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# TODAY'S CPA

Texas Society of Certified Public Accountants

# TXCPA'S YEAR IN REVIEW


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volatility

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# WRAPPING UP A MEMORABLE YEAR

By TXCPA President and CEO Jodi Ann Ray, CAE

## Share Your Thoughts

I'd love to hear your feedback and answer your questions. Drop me a note at jray@tx.cpa or connect with me on LinkedIn.

With TXCPA's membership year ending, be sure to read the cover story in this issue of *Today's CPA* that features our successes as a professional community. You'll find updates on how our members and leaders are working to make it possible to achieve the strategic plan goals set for 2022-2023 under our three pillars of success: community and connection, professional excellence, and advocacy. With your help and support, we continued to make great strides in all these areas.

Advocacy is our most important benefit to members. TXCPA set legislative priorities for the Texas legislative session currently underway in Austin. The Capitol Interest article in this issue includes an update on the progress being made on TXCPA's priority items and other issues that are important for Texas CPAs and you can track our progress on TXCPA's Legislative Action Center on the website.

Another important area of focus is ensuring the pipeline of new CPAs is strong. TXCPA's Pipeline Task Force developed a 31-page strategy and we identified several priorities to begin our work on the plan. They include the legislative and regulatory changes we're focused on with our proposed legislation to allow students to sit for the CPA Exam at 120 hours. Our new 501c3 entity has established a task force that is evaluating our scholarship program and possible ways we can help reduce the financial burden for future CPAs. In addition, there were other efforts this year focused on our pipeline strategy. You can read more about them in the cover story.

We would like to thank our leaders and volunteers for the part you've played in our achievements. We welcome new leaders and volunteers each year at TXCPA. If you have not served in a volunteer role and are interested in getting engaged, please visit the "Get Involved" section on our website or reach out to your chapter for local opportunities.


# Learning the Language of Data Analytics is No Longer Optional

By Don Carpenter, MSAcc/CPA

The article "Is Accounting a Stem Field? Why it Matters" in the March/April 2023 issue of *Today's CPA* magazine considered the implications to the profession of STEM classification. Support for STEM categorization is supported by the increased emphasis on data analytics for informed decision making that CPAs now provide to the larger business community. This article explores some of the basics of this ever-growing part of the profession.

It is often said that accounting is the "language of business." The ability to navigate financial statements and understand the impact of decisions on an operation's financial results is critical to a successful business career. But if accounting is the king's English, then the language of data analytics is quickly becoming the Esperanto of commerce. As the ability to access, manage and analyze information has increased exponentially, the mystique of the process has been buttressed by terminology that even the most seasoned professionals may find bewildering.

Becoming familiar with some of the basic phrases in the rapidly growing field is a good first step to capitalizing on the potential it brings to decision making. Let's delve into some of the most common vocabulary with the goal of making the world of "big data" a little less intimidating.

To begin, there is often a misunderstanding of just what **data analytics**, **data science** or even **data mining** entails. All three terms refer to accessing large amounts of data and often at a very granular level. For instance, advanced computing technologies now allow even the largest organizations to amass data and analyze it at the transactional level even though millions of transactions occur regularly. This is reflected in the fact that the growth in data is no longer measured in gigabytes but in zettabytes (trillion gigabytes).

Simplistically, data mining can be thought of as the somewhat indiscriminate process of combing through data in an effort to identify a meaning, interpretation or pattern.

Data analytics or data science may also follow this exploratory approach but can be more deductive, attempting to support a hypothesis with the available data. Some purists go even further by making a distinction between data analytics and data science based on the qualifications of the individual performing the work. Data scientists generally have more advanced statistical and mathematical credentials when compared to data analysts.

The use of data analytics in decision making generally can be segregated into four categories: predictive modeling, descriptive modeling, diagnostic modeling and prescriptive modeling.

**Predictive modeling** uses incidents (often transactions) where an outcome is known to predict an unknown outcome. This is often applied in marketing and customer behavior. For example, analysis of customer buying patterns can help a retailer target certain items to customers who buy other products based on the historical purchasing patterns of its existing customer base.

**Descriptive modeling** uses a full range of data points to yield a better understanding of a key business variable, such as data points that provide a better understanding of the customer base.

**Diagnostic modeling** seeks to determine the "why" or "how" behind a fact pattern. This approach could be very useful in fraud detection for example. Comparative analysis of costs across various sites could be used to isolate outliers to aid in detecting billing irregularities.

Finally, **prescriptive modeling** seeks to analyze the available data to determine how an outcome might be influenced and by its nature, it is less well defined.

The objective of any data analysis effort will determine the appropriate data to use. Organizations maintain business-critical information deemed necessary for analysis in a repository known as a data warehouse or data lake. A data warehouse might contain such diverse information as general ledger downloads, human resource records and environmental reports. The process of data analysis will "slice and dice" this information to draw out the relevant data and produce meaningful interpretation.

A clickstream database records the web traffic or sites visited within a search engine and would be useful in a predictive modeling analysis of customer behavior. A text database is a database of unstructured, continuous text such as the narrative in earnings' releases, financial statement footnotes or even tweets that can be searched and sorted to determine frequency of phrases or other recurring word patterns. And the more common numerical database is a collection of values representing a given variable (i.e., revenue, headcount) that can be compared or correlated to inform business decisions.

Once the appropriate database has been developed or accessed, a query is the mechanism used to extract a subgroup from the data set. The population is the entire data set that would be relevant to a particular analytical project. This subgroup should not be confused with a typical sample used in audit procedures for example. The strength of data analytics is its ability to process large volumes of data.

If all transactions in a general ledger comprised a population, the query might extract all transactions that increase expense accounts by greater than $1,000,000. This subset can then be manipulated and analyzed with computer logic often referred to as bots. These threads of computer logic or algorithms can be quite complex and might be thought of as "turbo-charged macros."

Data visualization refers to the method used to communicate the product of an analytical project in pictorial format such as bar/pie charts or linear graphs to allow for quick interpretation. The goal of data visualization is to succinctly convey the results without losing the message in the details.

Speaking the language of data analytics is critical to unlocking its full potential for anyone wanting to understand and use it to make informed business decisions.

