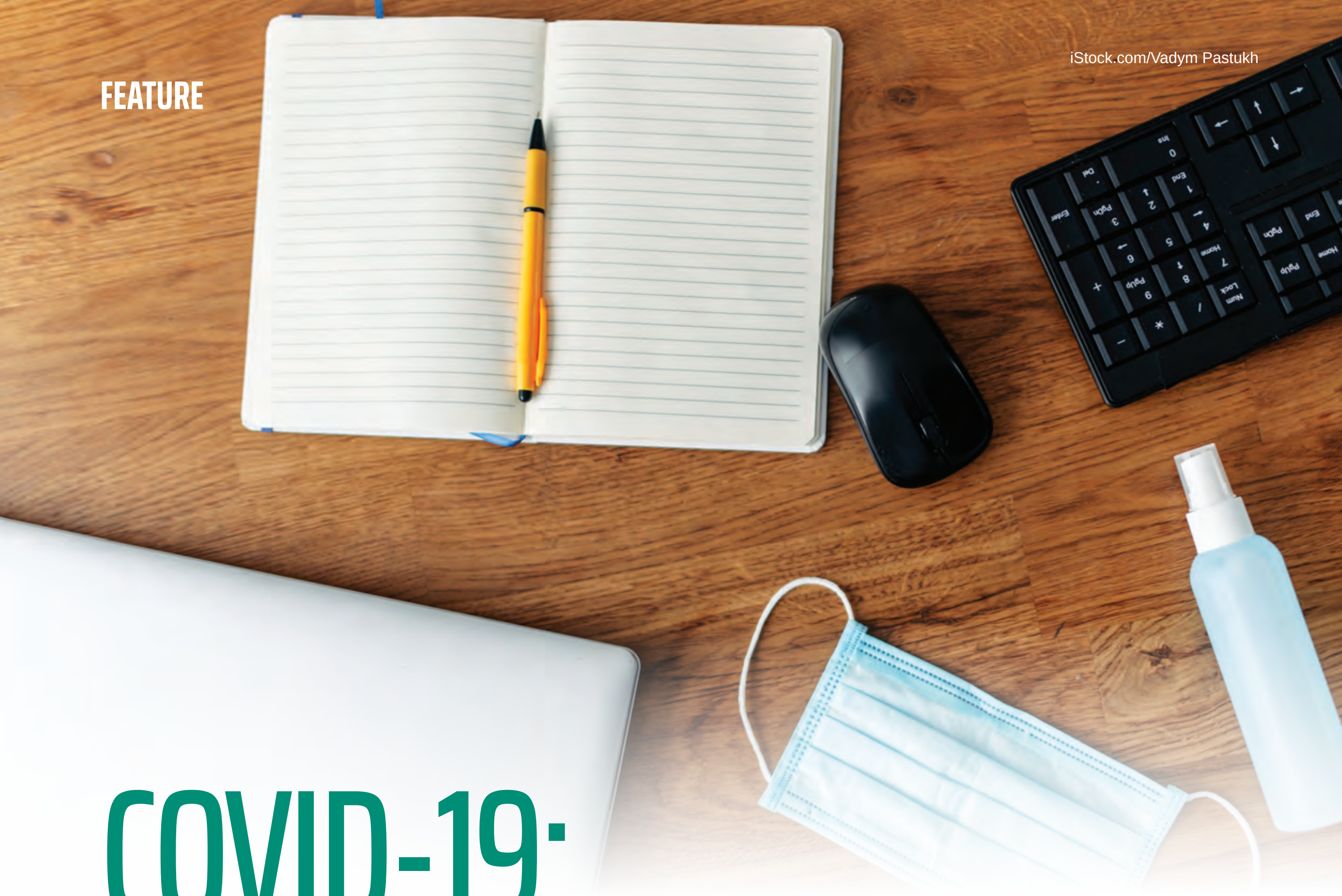
Dr. Ray Perryman is President and CEO of The Perryman Group, an economic research and analysis firm based in Waco, Texas. He holds a B.S. in Mathematics from Baylor University and a Ph.D. in Economics from Rice University, as well as an honorary doctorate from the International Institute for Advanced Studies. He has held numerous academic positions throughout his career and is currently a Senior Research Fellow of the IC2 Institute at the University of Texas and Institute Distinguished Professor of Economic Theory and Method at the International Institute for Advanced Studies. Contact him at ray@perrymangroup.com.

FEATURE



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COVID-19: STRATEGY AND TACTICAL DECISIONS

By Naresh Srinivasan, CPA, MBA

When we rang in the new year 2020, no one would have predicted the situation we all are in today. The global economy has come to a screeching halt and every industry has been affected. Some sectors have been heavily impacted while others to a lesser extent.

There have been numerous research papers published and predictions being made on the outcome. The truth, however, is the path of COVID-19 and the socio-economic response over the next few months is still very uncertain.

We are living in unprecedented times and what matters is what we do now! Put aside the five-year strategic plan that you finalized a few months ago. There is a famous quote by William Durant: "Forget past mistakes. Forget failures. Forget everything except what you're going to do now and do it." There is only the here and now. Organizations must focus on that and act swiftly.

Strategies

Many companies' executive leadership teams are taking quick, reactive cost-cutting measures. Finance leadership can provide valuable data analytics and information to the board/executives to implement a strategy that is designed to focus on the short-term strategies and the long-term impacts (keeping in mind the new normal that will emerge) of COVID-19 and detail out the tactical decisions for implementation. Following are some essential elements to consider.

1. Your people and your customers or clients: Your number one priority should be the health and safety of your employees and your customers or clients. Adjust your work environment and shift to accommodate the changing needs of your customers or clients, while working to protect employees.

2. Implement CRO Support: Businesses may need a Chief Restructuring Officer (CRO), who will work with management, the board and external stakeholders to help navigate the organization through any restructuring.

3. Preserve cash and optimize profitability: Cash is the life blood of an organization. Take decisive and timely actions to preserve cash and maximize liquidity. The challenge will be to maximize "free cash flow" during a period in which revenues and profits will be down by reducing capital expenditures and managing costs. Execute actions quickly to reduce both variable and fixed costs.

4. Have courage to re-position: Develop and implement a restructuring plan. If you sit idle, you will probably get run over, so re-size the business and re-build your business model to achieve target profitability at lower revenue and be stronger on the other side of the crisis.

5. Institutionalize new ways of working: Use technology and lessen dependence on travel for meetings. Shift permanently to shorter planning cycles and more frequent review of key performance indicators (KPIs).

Tactical Elements

Following are some essential elements to consider from a tactical standpoint.

1. Initiate a regular communications plan with key stakeholders.

2. Swiftly source the necessary personal protective equipment (PPE) and provide guidance on how to operate safely under the current conditions, including personal hygiene and social distancing.

3. Track the impact on the financials for reporting and clarity. Consider treating COVID-19 as a project to record in your ERP at the lowest level possible (GL account level, invoice level) transactions impacted due to the pandemic. This will help facilitate reporting for clarity to stakeholders; for example, the company spent $x during the quarter on PPE.