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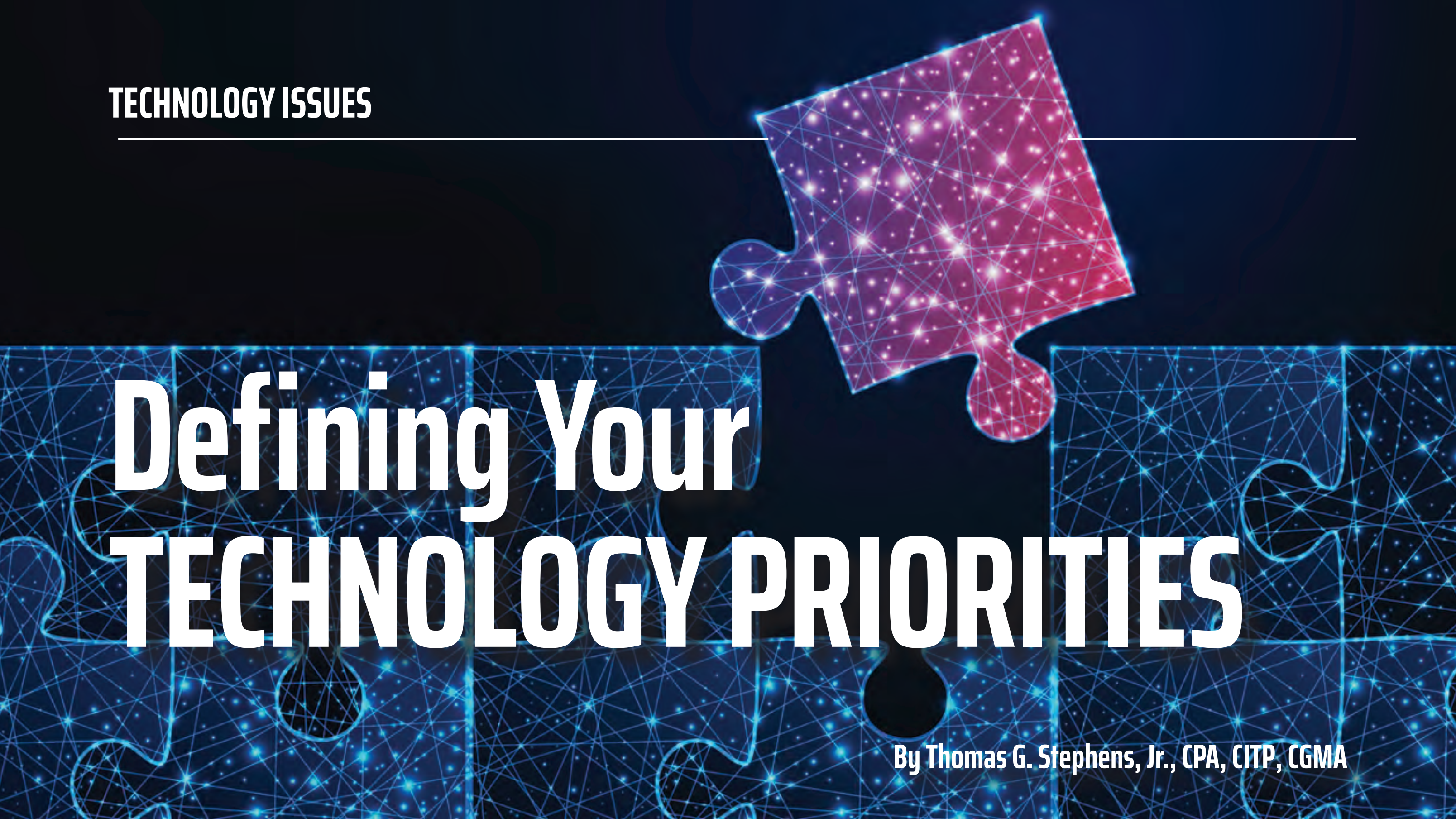

# Defining Your TECHNOLOGY PRIORITIES

By Thomas G. Stephens, Jr., CPA, CITP, CGMA

Technology continues to amaze us all! Recent developments provide tools and services that many likely considered impossible just a few years ago. For example, think about the automation choices available to businesses today. Likewise, consider your options for replacing traditional applications and servers with various cloud-based services.

In this article, you will learn about defining your technology priorities so that you can realize all the available benefits while simultaneously mitigating risk.

## Recognize the Reality That All Businesses Are Different

To begin, you must recognize that your technology priorities are, in fact, unique to your organization. Therefore, don't focus on what others are doing. Instead, concentrate on what's best for you and your team while avoiding a "following the herd mentality." This approach frees you to choose from a complete menu of solutions and platforms instead of only a subset of possibilities.

## Embrace Communication and Collaboration Tools

Remote and hybrid work environments are here to stay. While many attribute their rise to the pandemic, these arrangements were already common and growing before COVID-19's arrival. Unmistakenly, effective communication and collaboration tools are critical to an organization's success when team members work remotely.

Thus, understanding the capabilities of various platforms such as Teams, Zoom and Slack will help you prioritize the technology you will use to facilitate effective communication and collaboration. Likewise, knowing what you can do with simpler, more personal tools like OneNote and OneDrive can help you deploy a technology stack that works well for your team.

Of course, you may be in an organization where remote and hybrid work environments are not yet in the picture. If that's the case, communication and collaboration tools like those mentioned above will not likely be a high priority. Nonetheless, you should expect to see the need to become familiar with these technologies in the immediate future as the labor market becomes even more competitive.

As part of that process, you may want to consider non-traditional collaboration tools, including portals, electronic payments and eSignatures. These three tools offer improved efficiencies, reduced transactional friction and improved security. Further, in many cases, you can access and capitalize on these tools with no out-of-pocket cost, increasing the ROI associated with these tools and removing any financial barriers to entry.

## Consider a "Serverless" Environment

Moving toward a serverless environment could and should be a top priority for many businesses. While this approach is an evolving strategy for small organizations, you can expect more organizations to move in this direction over the coming decade. Of course, the availability of robust and stable cloud-based platforms is the underlying technology that facilitates this trend.

For example, consider the rise of cloud-based accounting solutions. A decade ago, almost all businesses – regardless of size – utilized an accounting application installed on local servers and computers. Today, that is no longer the case, as businesses of all sizes have access to many terrific cloud-based accounting solutions. Further, the availability of cloud-based platforms extends beyond accounting solutions to Enterprise Resource Planning (ERP), Customer Relationship Management (CRM), Human Resource Management (HRM) and other areas.

Cloud-based applications free team members to work from any location with consistent, high-speed Internet access. Establishing this environment as a technology priority could, therefore, help to recruit and retain talent. It also creates a more agile organization that can quickly pivot to meet changing market conditions. Further, in many cases, the serverless organization will see a decrease in overall technology expenditures.

> **Establishing a technology environment where cloud-based applications free team members to work from any location with consistent, high-speed Internet access could help to recruit and retain talent.**

## Prioritizing the Technology You Already Own

All organizations should prioritize the technology they already own. Unfortunately, that action does not always occur. For example, it's common for firms and companies to invest in and implement a specific technology so that it performs fundamental tasks. Yet, the "last mile" of implementation sometimes never occurs. When this happens, the technology is incapable of delivering its expected ROI.

An excellent and all too common illustration of this issue often appears with Microsoft 365 subscriptions. Many organizations have subscribed to Microsoft 365 and implemented the foundational tools in their subscriptions, including desktop applications and email. However, many of these same companies have not implemented other elements associated with their subscriptions, such as:

- Data loss prevention;
- Teams, beyond merely enabling communication and meeting capabilities;
- Power automate;
- SharePoint online; and
- Other cloud-based services.

Keep in mind that Microsoft 365 subscriptions include the services outlined above and others at no additional charge. Thus, by definition, subscribers who choose not to implement these types of tools are not maximizing their ROI in Microsoft 365.

Additionally, you can prioritize everyday applications such as Outlook, Excel and Adobe Acrobat, among others, to achieve better results in less time. In this context, prioritization would likely take the form of training team members on how to use these tools more efficiently and effectively.

## Security As a Priority

Another area where business professionals should consider prioritization is security. More specifically, is data security and privacy a top-of-mind concern for all team members? And, if it is not, what must be done to elevate it to the appropriate status?

Cybersecurity risks have never been more significant than they are today. Likewise, private and sensitive information is under siege at seemingly every turn.

To prevent the unwanted consequences of a security breach or disclosure of private data, we must elevate security and privacy to be top-of-mind issues for all team members. Security and privacy must be an "everyday" issue if that's your priority.