4. Your workforce is one of your main assets. Have empathy and the courage to do the right thing. In most organizations, labor cost is one of the largest components of expenses. However, don't just have a kneejerk reaction to cut x% of the workforce. If employees see that you used all means before you considered a RIF/severance and were able to save jobs, they will understand it better and the trust component skyrockets. As an example, a path to take might be:

PRIORITY

- Freeze new hires and see if the new hire workload might be absorbed by the existing workforce;
- Cancel bonus payments, especially those that are discretionary;
- Consider temporarily stopping company match on retirement accounts; e.g., 401k;
- Temporarily freeze pay increases;
- Take pay cuts, starting at the executive level; the higher the pay grade, the higher the pay cut percentage. If there are some employees close to the minimum wage level, ensure that you don't violate any federal/state laws with a pay cut that would put them over the line.
- Consider furloughing employees;
- Review your temporary and contractor workforce; if there is no choice but to reduce your workforce, this category more than likely comes ahead of your permanent workforce and might prove less expensive from a severance/cash outflow perspective.

5. Evaluate options to defer or minimize outbound cash flow through extending or renegotiating payment terms with your vendors.

6. Evaluate options to maximize the inflow of cash through enticing early payment options for the customer (e.g., through guaranteed services and supply) or factoring your receivables.

7. Restructure debt agreements and obtain waivers in debt covenants.

8. If your company is in a strong cash position, use this time to shore up your supply chain by buying more raw materials or making advance payments in return for preferential access to resources at a discounted rate.

9. Adopt a new remote workforce environment. Make remote work a permanent option for roles that allow it. Use collaboration tools to help drive clarity on ownership, responsibility and accountability of tasks. Reduce your real estate footprint.

10. Change HR/compensation policies. Maybe consider having different compensation levels for jobs that are done remotely vs. on-site.

11. Consider freezing or minimizing your capital expenditures. This will help your free cash flow.

12. Review your assets for impairment, as well as classifying them as idle assets. These idle assets will stop the clock on the depreciation expense, consequently favorably impacting operating earnings.

13. Review your contractual commitment from a leverage standpoint. Most contracts have a force majeure clause that might need to be invoked provided the non-performing party establishes that it could have performed if the force majeure event had not occurred. Having said that, this clause could have been worded differently for different companies, so without a specific reference to a pandemic, a force majeure clause will probably not apply.

14. More than likely, you have a brick and mortar office that is leased. Work with your landlord/lessors on rent concessions due to COVID-19. The Financial Accounting Standards Board (FASB) and Securities and Exchange Commission (SEC) recently came out with practical and timely guidance that can be applied to the accounting for rent concessions (free rent) and rent deferrals (e.g., don't pay now but pay later).

This method will allow you to record the benefit in the same month it's received However, only modifications that meet specific criteria are eligible. As an example:

- Eligibility: Eligible leases are those for which the concession is COVID-19 related and the changes to the lease do not result in a substantial increase to the rights of the lessor or the obligations of the lessee.
- Original lease entries are unchanged and recorded as normal. This way, the asset and liability continue to amortize on the balance sheet like they normally would.
- Rent concessions (free rent) are recorded as a credit to variable rent expense in the free rent period.
- Rent deferrals are recorded as negative variable rent expense in the free rent period and positive variable rent in the period paid, essentially recording the expense on a cash basis. For example, assume we have a 12-month lease at $100/month and the lessor says we do not have to pay the first six months, but have to pay double the rent in the last six months to make it up. The P&L would show $0 expense the first six months and $200/month in expense in the last six months.

The finance team's primary responsibility now is to help guide the organization through the worst of the current crisis.

Other Considerations

There is a new accommodation from the SEC that allows registrants to reconcile non-GAAP measures to provisional GAAP amounts if they haven't completed their accounting measurements due to the effects of the COVID-19 pandemic.

Registrants can quantify and discuss other effects of COVID-19 on their operations or their financial condition as long as they don't adjust GAAP measures to reflect what their performance or condition would have been without those effects.

The SEC has stated it believes that a registrant should disclose only non-GAAP financial measures that are consistent with how management and the board are analyzing the current and potential effects of the COVID-19 pandemic on the registrant's financial condition and operating results. Accordingly, a registrant should not present a non-GAAP measure "for the sole purpose of presenting a more favorable view of the company," the SEC staff said. (**Editor's Note:** Please see the CPE article "Key Performance Indicators and Non-GAAP Measures" in this issue of *Today's CPA* for more information on this topic.)

Preparing for the New Normal

The finance team's primary responsibility now is to help guide the organization through the worst of the crisis. Don't focus on the long term. Once the dust settles on current events, there is an opportunity for the finance team to use these experiences to make necessary changes for the new normal.

For many companies and firms, the current pandemic may spell doomsday. However, for others it might mean new opportunities and successes. The critical point is that businesses that position themselves for success in the short term, and implement their tactical-level decisions swiftly, will be the ones that will succeed in the long run.

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FEATURE

DISRUPTING TECHNOLOGIES AND THE IMPACT ON AUDITING

By Kamala Raghavan, CPA, CFP, CFF, CGMA

Today's auditors are trying to balance vast pools of data, regulatory pressures and growing client expectations, along with major advances in technology. The cloud has introduced new tools into the audit profession. Innovative technologies like artificial intelligence (AI), machine learning (ML), predictive analytics, blockchain and robotic process automation (RPA) are bringing about significant changes for the audit profession and enabling auditors to increase efficiency and reduce risk. The full impact of these disruptive technologies is not felt yet, but the benefits and efficiency gains are becoming evident.

With the acceleration in innovative technologies and client expectations about the role of audit in providing value-added service, auditors have to be ahead of the curve by becoming adept at the technologies used by their clients while adding efficiency to their own processes. This article outlines some key areas where technology will change today's audit paradigm. Understanding the capabilities, opportunities and risks of these disruptive technologies is essential for the future of the audit profession.

Cognitive Technology

Artificial intelligence (AI) can enhance audit quality by analyzing vast amounts of data effectively by using algorithms to enable software to absorb information, reason and think similar to humans. It encompasses machine learning (ML), where computers can correct in mid-course and try new strategies as obstacles or unknowns are faced in the work processes.

Cognitive technology can be used by auditors to redesign the workflow to analyze structured and unstructured data efficiently. The auditor can combine data from non-traditional sources (social media, TV, radio. Internet, etc.) with traditional sources like client's financial records and use advanced analytics to improve the quality of the audits by diving deeper into the data to provide a clear picture about the client's risk profile, financial reporting controls and the operating environment.

AI and ML are becoming increasingly embedded in applications and processes. The accounting profession is utilizing AI (ro)bots in their professional routines and streamlining processes. Data categorization is affected by AI bots to automatically categorize information into different accounts. When a monthly subscription phone bill and a purchased phone bill are sent by the same phone carrier, bots can automatically classify them under different chart of accounts.

The potential of ML can be observed when bots learn from human input to make better judgments and adapt to the human behavior patterns. ML can provide the tools for processing and standardizing the data. Large data sets, including contracts and other complex transactions, can be analyzed quickly and accurately, helping to free up the auditor to focus on the areas that require human judgment.