Fortunately, prioritizing security and privacy need not be as challenging as some might fear. For example, a 10-minute "security refresher" in a monthly staff meeting can go a long way toward keeping security and privacy at the forefront of team members' minds. Additionally, team members must receive appropriate formal security and privacy training to understand the all-too-real and persistent security and privacy risks.

## Considering the Options

Technology options available to business professionals have never been better and that's great news! But, the rapid pace of change can sometimes leave us all feeling overwhelmed by our choices.

To address this issue, focus on what is – or should be – most important to you, your team and your organization. Then, upon defining your technology priorities and being proactive in implementing them, you will likely realize the results you seek.

***About the Author:*** Tommy Stephens is one of the shareholders of K2 Enterprises. At K2, he focuses on creating and delivering content and is responsible for many firm management and marketing functions. You may reach him at tommy@k2e.com and you may learn more about K2 Enterprises at www.k2e.com.

# SECURE 2.0 – More Changes in Store for Your Clients

By Timothy S. Thomasson, CPA, MTAX, and Campbell S. Thomasson, CPA, MACC

At the end of 2019, Congress enacted the Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE 2019), containing 30 provisions primarily designed to preserve and expand options for retirement savings.

This past December, while Americans were dealing with a raging winter storm and airline delays, Congress passed the Consolidated Appropriations Act of 2023, an omnibus federal spending bill. President Biden signed the bill on December 29, 2022. This bill includes the Setting Every Community Up for Retirement Enhancement Act 2.0 (SECURE 2.0 or The Act). SECURE 2.0 represents an ambitious follow-up to its predecessor, containing over 90 provisions that impact employer-provided retirement savings accounts and/or individual retirement accounts (IRAs).

In this article, we discuss the major provisions designed to further increase options for, and participation in, retirement savings accounts. We also discuss key revenue provisions.

## Enhancing Participation in Retirement Savings Accounts

### Expanding Automatic Enrollment

SECURE 2.0 contains several provisions designed to increase participation in retirement savings accounts by employees and self-employed individuals. One issue being addressed by SECURE 2.0 relates to employees who have not taken definitive steps to participate in plans offered by their employers. The Act adds IRC Section 414A, requiring 401(k) and 403(b) plans to automatically enroll participants once becoming eligible.

Employee contributions in a participant's initial year of participation must be at least 3% but not more than 10% of eligible compensation. Beginning the first day of each plan year thereafter, the contribution must increase by 1 percentage point, until it reaches at least 10% but not more than 15%. Employees must affirmatively elect if they choose not to participate.

401(k) and 403(b) plans existing prior to the enactment date of SECURE 2.0 are grandfathered, as are SIMPLE 401(k), church and governmental plans. Exemptions also apply to small businesses with 10 or fewer employees, and businesses in existence for less than three years. This provision of SECURE 2.0 is effective for plan years beginning December 31, 2024.

### Employer Matching Contributions for Student Loan Payments

A difficult decision many employees make is to postpone retirement saving while repaying student loans. One opportunity cost of this decision is foregoing employer matching contributions.

Effective for plan years beginning after December 31, 2023, employers can make matching contributions to 401(k), 403(b) and SIMPLE IRA plans for "qualified student loan repayments." The Act broadly defines "qualified student loan repayments" as the repayment of any indebtedness incurred by the employee to pay higher education costs.

### Higher Catch-up Limits Coming Soon

Defined contribution retirement plans can allow participants who are at least age 50 to make contributions in excess of the normal limits. For example, the annual dollar limit for 2023 on catch-up contributions to a 401(k) or 403(b) plan is $7,500, while the limit for a SIMPLE IRA plan is $3,500.

Beginning in 2025, SECURE 2.0 adds a special catch-up provision for those individuals even closer to retirement. For individuals ages 60 to 63, the catch-up limit for 401(k) and 403(b) plans increases to the greater of $10,000 or 50% more than the regular catch-up amount for 2024. The Act increases the catch-up contributions for SIMPLE IRAs to $5,000. This amount will be increased for inflation in later years.

A note of caution: See discussion below for the requirement that catch-up contributions be made to Roth accounts for certain taxpayers.

Taxpayers will also see an increase in catch-up amounts to traditional and Roth IRAs. Under current law, contributions by a taxpayer 50 or over is increased by $1,000. However, this amount is not indexed for inflation. SECURE 2.0 indexes such amount, effective for tax years beginning after December 31, 2023.

### Saver's Credit Now a Saver's Match

Before SECURE 2.0, eligible individuals who contributed to a qualified retirement plan, such as an IRA or 401(k) plan, were eligible for a nonrefundable tax credit based on a percentage of their contributions. Effective for tax years beginning after December 31, 2026, SECURE 2.0 replaces the nonrefundable tax credit with a federal matching contribution, limited to 50% of personal retirement contributions up to $2,000 per individual (Saver's Match).

The Saver's Match must be deposited directly into the taxpayer's IRA or retirement account. The Saver's Match phases out from $41,000 to $71,000 of taxable income for individuals married filing jointly, from $30,750 to $53,250 for those filing head of household, and from $20,500 to $35,500 for those filing single or married filing separately.

### Additional Relief from 10% Early Withdrawal Penalty

Taxpayers may be reluctant to contribute towards retirement savings accounts for fear of needing access to funds for emergency situations. Unless an exception applies, a 10% early withdrawal penalty is imposed on distributions from tax-deferred retirement accounts received before age 59½.

Several exceptions to this penalty already exist. SECURE 2.0 provides an additional exception for distributions used for unforeseeable or immediate financial needs relating to personal or family expenses. Only one distribution per year (up to $1,000) is allowed. The taxpayer is allowed to repay the distribution over three years. No additional emergency distributions are permissible for three years unless repayment is made.

The Act also expands exceptions to the penalty to include distributions due to terminal illness, domestic abuse and natural disasters. The exceptions for emergency needs and domestic abuse begin for tax years beginning after December 31, 2023. The exceptions for qualified disasters and terminal illness are effective immediately.

### More Coverage for Part-Time Workers

A report by the Transamerica Center for Retirement Studies indicated that employers only offered 51% of employees working part-time participation in retirement plans, compared to 77% of full-time employees. SECURE 2019 required employers to allow long-term, part-time workers to participate in 401(k) plans.

Specifically, part-time employees became eligible for participation once (1) completing three consecutive years of service working at least 500 hours and (2) obtaining age 21. SECURE 2.0 modifies this rule by reducing the three-year requirement to two years and extends coverage for part-time workers to 403(b) plans subject to ERISA.

## Increasing Employer's Options in Offering Retirement Savings Accounts

### Starter 401(k) Plans Remove Common Barriers to Plan Sponsorship

Many employers, especially smaller employers, cannot incur the administrative burden and cost of providing employees with retirement vehicles. SECURE 2.0 allows employers not already maintaining a qualified plan to offer a "starter 401(k) deferral-only arrangement."

Under a starter 401(k) plan, all eligible employees are automatically enrolled at a deferral rate not less than 3% but not to exceed 15%. The deferral rate must be applied uniformly to all employees. An employee can elect not to participate. The employer itself does not make any contributions (matching or otherwise) to the plan. The aggregate amount of employee deferrals is tied to the contribution limits for IRAs. For 2023, this would be $6,500 plus $1,000 for individuals who have attained the age of 50 by the end of the year.

The Act also permits not-for-profit organizations to offer a "safe harbor 403(b) plan." These plans have features like the starter 401(k) plans. Employers are exempt from costly non-discrimination testing.

The provisions for starter 401(k) and safe harbor 403(b) plans apply to years ending after December 31, 2023.

## Expansion of Small Employer Pension Plan Startup Costs Tax Credit

Currently, the small employer pension plan startup tax credit is 50% of qualified administrative costs related to a plan's first three years, with a cap of $5,000. To incentivize even more small businesses giving their employees the opportunity to save for retirement, SECURE 2.0 increases the credit to 100% of qualified administrative costs, with the $5,000 cap remaining the same.

The increase in eligible percentage of qualified administrative costs from 50% to 100% only applies to small businesses with 50 or fewer employees. Businesses with 51 to 100 employees may still take advantage of the original 50% credit and businesses with greater than 100 employees are not eligible for the credit.

**TXCPA offers a number of CPE programs on SECURE 2.0 topics. To learn more and register online, go to the Education area of our website at tx.cpa.**

Additionally, SECURE 2.0 adds another credit for start-up pension plans, based on actual employer contributions. The new credit will be a percentage of employer contributions to the startup plan on a per-employee basis, with a cap of $1,000 per employee.

This credit is available in full for small businesses with 50 or fewer employees and is phased out for small businesses with 51 to 100 employees. Employers receive the full credit in the first two years of the plan, 75% in the third year, 50% in the fourth year, and 25% in the fifth year. The credit is no longer available after the first five years of the plan. Defined benefit plans do not have access to this credit. These expanded credits apply for tax years beginning after December 31, 2022.

## Flexibility for Employer Matching Contributions to a Roth Plan

In eligible employer-sponsored retirement plans, such as a 401(k) or 403(b), employer contributions to an employee's retirement account have previously only been allowed to be made on a pre-tax basis. Those pre-tax contributions did not always fall in line with the character of the employee contributions, which are often to after-tax Roth accounts.

Under SECURE 2.0, employees can now elect to receive employer contributions on a Roth basis. These contributions would be on an after-tax basis.

Prior to the Act, employee contributions to Simple IRA plans and employer contributions to Simplified Employee Pension plans (SEP) could not be on an after-tax Roth basis. The Act now allows for contributions to Roth accounts. These changes are effective for tax years beginning after December 31, 2022.

## Emergency Savings Accounts

As noted in the discussion of expanded penalty relief above, families often tap into retirement savings during times of urgent financial need. To promote continued retirement savings in this situation, SECURE 2.0 introduces savings accounts that are linked to an employee's pension plan.

Employers can automatically enroll non-highly compensated employees into these accounts at no more than 3% of their salary, capped at $2,500. Any excess contributions, to the extent they occur, go into the employee's Roth defined contribution plan. Contributions to the emergency savings account, as well as excess contributions that are rerouted into retirement accounts, must all be made on an after-tax Roth basis. Upon separation of service, employees can either take their plan balance in cash or roll the balance over to a Roth-type plan or Roth IRA.

## More Time to Fund Solo 401(k) Plans

SECURE 2019 allowed sole proprietors with no other employees to establish a Solo 401(k) plan. The sole proprietor is wearing two hats: the "employer" and "employee." The "employer" contribution is limited to 25% of the income from the business. The "employee" elective deferral is tied to the normal 401(k) rules.

For 2022, this amount was $20,500 for taxpayers under 50. A Solo 401(k) plan could be established for a plan year by the due date (before extension) for filing the tax return for that year (e.g., April 15, 2023, for the 2022 tax year). Employer contributions could be made by that same date and apply to the prior year. However, elective "employee" deferrals would have to be made by December 31 of the tax year.

SECURE 2.0 will allow a sole proprietor to fund the employee contributions by the initial due date of the return for the plan's initial year. Employee deferrals for future years will still need to be made by December 31.

### Small Financial Incentives for Contributing to a Plan

Employer matching contributions are designed to encourage an employee to participate in a qualified plan. However, prior to SECURE 2.0, employers were prohibited from providing small incentives like gift cards to encourage participation. Effective immediately, employers can now offer de minimis incentives to encourage participation.

## Preserving Savings Longer Through Retirement

### Delay in Start of Required Minimum Distributions

Under current law, required minimum distributions generally must start at age 72, increasing the likelihood participants spend retirement savings during their lifetime. Congress recognized that many individuals were working longer, meaning they were required to start accessing funds prior to the need for such funds.

SECURE 2.0 pushes the age for mandatory distributions back to 73 starting on January 1, 2023 (for participants who attain age 72 after December 31, 2022). The date for required minimum distributions gets pushed to age 75 starting on January 1, 2033 (for individuals who attain age 74 after December 31, 2032).

### Surviving Spouse Election to Be Treated as Employee

Effective for tax years beginning after December 31, 2023, the Act permits a surviving spouse who is the designated beneficiary of a deceased employee's qualified retirement account to elect to be treated as the deceased employee for purposes of the required minimum distribution rules. Prior to this provision, a surviving spouse had to roll the balance in the qualified retirement account into an IRA to receive the more favorable distribution period.

### Rollovers from 529 Plans to Roth Accounts

Section 529 plans are a vehicle millions of Americans use to help save for college education costs of a designated beneficiary. Often, not all the funds in a 529 plan are needed. This can happen if the plan growth exceeds expectations, or a beneficiary receives scholarships or does not attend college.

For distributions after December 31, 2023, SECURE 2.0 allows beneficiaries to rollover up to $35,000 of excess 529 Plan funds to Roth IRAs throughout their lifetime. The 529 Plan must have been open for at least 15 years and the rollovers are still subject to the annual Roth IRA annual contribution limit.

## Revenue Provisions

### Roth Requirement for Catch-up Contributions

As discussed above, individuals 50 or older can make additional "catch-up contributions" to qualified retirement plans (currently $7,500 as of 2023) on either a pre-tax or after-tax Roth basis (if their employer offered a Roth-type qualified plan). SECURE 2.0 requires that all individuals with taxable income over $145,000 (to be increased annually for inflation) in the previous calendar year must contribute their catch-up contributions to a Roth-based plan.

Accordingly, these catch-up contributions will be on an after-tax basis. Employers not offering Roth-based options will be required to do so in order to continue to permit catch-up contributions. This provision is effective for tax years beginning after December 31, 2023.

### Optional Treatment of Employer Contributions as Roth

We discussed above that employers can now offer the option to have matching or non-elective contributions made to a Roth-type account. Accordingly, these contributions would be on an after-tax basis. Also, SECURE 2.0 permits employee contributions to a Simple IRA, and employer contributions to a SEP, to now be on a Roth basis. While having these options increases flexibility, they serve as a short-term revenue raiser.

### Hardship Withdrawals for 403(b) Plans

Prior to the Act, the hardship withdrawals for participants in 403(b) plans were more restrictive than for 401(k) plans. SECURE 2.0 conforms the 403(b) rules to the 401(k) plans. While facilitating the early withdrawal of retirement funds may be contradictory to encouraging savings, this provision alleviates concerns regarding inaccessible funds and serves as a revenue raiser.

SECURE 2.0 is a continuation of, and in many cases an expansion of, SECURE 2019. With 92 new or modified retirement provisions, practitioners are encouraged to review the entire Act for potential application to their clients.