Auditors can examine the client's entire general ledger data using automated tools that perform a variety of analyses and provide lists of exceptions for the auditors to evaluate instead of using traditional sampling. Once the auditor confirms or invalidates that exception, the machine learns to derive patterns from the auditor's conclusions and attempts to identify additional data points about the positives and negatives to apply to additional exceptions. It helps the auditors to increase their efficiency by accelerating and automating the audit process, and achieve higher quality and efficiency. Please see Table 1.

Opportunities in ML

ML applies statistical models and algorithms that mirror cognitive strengths like pattern recognition and contextual learning. The power of ML is derived from its ability to process large datasets, adaptability in learning from complex and constantly changing patterns,

Table 1. Benefits of Disruptive Technologies for Smaller Firms

The benefits of disruptive technologies are trickling down to smaller firms as shown by the following two ventures.

AuditFile

AuditFile, a cloud-based audit automation platform, incorporates analytics and ML to help CPA firms improve efficiency and process visibility in audits by recognizing patterns and applying those rules to analyzing a data set. The software uses AI to classify accounts to lead sheets on the trial balance and frees up auditors to focus on the interpretation of the results. By processing extensive amounts of data very quickly, it helps the auditors perform a more efficient audit.

In the near term, ML can be used for analyzing cash receipts and disbursements for irregularities based on the client's historical trends, as well as for a broad range of analytical procedures. Over a period of time, these tools could be expanded to analyze industry-wide data, allowing auditors to refine risks of material misstatements and identify anomalies.

Auvenir

Auvenir, a Deloitte venture, is trying to develop auditing technology that could be offered to small firms to help level the playing field. They are looking at emerging technologies, such as AI, ML, data analytics, smart contracts and all of the components to be brought into the engagement platform, and bring that technology to small firms in a seamless, cost-effective way.

Such an integration of emerging technologies will allow auditors to test entire populations of data, and confirm information to be able to do a continuous audit and help in catching fraudulent transactions efficiently. Cognitive technology empowers and enables auditors to make key judgments and deliver audits efficiently, and provides auditors with access to richer, more detailed audit evidence and valuable insight.

consistency, and lack of bias, making it a scalable technology in many industries.

ML supports decision making, and offers auditors referential data-driven insights and combined financial and non-financial analysis. It equips them with tools to solve current issues, and frees up their time for problem-solving, advising and strategy.

Challenges in ML

ML algorithms and processes depend on the quality of data used. If the data used by the models are incomplete, insufficient or biased, the ML results will be tainted and cannot be used with a high degree of confidence. ML can execute tasks with a degree of repeatability, allowing the platform to recognize patterns, generalize its learnings and apply them accordingly, but may not be the solution for all problems.

The outputs of ML algorithms are predictive and suggestive in nature, which may make this framework unsuitable for some tasks.

Predictive Analytics

Predictive analytics uses advanced data analysis techniques to make predictions based on probabilities about the future, and improve the audit quality by using AI and ML to refine those predictions. It brings together statistical analysis, data modeling and ML to observe trends and project into the future to help with judgments on likely outcomes.

Auditors can extract data from an organization's systems, combine it with industry and market data, and use predictive analytics to identify anomalies in patterns and alignment with anticipated outcomes and trends to get deeper insight into a client's business and financial risks.

Predictive analytics can assess if the client's data conform to the expectations based on the client's own historical trends and peers' performance data. The focus of predictive analytics is on providing probabilities for potential outcomes, providing auditors a powerful tool to judge the accuracy of reported data and improve audit quality by benchmarking to peers.

Blockchain Technology

Blockchain is a data structure that uses a distributed system of databases (ledgers). Every user is a "node" and has a copy of the ledger. Nodes are connected by networks, and all ledger records are visible to everyone, verified and cannot be changed once the transaction is done. (Source: PwC Governance in the age of Blockchain, 2018)

Blockchain is a database that holds data and programs in heavily encrypted "blocks" of individual transactions as results of executable files. The programs and codes can only be added and cannot be edited or deleted, with each block linked to the previous one making a "blockchain."

The digital ledger shares and tracks information related to contracts and transactions. The records are permanent, verifiable and secure. In summary, blockchain is a distributed database consisting of blocks of items that are timestamped, verifiable, permanent, and hashed and linked to other blocks, with these properties: synchronized, unalterable, deterministic, non-cancelable and fast.

> To use blockchain as a credible data source, an audit of the process to ensure system confidence and the integrity of the data is essential, thereby creating the need for more auditors and different skills.

Due to the increase in adoption, PwC introduced a blockchain validation solution to help authenticate transactions for clients. The solution combines continuous auditing software and a blockchain framework to give internal audit teams and executives real-time access to test transactions on their blockchains.

As this technology is adopted by more businesses using their private blockchains, concerns around risks and controls are evolving. Blockchains are mostly tamper proof with several valuable benefits, but similar to any solution built around a new technology, it is subject to unanticipated risks, requiring a new audit approach that leverages technology, accommodates increased transaction volume and provides real-time data.

A blockchain can fill key roles, including:

- Establishing identity;
- Recording transactions; and
- Establishing contracts.

According to a white paper sponsored by the Chartered Professional Accountants of Canada, the American Institute of CPAs and the University of Waterloo Centre for Information Integrity and Information System Assurance, "With blockchain-enabled digitization, auditors could deploy more automation, analytics and machine-learning capabilities, such as automatically alerting relevant parties about unusual transactions on a near real-time basis. Supporting documentation, such as contracts, agreements, purchase orders and invoices, could be encrypted and securely stored or linked to a blockchain. By giving CPA auditors access to unalterable audit evidence, the pace of financial reporting and auditing could be improved."

To use blockchain as a credible data source, an audit of the process to ensure system confidence and the integrity of the data is essential, thereby creating the need for more auditors and different skills.

Benefits of Blockchain

Both sides of the transaction are recorded in a shared single set of books, creating a triple entry system using a consensus process to validate the transaction and create a new entry to be posted in a shared ledger with a cryptographically sealed receipt with a unique digital signature. The transparency combined with the continuous updating provides real-time information to users and increases the trust level in the data.

The advantages of the technology are:

- Transparency due to cryptography and public/private keys;
- Resiliency due to distributed network; and
- Immutability due to algorithms that mathematically link data blocks without a third party.

The above characteristics make it a network of trust and enhance the ability to perform analytics and forecasting. The blockchain process offers auditors the ability to test the whole population across multiple entities in a short time and generate an exception report, as opposed to the sampling techniques in use today. Confirmations may not be needed because of the distributed ledger verification of transactions at inception.

Forgeries and alterations to transactions can be detected immediately, due to the alerts to all members in the chain. Using blockchain will allow auditors to reduce time spent on redundant tasks and increase value by devoting more time to internal controls, analytics and strategic initiatives.

Table 2. Potential New Careers as a Result of Blockchain

AICPA has identified four potential new careers for auditors as a result of blockchain.

Auditor of smart contracts and oracles: Auditors will be needed to verify the smart contracts that are embedded in a blockchain to automate business processes and provide assurance for contracting parties.

Service auditor of consortium blockchains: Users may want independent assurance as to the stability of the existing or new blockchain architecture before launching a new application or subscribing to an existing blockchain product and to the effectiveness of controls over the private blockchain.