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# The 88th Legislature – A Mid-Session Review

By Kenneth Besserman, JD, Director of Government Affairs and Special Counsel

The 88th session of the Texas Legislature has been one of "back to normal" after the tumultuous session of 2021. The pandemic session of 2021 brought much more uncertainty, frayed nerves and controversial issues to a legislature that has a long history of strange legislative sessions. This year, while there are controversies and hotly debated issues, the presence of a historic budget surplus has overshadowed everything the legislature is debating.

With Comptroller Glenn Hegar's Biennial Revenue Estimate (released in January 2023) of a $30+ billion budget surplus, almost $20 billion in Rainy Day Funds, more federal funds coming to Texas, and continuing significant state tax collections, the legislature began the session with one question – what to do with all the money? There are significant needs in Texas – infrastructure, roads, water, power grid, health care, social services – but the one issue that legislators and the Big Three – Governor, Lt. Governor and Speaker – have focused on is providing significant property tax relief to homeowners.

Debate is focused on competing House and Senate plans that pit lowering tax appraisal increases against increased homestead exemptions paired with increased business tax deductions. The competing plans have drawn the support and ire of business owners, homeowners, business groups and others seeking the best outcome for their interests and the property owners. While the outcome is still uncertain, what's certain is that property tax reform will pass – and if none passes during the session, the only other certainty is that there will be a special session in the summer.

The back to normal session has also witnessed a sharp increase in the number of bills filed over the 2021 session. The number of House bills increased by 16% over 2021 and the number of Senate bills increased by 21%.

Beyond property tax reform, the major issues of the session include: addressing ERCOT and the power grid; teacher pay raises; education savings accounts (also known as school choice or vouchers); economic and business development programs; prohibiting the use of economic, social and governance factors in insurance, finance and investing; legislation addressing medical care for transgender individuals; and bans on certain library books.

One issue that is not getting much public attention is the continuing battle between the state and local jurisdictions of who has the power to regulate certain activities ranging from health and safety to pay day lending to animal control to many other areas. There are a number of bills that seek to only allow the state to regulate areas of commerce that have traditionally been regulated by cities and counties.

Post-session, we will have analysis of the major legislation that passed in 2023 and what the legislature may focus on in 2025.

## TXCPA's Legislative Priorities

TXCPA's legislative priorities have made noteworthy progress this session. At the time this article was written (April 10), SB 159/HB 797 – legislation allowing students to begin testing after completing 120 semester hours – has passed the Senate and is making its way to final passage. TXCPA has worked hard to move this legislation along and we are close to being one of the first bills to make its way to final passage. The legislation has garnered support throughout its legislative journey, and positive comments from many legislators, our members, students and educators. We look forward to getting the bill to Governor Greg Abbott for his signature.

In addition, SB 951/HB 2504 – the bill to expand the State Board's fifth-year scholarship program to more students has quite a bit of support in the legislature. (See the TXCPA Legislative Tracker here.)

Finally, TXCPA is closely monitoring HB 3353, a professional and occupational licensing deregulation bill that could negatively impact the reciprocity, academic rigor and mobility successes that CPAs, architects and engineers have established over the years. TXCPA will always vigorously defend the CPA profession against all attacks that seek to loosen or deregulate the profession.

# TXCPA's Upcoming 2023 Conferences and Clusters

**Mark your calendar now and plan to attend TXCPA's conferences and clusters this spring and summer!**

**Energy Conference**
May 15-16 | Webcast Only

**Women's Leadership Conference**
May 18 | Bell Center, Houston and Webcast

**Nonprofit Organizations Conference**
May 22-23 | Hilton Richardson Dallas
Webcast option available

**Texas School Districts Accounting and Auditing Conference**
June 5-6 | Embassy Suites by Hilton San Antonio Brooks Hotel and Spa
Webcast option available

**CPE By the Sea**
June 14-16 | Galveston Island Convention Center
Webcast option available

**2023 Summer Clusters**
June 19-21 | Norris Conference Center | Dallas and Webcast

July 17-19 | Hotel Contessa | San Antonio and Webcast

July 24-26 | San Luis Resort | Galveston and Webcast

**Advanced Health Care Conference**
July 27-28 | Dallas and Webcast

**Practice Management Conference**
July 21 | Marriott Addison/Dallas Quroum by the Galleria
Webcast option available

***View the complete schedule and register now in the Education area of our website at tx.cpa/education/cpe or call the TXCPA staff at 800-428-0272 (972-687-8500 in Dallas) for assistance.***

## TXCPA Passport

**The Passport offers a one-year subscription with unlimited access to more than 100 CPE hours and a variety of topics. Hours and titles are constantly added and refreshed.**

**Cost: Members $199 | Nonmembers: $329**

TXCPA
EDUCATION FOUNDATION

## Renew Your TXCPA Membership!

Renew your TXCPA membership today to stay connected to TXCPA's resources, learning opportunities and network of CPA members across the state. Your annual renewal includes at least 20 hours of FREE CPE, free ethics education, discounts on TXCPA Passport CPE, updated news and professional information, exclusive access to the communities on TXCPA Exchange, and more. You can renew online by logging into our website. Please reach out to our member service team if you need assistance.

## Spring CPA Week is a Success!

From March 27-31, TXCPA held our second CPA Week, working with Texas CPAs and educators to help raise awareness of accounting career opportunities among students. There were 19 events held, with 28 CPAs participating, and we reached 1463 students!

We want to thank all our member volunteers who visited schools and shared their career stories with students. The next CPA Week opportunity is coming this fall. Help us continue to make an impact on the CPA pipeline by getting engaged and involved, and don't forget that volunteers are needed for classroom visits all year long! If you're interested in sharing your career story with future CPAs, click here to submit a volunteer interest form.

## TXCPA's Office Move

TXCPA has moved the Society's Dallas office to a new location effective February 21, 2023. We are at Greenhill Towers in Addison. The new address is 14131 Midway Rd., Suite 850, Addison, TX 75001.

## You Can Be a Part of CPA Profession Advocacy Efforts with a Donation to the CPA-PAC

A donation to the CPA-PAC is the quickest and easiest way to support TXCPA's governmental affairs efforts during this year's Texas legislative session, as well as year-round, as modern policymakers must continually raise funds to meet the demands of campaigning. CPA-PAC contributions are a vital part of TXCPA's efforts to build relationships with policymakers who understand the high ethical, technical and professional standards of the accounting profession. Click here to read how TXCPA is protecting the value of the CPA license. And you can make your contribution to the PAC online here.

## Accountants Confidential Assistance Network

For 30 years, the Accountants Confidential Assistance Network has provided support for CPAs impacted by alcohol misuse, substance abuse and/or mental health issues. In that time, they've convened over 3,500 confidential support groups and provided a pathway for hundreds of candidates to enter the accounting profession. If you would like to participate in support meetings with other CPAs in recovery, or talk about your wellness concerns, call 866-766-2226 or visit tx.cpa/resources/acan.