Administrator function: This function can validate the enforcement and monitoring of the blockchain' s protocols and be responsible for the verification of identity before a participant is granted access to a blockchain.

Arbitration function: For a permissioned blockchain, an arbitrator function might be needed to settle disputes among consortium-blockchain participants.

See Table 2 above for potential new careers for auditors as a result of blockchain.

Challenges of Blockchain

Auditors will be asked to provide assurance that internal controls are in place to monitor the new risks due to the new technologies and mitigate them. Similar to AI and ML, blockchain will require auditors to learn about new technologies involving algorithms and digital signatures, and understanding global regulations and cybersecurity threats.

Robotic Process Automation (RPA)

Auditing processes have traditionally consisted of computer dependent tools and processes linked with manual steps. RPA takes these disparate actions into a single integrated automated process, allowing the auditors to operate at higher efficiency levels. It can automate repetitive tasks in taxation, advisory and assurance areas. Some real-life projects include preparation of tax returns and reconciliations by public audit firms.

> Due to emerging technologies, the role of the auditor will be shifting from a standard role to a more strategic business advisory role in the future.

Software robots can be deployed to perform rule-based functions such as reconciliations and analytical procedures in revenue audits. Ever increasing amounts of data ("big data") makes the audit data preparation, file organization, integration and audit tests quite time consuming and prone to error.

RPA software can interact with other application software and automate processes that are structured, rule based and repetitive, and automate tasks that span across different software processes.

While RPA's potential to disrupt the traditional audit processes and audit fees are recognized by professionals, it is still in the preliminary stages of adoption. It can lead to cost savings by increasing efficiencies, but combining RPA with auditors' professional skepticism needs to be explored to provide a value-added service to clients.

Smart Digital Hubs

Advances in communication and internet connectivity have led to mobile technology enabling auditors to use vital data from the field and could evolve into digital hubs that serve as "smart platforms," allowing auditors to work remotely in real time using big data, analytics, automation and data visualization. Such smart hubs will need to be agile and work in a cloud-based environment, configured to support integration into future innovations, and avoid additional complexity into audit work to add maximum benefit to the audit process.

Turning Data Into Insights

With robust tools at their fingertips and the ability to efficiently provide in-depth data analysis, auditors are positioned to take on a greater strategic role and deliver higher-value insights to clients and employers. The traditional audit of today is changing due to emerging technologies. The role of the auditor will be shifting from a standard role to a more strategic business advisory role in the future.

Technology will help auditors identify risks and create more value for all stakeholders using the audit opinion and do so more efficiently. Innovative technologies like the cloud, AI, ML, blockchain and RPA will give auditors better access to a range of real-time data from many sources, reduce manual data entry and improve efficiency.

Blockchain and smart contracts can be used to exchange secure information between businesses and lenders. AI can be used to verify the information and ensure that both parties see the information in real time. RPA can streamline audit evidence collection by standardizing data and automating repetitive tasks.

KPMG's Future of Finance report outlines how organizations will increasingly use "Centers of Excellence (COE)" consisting of data scientists, financial analysts and automation that will analyze large blocks of internal and external data with specialists supported by ML and create in-depth reports. Auditors can benefit from the improved flexibility, risk management and innovation provided by the COEs.

These emerging disruptive and innovative technologies can attract the next generation of auditors with the necessary technical skills. These professionals can serve as trusted, value-added advisors to their clients and employers by turning data into actionable insights and using technology to address business risks to enhance audit quality.

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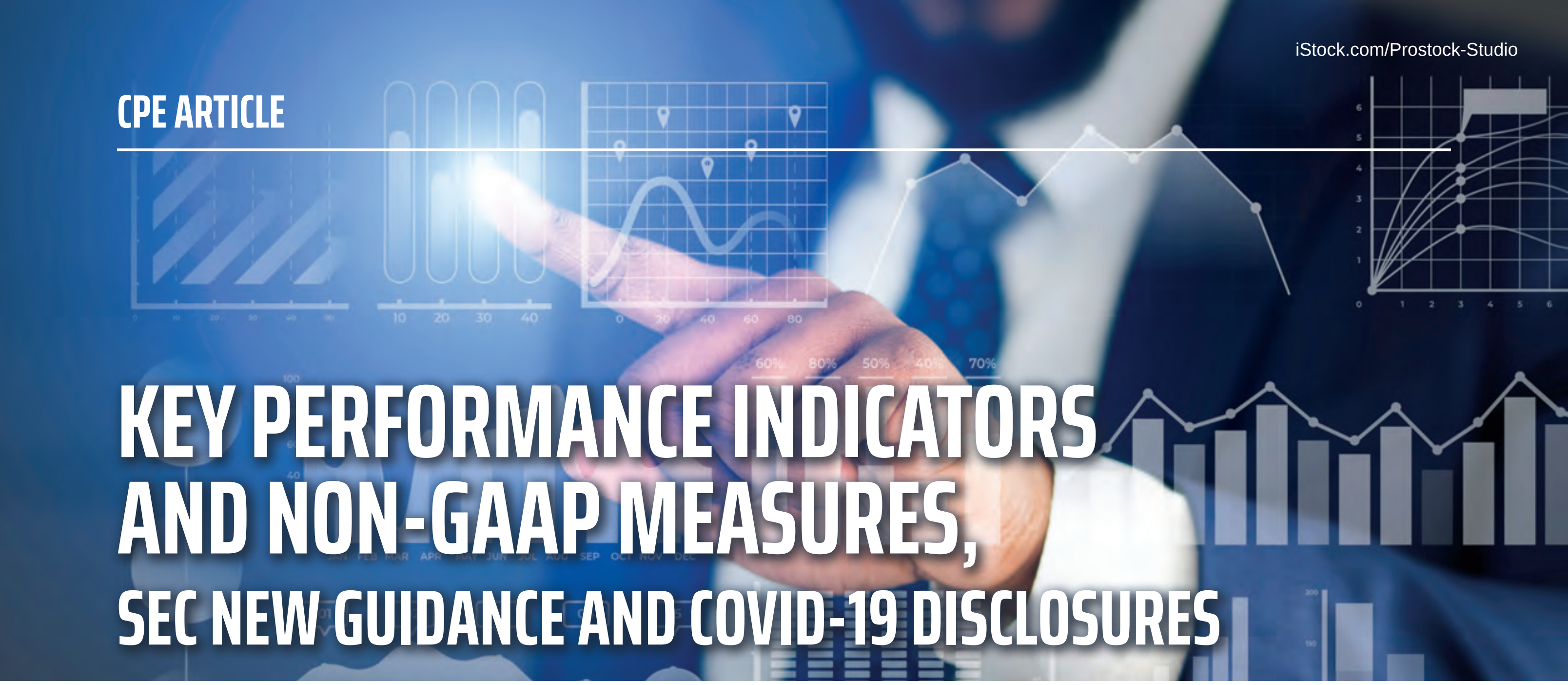

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CPE ARTICLE

KEY PERFORMANCE INDICATORS AND NON-GAAP MEASURES,

SEC NEW GUIDANCE AND COVID-19 DISCLOSURES

By: Josef Rashty

CURRICULUM: Accounting and Auditing

LEVEL: Basic

DESIGNED FOR: CPAs in public practice and industry, both public and private companies

OBJECTIVES: Explain Key Performance Indicators (KPIs) and non-GAAP measures; compare and contrast the nature, governing rules and disclosure requirements of KPIs and non-GAAP measures in the public filings of registrants, as well as private companies that may also publish certain metrics in their financial reports

KEY TOPICS: Definition of KPIs and non-GAAP measures; SEC guidance; KPI vs. non-GAAP presentations and disclosures; impacts of COVID-19; and examples of company disclosures in Form 10-K

PREREQUISITES: None

ADVANCED PREPARATION: None

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In January 2020, the Securities and Exchange Commission (SEC) issued Release Nos. 33-10751 and 34-88094 (FR-87), a guidance advising registrants to make additional disclosures about Key Performance Indicators (KPI) and other metrics in the MD&A section of their Forms 10-K and 10-Q filings. These disclosure requirements are broadly similar to certain disclosures that the SEC requires for non-GAAP measures, including why the particular metric is useful and how management uses it. The new SEC guidance became effective on February 25, 2020.

Furthermore, the COVID-19 outbreak has wreaked havoc in the financial markets around the globe. Many economists predict that the sharp drop of Western economies early on, including the U.S. and Europe, will follow with a painful slow recovery.

The recent market conditions have created many new uncertainties that management needs to communicate to stakeholders. Meanwhile, companies may use KPI and non-GAAP measures to describe the impact of COVID-19 in their financial reports based on the most recent SEC guidance.

This article explicates KPIs and non-GAAP measures and juxtaposes their nature, governing rules and disclosure requirements. It also provides an overview on COVID-19 disclosures based on the SEC and CAQ Center for Audit Quality guidance. Private companies often publish certain metrics in their financial reports and they may equally benefit from the provisions discussed in this article.

Definition of KPIs

KPIs are quantifiable measurements (either financial or non-financial) that companies use to demonstrate how effectively they achieve their business objectives. KPIs are important components of the information needed to explain a company's progress towards its goal.

Some of the commonly used KPIs are: capital expenditure ratios to revenue and number of employees; expected return on new stores; sales per square foot; accounts receivable turnover; inventory turnover; backlog and booking; and gross sales per employee.

Definition of Non-GAAP Measures

Non-GAAP financial measures, similar to KPIs, are indicators of historical or future financial performance, financial position or cash flow that exclude items included in the most directly comparable GAAP measure. Commonly used financial non-GAAP measures include earnings before interest and taxes (EBIT); earnings before interest, taxes, depreciation and amortization (EBITDA); free cash flow (FCF); and earnings per share (EPS) that exclude stock compensation or certain other charges.

SEC Guidance on KPIs

The SEC has always required that registrants provide additional disclosures about metrics that they include in their management discussion and analysis (MD&A) of their SEC filings. The new guidance does not change any of that, but it provides guidance on how these rules should be applied when companies present KPIs in their MD&As. Item 303(a) of regulation S-K requires disclosure of information that a company believes is necessary to an understanding of its financial condition and results of operations.

Item 303(a) also requires discussion and analysis of other statistical data that in the company's judgment enhance readers' understanding of their MD&A. The SEC notes that companies often disclose different types of financial and non-financial metrics in their filings. For example, some metrics relate to external or macro-economic matters, some are company specific, and some are a combination of external and internal information.

The SEC expects the following disclosures to accompany each KPI metric:

• A clear definition of the metric and how the company calculates it;

• A statement indicating the reasons why the metric provides useful information to investors;

• A statement indicating how management uses the metric in managing or monitoring the performance of the business.

The guidance also requires that if a company changes the method by which it calculates a particular metric from one period to another, the company should consider disclosing the following:

• The differences in the way the company has calculated the metric compared to prior periods;

• The reason that the company has made a change;

• The effects of the change on the other information that the company has disclosed;

• Any other differences in the methodologies used that are relevant to metrics.

Furthermore, companies must have sufficient controls in place to ensure consistency and accuracy in the presentations of KPIs.

SEC Guidance on Non-GAAP Measures

Public Business Entities (PBEs) provide information to investors and other market participants in many different ways, including SEC filings (e.g., 10-Ks, 10-Qs and 8-Ks), their websites, earning releases, investor calls, and analyst presentations and road shows. The SEC regulates the disclosure of non-GAAP financial measures under Regulation G and Regulation S-K Item 10 (hereinafter Item 10).

The SEC, under the direction of the Sarbanes-Oxley Act of 2002 (SOX), adopted Regulation G for PBE disclosures. Regulation G, effective in 2003, applies to PBEs whenever a company publicly discloses material information that includes non-GAAP financial measures. Item 10, on the other hand, provides guidance for non-GAAP financial measures included in SEC filings.

Regulation G [Release No. 33-8176 and 34-47226 (FR 65)], as directed by the Sarbanes-Oxley Act, requires companies to include a presentation of the most directly comparable GAAP financial measure and its reconciliation to the corresponding non-GAAP financial measure.

As part of FR 65, the SEC added Item 12 "Disclosure of Results of Operations and Financial Condition" to Form 8-K. Item 12 does not require that PBEs issue earning releases or similar announcements; however, if they do, they need to complete Item 12 in their Form 8-Ks.

Item 10(e)(1)(i) requires the following disclosures in SEC filings:

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• A reconciliation of non-GAAP measures to GAAP presentations;

• A disclosure statement for the reasons that management believes that non-GAAP presentations provide useful information to investors;

• To the extent that is material, a statement disclosing the additional purposes, if any, for which the management believes that non-GAAP presentations provide useful information to investors;

• The SEC does not permit PBEs to present non-GAAP measures in a prominent manner compared to GAAP measures. For example, non-GAAP measures cannot be presented in bold or prior to GAAP measures (even for reconciliation purposes);

• Companies must present comparable GAAP measures whenever they present non-GAAP measures.

The SEC has issued its "Frequently Asked Questions" regarding use of non-GAAP measures (last updated April 2018). The following are some of the main provisions of this guidance:

• Q&A 100.02 requires that companies present non-GAAP measures consistently between different periods;

• Q&A 100.03 considers non-GAAP measures misleading if they exclude only charges but not the relevant gains. For example, a non-GAAP measure that is adjusted only by non-recurring charges when there were non-recurring gains that occurred during the same period;

• Q&A 100.04 does not permit non-GAAP measures that use individually tailored recognition methods for financial line items (including revenue). For example, the SEC does not permit tailored expense recognition methods for stock compensation that differ from U.S. GAAP calculation;

• Q&A 102.05 permits that companies reflect non-GAAP measures in their SEC filings; for example, companies can disclose in their MD&A or risk factors of Form 10-K non-GAAP measures;

• Q&A 102.10 provides examples that the SEC prohibits for non-GAAP presentations; some of these examples are as follows:

o Presenting a full non-GAAP income statement (even as a reconciliation to a GAAP income statement);

o Omitting comparable GAAP measures from an earnings release headline or caption that includes non-GAAP measures;

o Providing discussion and analysis of non-GAAP measures without a comparable GAAP discussion and analysis.