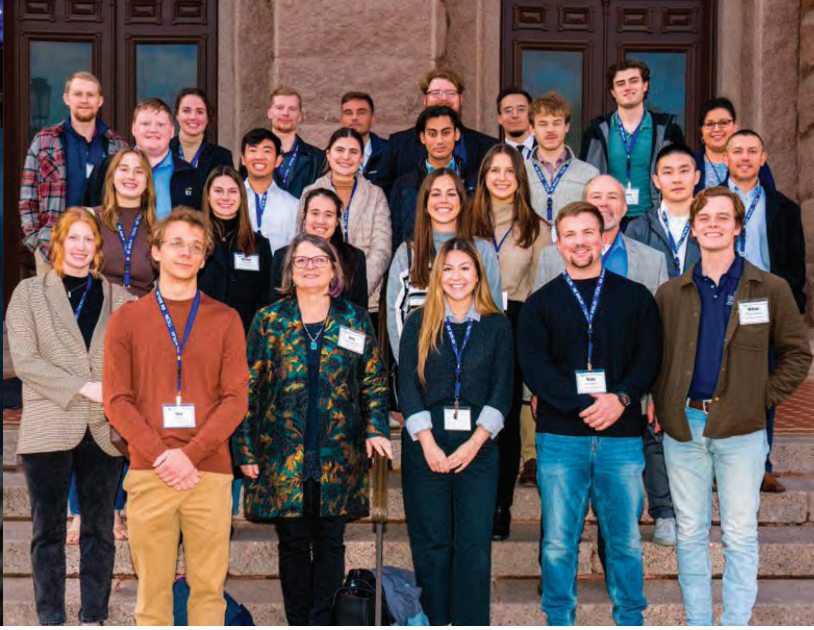
## Knowledge Hub is an Information Resource for Members

TXCPA's Knowledge Hub provides you insights and thought leadership resources designed to be helpful in your business, practice area or career. You'll find vendor-sponsored white papers, product guides, case studies, industry analysis and much more. Visit the TXCPA Knowledge Hub today at www.txcpahub.org/index for an extensive library of free downloadable content provided by experts and vendors within the accounting profession.

### Submit an Article to *Today's CPA* Magazine

**The editor of *Today's CPA* is 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@tx.cpa.**



# TXCPA'S 2022-2023 YEAR IN REVIEW

At the beginning of the 2022-2023 year, TXCPA Chair Sheila Enriquez, CPA-Houston, issued a challenge for TXCPA's leadership and members to commit to be **BOLD**.

**Be intentional about how we attract and welcome the next generation of accounting professionals and ensure we have an inclusive environment for everyone who wants to be part of this profession.**

**Optimize and protect the value of your CPA license by advocating strongly and consistently for this amazing profession.**

**Lead by example and keep honing our leadership skills while identifying and supporting future leaders within TXCPA, the profession and the business community.**

**Drive growth in our professional community. We must be agile, flexible and constantly evolving to ensure we are delivering relevant offerings for current and future members.**

As 2022-2023 comes to an end, we take a look back at the goals and accomplishments of the year. The highlights show that we have risen to the challenge and are adopting **BOLD** thinking in our work under the three pillars of success that form the foundation of our current Strategic Plan: Community and Connection, Professional Excellence and Advocacy.

You can see the plan on our website at this link.

By DeLynn Deakins, *Today's CPA* Managing Editor

## Evolving Our Governance Model

A new governance model for role clarification for the Executive Board and Board of Directors was approved this year. The change was made to update the leadership structure to help make TXCPA nimble to meet ever-changing member needs and to provide additional opportunities to add new and diverse voices to our leadership.

The Governance Committee worked on the proposal for the changes, as well as updates to the TXCPA Bylaws. The proposal was approved at the Midyear Board of Directors meeting in January. The Bylaws changes were then sent to all voting members for review and approval, and the changes were approved.

In the new structure, there are 15-20 members on the Board of Directors (formerly the Executive Board). They continue to be elected by TXCPA members from a slate of candidates. The nominations are solicited from TXCPA chapters and members.

The new Leadership Council (formerly the Board of Directors) will include all past TXCPA volunteer presidents and chairs, current members of the Board of Directors, the presidents of each chapter, 45 members-at-large, one additional member elected by each chapter for each complete unit of 200 CPA members (a minimum of one

per chapter), and the chairs of the Strategic Planning Committee and Accounting Education Foundation (AEF). The chair of the Board of Directors will also chair the Leadership Council.

Due to the timing of TXCPA's nominations and elections for leadership for 2023-24, some of the composition of these groups will have a transition period through next year. Nominations will open for all positions in May for service in 2024-2025. The full slate of nominees will be voted on by all members in November/December.

## Leveraging Technology to Better Serve Members

We continued to make progress to move TXCPA and the chapters to common technology platforms and better serve our members. To date, all 20 chapters have nested career centers, 19 chapters have websites hosted by TXCPA, and 17 chapters are utilizing TXCPA's Association Management System (AMS) NetForum for event registrations and engagement tracking (with all 20 chapters having access).

## Growing the Profession and Our Community

A new CPA pipeline strategy was developed and publicized beginning last summer. The strategy focuses on growing the profession. TXCPA, our 20 local chapters and our

**TXCPA continues to be a valuable source of professional information, resources and connections you need as you serve your clients, employers and communities.**

member volunteers are working to provide student outreach and support accounting career education. We had a goal to reach at least 10,000 students in Texas this year and we anticipate coming very close to reaching our goal, with outreach to 8,600 students recorded as of the writing of this article. Click here to learn more about our pipeline strategy.

We hosted two CPA Weeks in 2022-2023. With the two efforts, we reached nearly 4,000 students. We plan to continue building those important relationships with schools and educators to increase our visibility.

As we continue to focus on being an inclusive community, we've shared members' stories in our communications to show future CPAs the diverse opportunities in the profession and the diverse backgrounds of our membership.

We've also updated and branded our resources for outreach to Texas students and schools. Our new materials include collateral for high school and college students. All of these are available for download on the TXCPA website. The high school materials are also available in Spanish, to include non-English speaking parents in the important decisions students are making.

All members can become involved in this outreach. Contact TXCPA or your local chapter for more information or complete a volunteer interest form online.

We continued the focus on growing our community with the addition of new members. The goal this year was to add 2,500 more members. As of April 15, we have nearly reached this goal with 2,000 members added so far.

## Expanded Learning and Networking Opportunities

With the improved pandemic conditions, we are again hosting in-person CPE programs, providing attendees with opportunities to network and enjoy some great destinations across the state. Digital learning opportunities remain an important way we provide value to members. To extend the reach of our programs, all in-person conferences this year have a webcast option available.

We're also introducing our all-new Women's Leadership Conference on May 18 in Houston and via webcast. This one-day event will provide valuable strategies, techniques and insights from a lineup of accomplished women leaders who will inspire and encourage members to thrive in the accounting profession.

## Protecting and Promoting the CPA License

TXCPA drafted a legislative agenda focused on protecting the value of the CPA license and advocating for changes to help impact the CPA pipeline.

TXCPA's 2023 legislative agenda included:

- 120 hours to test legislation – Allowing testing to begin at 120 hours to give students more flexibility in the path to 150 hours for certification; legislation has been introduced – SB 159 (Perry)/HB 797 (Button).
- Expanding the fifth-year scholarship – Expanding the State Board's fifth-year scholarship to make funds eligible to accounting students with at least 15 hours of upper-level accounting; legislation has been introduced – SB 951 (Perry)/HB 2054 (Button).
- Sales tax on professional services – TXCPA opposes sales taxes on professional services.
- Proper regulatory oversight of the CPA license – TXCPA will defend against any legislation that in any way limits, diminishes or affects the importance and rigor of the CPA license.
- Monitoring tax legislation – TXCPA will monitor, review and analyze all tax legislation (tax proposals, property tax, tax deadlines, new/repealed taxes) to ensure that all issues and concerns that are vital to the accounting profession are addressed.