KPI vs. Non-GAAP Presentations and Disclosures

Companies can present and disclose both KPIs and non-GAAP measures in any or all of the following venues:

• Form 10-Ks and 10-Qs (MD&A and business section)*;

• Form 8-Ks for earnings release;

• Company's websites;

• Earning release broadcasts, conferences and interviews.

***Non-GAAP information usually does not appear in the footnotes to financial statements in Forms 10-K and 10-Q, and referencing KPIs in the footnotes is rare.**

However, non-GAAP presentations are subject to additional restrictions subject to Regulation G and Item 10 (as this article discussed earlier). For example, companies cannot present non-GAAP measures more prominently than their corresponding GAAP measures.

There is a fine line between KPIs and non-GAAP measures, and often it is very difficult to distinguish one from the other. The distinctive character of a KPI is that it usually provides additional and supplemental information to users of financial statements, whereas non-GAAP measures are often used in lieu of GAAP measures.

For example, "average number of customer visits per store" is a KPI and is an indicator that provides supplemental information on revenues in current periods and projection of revenues in future periods. However, EBITDA is a non-GAAP measure that provides information in lieu of a company's earnings (a GAAP measure). Thus, users of financial information judge the performance of a company based on EBIDTA instead of its corresponding GAAP earnings.

COVID-19 Disclosures

In April 2020, SEC Chairman Jay Clayton and SEC Division of Corporation Finance Director William Hinman released a joint statement highlighting certain considerations on the impact of COVID-19 on non-GAAP measures and KPIs. They indicated that the registrants may consider reflecting various impacts of COVID-19 in their non-GAAP measures, which may include certain

COVID-19 non-recurring expenses as long as they are separable from routine operational costs.

When using non-GAAP financial measures, companies must be aware of certain SEC requirements, including SEC Regulations G and Item 10, and other publications related to compliance and disclosure interpretations. Companies need to disclose the impact of COVID-19 on a company's financial condition and results of operations (including KPI calculations and disclosures in MD&A).

In April 2020, CAQ Center for Audit Quality published "COVID-19 Considerations for Non-GAAP Financial Measures and Performance Metrics." This report acknowledges that companies may need to adjust or tailor their non-GAAP measures and KPIs because of COVID-19 related factors. These changes could make these metrics less consistent or comparable initially, but transparent disclosure of how companies calculate them and why management finds them meaningful aid investors in understanding the effects of COVID-19 on a particular company.

Additionally, the SEC's Division of Corporation Finance provided guidance on non-GAAP measures and KPIs in "Disclosure Guidance: Topic No. 9, Coronavirus (COVID-19)." Some key components of this guidance require that registrants explicate the impact of COVID-19 on their operations and financial performance. It also requires that companies address the reasons that management finds COVID-19 non-GAAP measures and KPIs helpful in assessing the impact of the pandemic in their financial reports.

Finally, the guidance reminds companies of their obligations under Item 10 and Regulation G with respect to non-GAAP measures, as well as the SEC's recent guidance with respect to KPIs that was issued in January 2020. However, management views are not sufficient unto themselves and in addition, audit committees and external auditors need to weigh in regarding the scope and adequacy of COVID-19 disclosures.

Examples

MobileIron Inc. (MOBL – NASDAQ) (the Company) is a software company that provides unified endpoint and enterprise mobility management for mobile devices, such as multi-factor authentication. In its Form 10-K for the fiscal year-end December 31, 2019, filed on March 6, 2020, the Company disclosed the following KPIs and non-GAAP measures.

Key Performance Indicators

We should note that MobileIron prepared its 10-K prior to the new SEC promulgation and COVID-19 outbreak and as a result, it has not incorporated all of the provisions of the most recent SEC guidance.

Annual Recurring Revenue

MobileIron defines the "Annual Recurring Revenue" (ARR) as a KPI in its MD&A. The Company properly defines this indicator that how and why it is calculated and how management relies upon it for its decision making:

Beginning with the fourth quarter of 2018, we began monitoring a new operating metric, total annual recurring revenue ("Total ARR"), which is defined as the annualized value of all recurring revenue contracts active at the end of a reporting period. Total ARR includes the annualized value of subscriptions ("Subscription ARR") and the annualized value of software support contracts related to perpetual licenses ("Perpetual license support ARR") active at the end of a reporting period and does not include revenue reported as perpetual license or professional services in our consolidated statement of operations. We are monitoring these metrics because they align with how our customers are increasingly purchasing our solutions and how we are managing our business. These ARR measures should be viewed independently of revenue, unearned revenue and customer arrangements with termination rights ... and ARR is not an indicator of future revenue...

Backlog

MobileIron discloses the following paragraph regarding its "backlog" in the business section of its Form 10-K. This disclosure reflects properly the role of backlog in the financial position of the Company. It clearly states why it is not using it and it is not a good comparison indicator for the reader even if disclosed.

FASB and the SEC have used the term "backlog" sporadically and in rare occasions. The new guidance may require that preparers define the term more clearly and how it is typically calculated in their industries:

As is typical in the software industry, we expect a significant portion of our software license orders to be received in the last month of each quarter. We do not believe that our backlog at any particular time is meaningful because it has historically been immaterial relative to our total revenue and is not necessarily indicative of future revenue in any given period.

Bookings

MobileIron discloses the following paragraph regarding its "bookings" in the risk factor section of its Form 10-K. This disclosure reflects properly the role of bookings

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in the financial presentation and disclosures of the Company. However, the authoritative accounting literature has rarely used this term, and FASB has not defined the term and its calculation. Again, the substance of the new guidance may require that preparers define the term more clearly and how they are calculating it:

Our quarterly operating results have fluctuated in the past and may fluctuate significantly in the future. The timing and size of sales of our solutions makes our revenue highly variable and difficult to predict and can result in significant fluctuations in our revenue from period to period. Historically, a substantial portion of our bookings and revenue have been generated from sales of software solutions sold as perpetual licenses or on-premise subscriptions that generate up-front revenue, which tend to close near the end of a given quarter.

Turnover

MobileIron discloses the following paragraph regarding its employee or personnel "turnover" (in two different contexts) in the risk factor (the first and second paragraphs) and footnotes (the third paragraph) sections of its Form 10-K. These disclosures reflect properly the financial impact of employee turnover in the financial position of the Company and the associated risks involved. However, the authoritative accounting literature does not clearly define employee turnover and prescribe a method for its calculation. The substance of the new guidance may require that preparers define the term and its calculation more clearly:

Our success is substantially dependent upon the continued service and performance of our senior management team and key technical, marketing, sales and operations personnel. Over the last five years, we have experienced substantial turnover in our sales, engineering and executive teams, and this could continue in the future.

We have invested, and intend to continue to invest, in improving our sales operations to drive additional revenue and support the growth of our customer base. We work with our channel partners to identify and acquire new customers, as well as pursue follow-on sales opportunities. We need to further leverage our channel by training existing and new partners to independently sell and support our products. Newly hired sales personnel typically require several months to become productive and turnover of productive sales personnel can inhibit our revenue growth.