Please see the Capitol Interest article in this issue of *Today's CPA* for more details on the legislative session. For all the latest updates, including our Legislative Tracker, visit TXCPA's Legislative Action Center on the TXCPA website.

## MARK YOUR CALENDAR

TXCPA's Annual Meeting will be held June 23-24 at the Worthington Hotel in Fort Worth. See below for more information about the meeting. We'll have a full agenda of topics and opportunities for you to shape the future of TXCPA and your profession, as well as a fun social event at the Fort Worth Stockyards for members and their guests. You'll learn about our plans to continue our **BOLD** thinking in 2023-2024. We can't wait to see you in Fort Worth!

# TXCPA Annual Meeting of Members

**Worthington Renaissance Fort Worth Hotel | June 23-24**

The 2023 Annual Meeting of Members will be held on Friday and Saturday, June 23-24, 2023, at the historic downtown Worthington Renaissance Fort Worth Hotel.

The Annual Meeting is an opportunity to connect and network with members and leaders from across the state, while also learning about key issues in the profession and having some fun. This year's program includes a social event for members and guests at the Fort Worth Stockyards.

**Worthington Renaissance Fort Worth Hotel**

200 Main Street | Fort Worth, TX 76102 | 817-870-1000

Rate: $219 single or double + 15% occupancy tax

We encourage members to book early to receive the discounted rate.

Click here to reserve your room

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## Restaurant Quick Bites and Takeaways:

# Financial Recovery Trends

By Christa Jaganath

Restaurant operators just can't catch a break as they navigate through the aftermath of the pandemic, brace for a possible recession and adapt to the fast-changing demands of consumers. Challenges operators faced over the past few years include dealing with rising commodity prices, expanding drive-through lanes, implementing delivery and curbside services, limiting dining capacity and most importantly, facing a staffing crisis. While operators have been able to capitalize on various relief funding, the future of the restaurant industry continues to be fragile, leaving many operators struggling to stay afloat.

Labor and food costs are two significant expenses for a restaurant. A study performed in early 2022 by the National Restaurant Association showed labor costs were up 8.6% and wholesale food costs were up 7.9% from 2020 to 2021.[1] A majority of operators, 85%, say their restaurant is less profitable now than it was in 2019, before the pandemic.[2] Learning to manage and plan ahead will be critical in improving margins and surviving the possible recession ahead.

## Evolution of Restaurants

### Technology and Innovation

More and more consumers are working from remote locations and preferences for drive-through and delivery services continue to vary alongside changing work habits. While the use of various delivery services has been beneficial to consumers, the costs associated with using these platforms and the related commission payouts have left operators with minimal profits from each transaction. Some third-party services charge restaurants up to 30% in delivery, order processing and other fees.[3]

Given consumers' demands, it is not feasible to eliminate these delivery services; however, operators must begin thinking more long term and strategically about providing other avenues for customers to place orders, especially in an economy of staffing shortages and high labor costs.

Self-service kiosks, quick-service vending machines, robot delivery services, robot hosts and drones are possible options to help lower labor costs and manage staff turnover. In a survey performed by the National Restaurant Association, 64% of Generation Z adults (defined in the survey as born between 1996 and 2003) and 61% of millennials (born between 1980 and 1995) were open to having their food delivered by a drone.[4]

Technology and automation have proved to be reliable long-term tools for many operators and are changing the future of delivery and dine-in experiences. The need for delivery and curbside pickup is here to stay. How these services are performed in the future is expected to evolve. Operators are strategically evaluating technology services while prioritizing customer service and the quality of their food.

## Food and Beverage Inflation Costs

Inflation costs have affected consumers in every area, including food and beverage. Costs from suppliers and imported goods have been unstable and rising throughout 2022 and 2023. The National Restaurant Association reported an increase of 8.8% in full-service menu prices between September 2021 and September 2022. Grocery store prices increased 13% between September 2021 and September 2022.[5] Operators might have no other choice but to push some of these costs to consumers in various ways, including but not limited to the following.

**Passing on credit card fees.** Credit cards, vendor pay apps and gift cards have become popular methods of payment. During 2021, credit card transaction fees accounted for $77.5 billion.[6] Two major credit card companies account for a majority of the credit card network, which prevents operators from being able to negotiate or vendor shop. Operators are pushing these costs to consumers by charging a fee for credit card transactions or requiring a minimum purchase amount to be met before accepting credit card payments.

On July 28, 2022, the *Credit Card Competition Act of 2022*, which is intended to help decrease credit card fees by allowing more competition in the credit card processing network, was introduced in the U.S. Senate.[7] An identical bill was introduced in the U.S. House of Representatives on Sept. 19, 2022.[8] As of this writing, the act is pending review by committees in both houses of Congress.

**Reevaluating menu options.** Operators are evaluating food costs and narrowing menu options to eliminate lower-performing menu items. Managing inventory is critical to prevent spoilage and excess buying, and a limited menu assists with this effort. In addition, operators have increased menu prices to compensate for the increased cost in purchasing inventory.

**Charging inflation recovery fees.** Some operators are transparent with consumers by posting signage that communicates a fee is charged on each customer bill to assist with the pandemic recovery.

## Supply Chain Disruption

The past several years have brought supply shortages of a variety of goods, including toilet paper, chicken wings, mineral water, packaging and more. The costs of freight and taxes from imports continue to increase as a result of delivery driver shortages, political turmoil overseas, weather disasters, and inability to manufacture and produce at the rate of consumer demand. Eight in 10 operators in a 2021 survey said they experienced supply delays or shortages of equipment or service items.[9]

With these disruptions not expected to go away anytime soon, one of the biggest lessons from 2022 is learning to pivot and communicate. Restaurant operators are addressing these disruptions by limiting menu options or having a menu substitute on standby, increasing menu prices, and taking a forward-looking approach on inventory management.

Pre-pandemic, many operators relied on one or two suppliers for inventory purchases. Going forward, having a network of suppliers and sufficient supplier redundancy is key in supply management.

# Financial Reporting Implications

With a recession expected, restaurants will need to continue to assess their ability to remain a going concern over the next 12 months. To do so, restaurant operators should look at financial and operational indicators such as:

- Working capital;
- Cash flows;
- Equity:
- Ability to meet obligations;
- Compliance with debt covenants;
- Loss in key suppliers or customers;
- Legal proceedings; and
- More.

When adverse indicators would have a negative impact on the restaurant operator, management should complete a going concern evaluation. Adequate disclosure must be included in the financial statements to document the indicators and the company's plan to mitigate the risk. Further guidance on management's assessment can be found under

Financial Accounting Standards Board Accounting Standards Codification 205-40-50-4.

As restaurant operators turn to technology for assistance, capitalized asset purchases are expected to increase. On financial statements, these assets are depreciated over time. The tax benefit of acquiring new equipment and technology is the ability to qualify for a tax deduction on qualifying equipment and software. However, operators will need to continue to evaluate assets for impairment.

For multiunit operations, this evaluation includes assessing the performance of each location and determining if the future cash flows generated from the use of those assets exceed the book value on the financials. For lower-performing locations, this might require a deeper dive into an impairment analysis. It is critical for operators to closely monitor each location and make strategic decisions to either enhance profitability or exit markets that are underperforming.