Forfeiture Rate [stock compensation calculation]. The forfeiture rate is calculated based on expected employee turnover. We have applied the same rate to our entire employee population.

Non-GAAP Measures

MobileIron discloses the following non-GAAP measures in the MD&A section of its Form 10-K. The following paragraph clearly reflects the reason that the Company has decided to present non-GAAP measures in its MD&A. Since MobileIron is reporting net loss for both GAAP and non-GAAP purposes, it has not discussed the impact of the non-GAAP presentations on its income tax expense:

To supplement our financial results presented on a GAAP basis, we provide investors with certain non-GAAP financial measures, including non-GAAP gross profit, non-GAAP gross margin, non-GAAP operating loss, non-GAAP operating margin, non-GAAP net loss, non-GAAP net loss per share, and free cash flow. Non-GAAP financial measures exclude stock-based compensation, the amortization of intangible assets, a litigation settlement charge and restructuring charges.

In the following paragraph, MobileIron states that it is excluding stock-based compensation expenses, but it does not explain the reason that it is excluding it [Item 10(e)(1)(i)]:

In our non-GAAP financial measures, we have excluded the effect of stock-based compensation expenses. Stock-based compensation expenses will recur in future periods.

In the following paragraph, MobileIron states that it is excluding restructuring charges because they are "difficult to predict." However, the SEC does not justify an exclusion just because management has difficulty predicting certain expenses:

In our non-GAAP financial measures, we have excluded the effect of the severance and other expenses related to reductions in our workforce, contract termination costs and costs associated with the exit of office facilities. Restructuring charges may recur in the future; however, the timing and amounts are difficult to predict.

In the following paragraph, MobileIron states that it is excluding amortization of intangible assets, but it is not clear why it is doing so [Item 10(e)(1)(i)]:

In our non-GAAP financial measures, we have excluded the effect of the amortization of intangible assets. Amortization of intangible assets can be significantly affected by the timing and size of acquisitions of companies or technology. Beginning with the second quarter of 2018, we no longer had amortizing intangible assets.

In the following paragraph, MobileIron states that it is excluding litigation charges because they are not consistently recurring; however, the SEC does not justify an exclusion just because certain expenses are difficult to normalize and have fluctuations. Certainly, one may expect that the Company will incur legal expenses in the future:

In our non-GAAP financial measures, we have excluded a charge for the cost of the settlement of certain shareholder litigation. While it is possible that we will have material litigation-related charges in the future, we do not expect it to be a consistently recurring expense.

In the following paragraph, MobileIron makes an incontrovertible point that the above expenses are not consistent from period to period, but that argument per se is not enough to justify an exclusion for non-GAAP purposes. Item 10 states that eliminating or smoothing certain items if the registrant expects it to recur within the next two years or similar charges have occurred for the past two years is not a valid reason for non-GAAP exclusion:

We believe that the exclusion of stock-based compensation expense, the amortization of intangible assets, the litigation settlement charge, and restructuring charges from gross profit, gross margin, operating loss, operating margin, net loss, and net loss per share provides useful measures for management and investors because stock-based compensation, the amortization of intangible assets and restructuring charges have been and can continue to be inconsistent in amount from period to period. Other than in 2017, we have not historically had a material litigation-related settlement charge. While it is possible that we will have material litigation settlement charges in the future, we do not expect such charges to be a consistently recurring expense. We believe the inclusion of these items makes it difficult to compare periods…

In addition, we evaluate our business performance and compensate management based in part on these non-GAAP measures. There are limitations in using non-GAAP financial measures because the non-GAAP financial measures are not prepared in accordance with GAAP, may be different from non-GAAP financial measures used by our competitors and exclude expenses that may have a material impact on our reported financial results. Further, stock-based compensation expense is a significant recurring expense in our business and an important part of employee compensation provided.

In the following paragraph, MobileIron disclosed the "free cash flow" as another non-GAAP measure. The Company has properly disclosed that how and why it calculates this non-GAAP measure and the fact that the other companies may calculate it differently:

Our non-GAAP financial measures also include free cash flow, which we define as cash provided by (used in) operating activities less the amount of property and equipment purchased. Management believes that information regarding free cash flow provides investors with an important perspective on the cash available to invest in our business and fund ongoing operations. However, our calculation of free cash flow may not be comparable to similar measures used by other companies. We believe these non-GAAP financial measures are helpful in understanding our past financial performance and our future results. Our non-GAAP financial measures are not meant to be considered in isolation or as a substitute for comparable GAAP measures and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP. Our management regularly uses our supplemental non-GAAP financial measures internally to understand, manage and evaluate our business, and make operating decisions. These non-GAAP measures are among the primary factors management uses in planning for and forecasting future periods. Compensation of our executives is based in part on the performance of our business based on certain of these non-GAAP measures.

MobileIron discloses reconciliations for non-GAAP gross profit, non-GAAP gross margin, non-GAAP operating loss, non-GAAP operating margin, non-GAAP net loss, and non-GAAP net loss per share following the above disclosures.

Accurate and Useful Information

The disclosure of KPIs and non-GAAP measures have been and continue to be under the purview of the SEC. The number of the most recent SEC comment letters are adduced to explain that this is an area of great concern to the SEC. Deloitte in its "Roadmap to SEC Comment Letter Considerations" (2019) states that 31% of 2019 SEC reviews included comments on non-GAAP disclosures (the highest among all categories and closely followed by revenue recognition).

The SEC has constantly hammered home that KPIs and non-GAAP measures must be useful and reflect management perspectives on how they use such measures on the day-to-day operations of their companies. To see this aright, companies need to go back to some of the original guidance of the SEC and rely upon their underlying concept that the objective is to provide accurate and useful information to the public.

A terse formulation of the idea is that the purpose of non-GAAP presentations is not to make financial statements more appealing to the public. Thus, companies should not flout this underlying concept of the SEC guidance and use KPIs and non-GAAP measures to flourish and polish their financial picture.

Finally, management needs to consider stakeholders when it is presenting non-GAAP measures and KPIs that reflect adjustments related to COVID-19. The disclosures should help stakeholders understand how management evaluates and deals with the impact of the pandemic. Management needs to state reasons for presenting non-GAAP measures and KPIs, and ensure that they present a fair and balanced view of the company's performance in light of the recent economic disruptions.

*Please note that when registration is complete,
a confirmation email will be sent and provide a hyperlink to access the quiz.*

CPE ARTICLE: KEY PERFORMANCE INDICATORS AND NON-GAAP MEASURES

By: Josef Rashty

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 TXCPA 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. **In 2020, the SEC issued a new guidance for __________**
   - **a.** GAAP measurements
   - **b.** Key Performance Indicators
   - **c.** Both a and b
   - **d.** Neither a nor b

2. **Key Performance Indicators are similar to non-GAAP measurements _________**
   - **a.** In form
   - **b.** In substance
   - **c.** For disclosure requirements
   - **d.** All of the above

3. **Identify which of the following is not applicable to KPI:**
   - **a.** The SEC expects a clear definition of KPI metric
   - **b.** The SEC requires a statement indicating the reasons why the metric provides useful information
   - **c.** The SEC requires reconciliation of KPI to GAAP data
   - **d.** The SEC requires disclosure of how management uses the KPI

4. **Regulation G is applicable to _________**
   - **a.** KPIs
   - **b.** KPIs disclosed in MD&A
   - **c.** KPIs disclosed in Form 8-K
   - **d.** Non-GAAP measures

5. **Item 10 requires ________________**
   - **a.** Reconciliation of non-GAAP measures to GAAP measures
   - **b.** Reconciliation of KPIs to GAAP measures
   - **c.** Both a and b
   - **d.** Neither a nor b

6. **Non-GAAP presentations, compared to KPI presentations, are subject to _______ restrictions subject to Regulation G and Item 10.**
   - **a.** Similar
   - **b.** Additional
   - **c.** No
   - **d.** None of the above

7. **The COVID-19 pandemic may require _______ disclosures for KPI presentations.**
   - **a.** No
   - **b.** Comparative
   - **c.** Dilutive
   - **d.** Additional

8. **MobileIron defines ARR as a _____________**
   - **a.** GAAP measure
   - **b.** Non-GAAP measure
   - **c.** Ratio required by the SEC
   - **d.** KPI

9. **MobileIron has disclosed its free cash flow as a __________**
   - **a.** KPI
   - **b.** Non-GAAP measure
   - **c.** GAAP measure
   - **d.** Neither a nor b

10. **Non-GAAP disclosures have _______ in SEC comment letters.**
    - **a.** Been rarely mentioned
    - **b.** Never been mentioned
    - **c.** Not been relevant
    - **d.** None of the above

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$149,407 gross. San Antonio CPA firm. 78% tax (67% ind./26% bus./7% other), 16% bkkpng/PR and sales tax reporting, 6% consult, cash flow 88%. TXC1071

$106,740 gross. San Antonio EA firm. 370 tax returns (320 ind./20 bus.), average 10% revenue growth past 2 years, cash flow 40%, primed for growth. TXC1072

$290,000 gross. E/SE Texas CPA firm. Primarily tax (70%), high-quality clientele, solid fee structure, turn-key opportunity. TXN1451

$209,000 gross. NE Texas CPA firm. 70% tax, 30% acctng, ideal size for marketing-oriented buyer to tap exiting client base and grow substantially. TXN1491

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$364,000 gross. Hurst CPA firm. 89% tax, 11% accounting services, turn-key practice with experienced staff and primed for new owner and smooth transition. TXN1498

$367,000 gross. Abilene CPA firm. 65% tax, 28% acctng, 9% payroll, quality clients, knowledgeable staff in place, strong fee structure, turn-key opportunity. TXN1509

$787,000 gross. East Texas (Tyler/Longview) CPA firm. Accntng (32%), tax (47%), audits (10%), misc. (11%), loyal client base, experienced staff and strong fee structure. TXN1510

$296,000 gross. Texarkana EA firm. Tax prep 73%, accounting 20%, tax planning/rep 7%, strong fees, experienced staff, quality client base, primed for growth. TXN1519

$270,000 gross. Burleson CPA firm. 51% tax, 37% acctng/bkkpg, 12% misc., strong cash flow over 50%, staff in place, turn-key opportunity. Available after 4/15/20. TXN1521

$614,000 gross. Dallas (Turtle Creek/Uptown Area) CPA firm. Cash flow over 75%, high-quality client base, focused on tax compliance and consulting with some monthly accounting services, turn-key profitable practice. TXN1524

$710,000 gross. Southeast TX CPA firm. Revenues nicely balanced between accntng/tax services derived primarily from monthly retainers, high-end client base. TXN1525

$670,000 gross. NW of DFW CPA firm. Tax 55%, audits 24%, acctng 21%, strong fees, tenured staff, turn-key opportunity primed for continued growth. TXN1526

$436,000 gross. E. TX (within 1 hr of Dallas) CPA audit firm. High-quality client base consists entirely of government audits/related services, experienced staff. TXN1527

$212,000 gross. Deep East TX CPA firm. Acctng 37%, tax 60%, consltng 3%, cash flow around 60%, quality client base, knowledgeable staff, turn-key opportunity. TXN1528

$800,000 gross. Ft. Worth CPA firm. 72% tax-related work, 25% accounting services, strong fee structure, staff in place, turn-key practice primed for growth. TXN1529

$305,000 gross. SE Texas CPA firm. Tax 60%, bkkpg 40%, turn-key practice with staff in place, friendly clients, owner available to assist through tax season. TXS1232

$1,811,000 gross. League City area CPA firm. Tax (53%), bkkpng (31%), consulting (16%), excellent staff in place and owner available. TXS1235

$404,094 gross. NW of Houston CPA firm. Tax (76%), bookkeeping (21%), other (3%), friendly diverse clientele, turn-key opportunity in growing location. TXS1243

$67,000 gross. Mid Valley area tax and accounting firm. Bkkpg 72%, tax 28%, friendly client base, turn-key office in ideal location, seller available for transition help. TXS1244

$350,000 gross. W. Houston CPA firm. Prime location, great mix of tax, bkkpg and acctng services, staff in place and seller available to assist with transition. TXS1245

$1,050,000 gross. West Houston CPA firm. Tax 66%, audit/reviews 22%, bkkpg 12%, excellent cash flow, long-term clientele, experienced staff, office available. TXS1246

$209,000 gross. Houston CPA firm. Tax 75%, bkkpg 8%, other 17%, somewhat portable within Houston area, nice fee structure, great cash flow, little annual turnover. TXS1247

$1,412,000 gross. The Woodlands CPA firm. Tax (60%), bookkeeping (29%), consulting (11%), office available for purchase or lease, prime location, knowledgeable staff in place. TXS1248

$235,580 gross. NW Houston CPA firm. Tax 80%, accntg 10%, reviews 10%, solid fee structure, owner available to assist with smooth transition. TXS1249

$160,000 gross. Katy, TX area CPA firm. Primarily an individual tax practice, excellent cash flow, loyal client base, desirable location, turn-key opportunity. TXS1250

$2,633,410 gross. W. Texas full-service CPA firm. Approx 60% tax, 40% audit, cashflow nearly 42%, 16 professional staff and 4 admin employees in place, central business district location, owners available to assist with transition, great opportunity to combine an acquisition with TXW1025 for a large west Texas presence. TXW1024

$1,512.850 gross. West Texas CPA firm. 53% tax (returns are 70% ind./23% bus./7% other), 35% write-up/comp, 12% audit/reviews, cash flow near 52%, experienced staff in place, location available for lease or purchase, owners available for transition. TXW1025

$1,434,747 gross. W. Texas (South Plains) CPA firm. 36% tax (69% individuals, 31% business and other), 28% accntng/write-up, 21% audits/reviews, 14% payroll, balance consulting, quality client base, staff in place and seller available to assist with transition. TXW1026

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Michael J. Robertson, CPA
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Let us be a resource for your firm and your clients. Our owner is a CPA with a BBA in Accounting and Master of Science in Taxation. He spent 10 years in public accounting, working for both national and large, local CPA firms prior to forming Sales Tax Specialists of Texas in 2005. Feel free to contact us with any questions.

Stephen Hanebutt, CPA
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