## Big Decisions Ahead

Restaurant operators have big decisions and investments to make to keep up with the financial trends in 2023. Government programs such as the Paycheck Protection Program and Restaurant Revitalization Fund were temporary bandages to help small businesses get through the past few years. Even so, many restaurants were unable to make it out of the pandemic.

With no substantial government funding expected in the coming months, operators need to monitor margins closely, stay up to speed with accounting and tax implications, and strategize about reducing operational costs.

***About the Author:*** Christa Jaganath is a managing director at Crowe, specializing in restaurants and consumer markets. She is an active member of the Texas Restaurant Association and serves on the board of the Greater Houston Restaurant Association. She may be contacted at christa.jaganath@crowe.com or 713-366-8534.

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# Is GHG Scope 3 Emissions Reporting a Step Too Early or Too Far?

By Stephen Franciosa, CPA

**Curriculum:** Accounting and Auditing

**Level:** Basic

**Designed For:** CPAs in industry and public practice; management

**Objectives:** To discuss and provide information on topics related to environmental, social and corporate governance (ESG) issues, GHG Scope 3 emissions, climate-change disclosures, reporting requirements, mandatory and voluntary frameworks, and rules regarding climate-related transactions

**Key Topics:** SEC guidance and rules on climate-change disclosures, AICPA Center for Audit Quality (CAQ) report *Audited Financial Statements and Climate Related Risk Considerations*, three levels of emissions classified as Scopes 1, 2 and 3, Task Force on Climate-related Financial Disclosures (TCFD) disclosures, model reporting requirements, liability risk, and filing versus furnishing ESG information

**Prerequisites:** None

**Advanced Preparation:** None

In September 2021, the AICPA Center for Audit Quality (CAQ) published *Audited Financial Statements and Climate Related Risk Considerations*.[i] Below is a summary of information presented in its report:

1) On March 15, 2021, the Securities and Exchange Commission (SEC)[ii] issued a request for public input on climate change disclosures and received more than 550 unique comment letter responses to this request for input;
2) Approximately 75% of those responses supported mandatory SEC disclosure rules;
3) Accordingly, the SEC's Chair asked his staff to develop a mandatory climate risk disclosure rule proposal for the Commission's consideration by the end of the year.

So, in March 2022, the SEC proposed a rule – The Enhancement and Standardization of Climate-Related Disclosures for Investors[iii] – to respond to investors looking for more consistent, comparable information to assist them in investment decisions. Inasmuch as the reporting landscape has been inundated with an abundance of standards, codifying disclosures may well provide an ever-more coherent framework within environmental, social and corporate governance (ESG) reporting. The SEC's 510-page proposal, which is loaded with technical footnotes, has been met with over 14,000 comments.

In 2010, an SEC guidance document was created essentially to urge companies to quantify prospective compliance costs related to climate change. Public companies would be required to divulge more information about how they would respond to physical and transition threats linked to climate change and to generate specific,

not generic, information about corporate risks. And an International Financial Reporting Standards (IFRS) Practice Statement 2 issued in September, 2017[iv] indicated that external qualitative factors in which a company operates and investors' shifting societal expectations needed to be addressed when making materiality judgments and determining financial statement disclosures.

Nevertheless, the information needs of each category of users may differ and a company may not be able to meet the information needs of all "stakeholders" on all matters that may be of interest to each.

Determining and reporting on the environmental and social costs of carbon, a metric that assigns a dollar value to the harm caused by greenhouse gas (GHG) emissions, will entail a massive expansion of federal government regulations and inevitably justify unprecedented increases in restrictions on energy, agriculture and virtually every other human activity.

In *How the World Really Works*, its author argues against "unrealistic" de-carbonization goals without a serious appreciation of current global dependence on fossil fueled energy.[v] As the evolving middle class of poor societies aspire to emulate the growth path of successful economies, their improving lifestyles will need increased energy and materials as well. The sobering reality is that energy generation and material transitions are challenging and expensive.

In a publication in 2015 entitled *Why Scientists Disagree about Global Warming – The NIPCC Report on Scientific Consensus?*[vi] its authors explain that the claim of scientific "consensus" on the causes of climate change is without merit. There is no survey or study showing consensus on any of the most important scientific issues in the climate-change debate. And while the causes of historical global warming remain uncertain, there certainly exists significant correlations regarding climate patterning over the past few hundred years.

TXCPA offers additional CPE on sustainability accounting. Go to the Education area of our website to learn more and register.

Yet the claim that human – anthropogenic – activities are causing or will cause catastrophic global warming or climate change remains a rebuttable hypothesis, not a scientific theory and certainly not the consensus view of the science community.

Might economists be more likely to ask if the benefits of trying to "stop" global warming outweigh the benefits of providing clean water or electricity to billions of people living in terrible poverty? Wouldn't it be wiser for humanity to focus on helping people today become more prosperous and consequently more concerned about protecting the environment and be able to adapt to changes in weather regardless of causes?

In the April 2014 issue of the *Harvard Business Review* entitled The Resilient Company...How to Thrive In a Warmer World,[vii] one author reassures that companies seem to have a clear vision of how climate change and resource scarcity will affect their prospects and ability to reach long-term goals while taking into account the best environmental data available. And about 90% of the firms in the S&P 500 publish voluntary reports disclosing statistics, including carbon emissions and how much renewable energy they use. Yet only 16% report similar metrics in regulatory filings. The issue is whether companies, regulators and environmentalists can agree on the proper way to account for carbon emissions being recommended in the proposed SEC rule.

There is much attention being given to model reporting requirements, while no U.S. accounting rule spells out how to account for climate change or environmental impact. And rules would require judgments and assumptions that could contemplate environmental considerations.

There are assorted Accounting Standards Codifications (ACSs) that already address risk and uncertainties, environmental obligations, and contingencies. Material matters currently need to be disclosed in financial statement footnotes. Organizations already consider regulatory, legal and contractual obligations when addressing contamination remediation.

While six major mandatory and voluntary frameworks addressing climate change currently exist, investors appear to be embracing Task Force on Climate-related Financial Disclosures (TCFD) as part of ESG evaluations. The TCFD 2021 Implementing Recommendations for non-financial companies states that disclosures should present relevant information, be specific and complete, and be comparable for organizations within a sector. Companies will also be asked to disclose opportunities that could arise from a changing climate and corresponding market and policy shifts.

The challenge regulators and corporate officials recognize is identifying which measurements are necessary, and how to set requirements that are flexible enough to generate specific and not just generic information about corporate climate risks.

Currently, the Financial Accounting Standards Board (FASB) intends to craft rules regarding climate-related transactions inasmuch as generally accepted accounting principles (GAAP) literature is vague. In his research report in 2018, Baruch Lev of the NYU Stern School of Business opined upon *The Deteriorating Usefulness of Financial Information and How to Reverse It*.[viii] His comments include:

1) The FASB rules produce financial statements that virtually no one understands;
2) Financial reporting has hardened into a compliance exercise instead of producing the best information to constituents;
3) There is a growing concern about disclosure overload; and
4) Many investors don't understand the accounting or care.

In July 2020, Ernst & Young (EY) published the results of an investor survey entitled *How Will ESG Performance Shape Your Future*,[ix] which indicated that ESG factors have never been more pressing. The majority of institutional investors are signaling a desire for a more disciplined and rigorous approach to evaluating and more credibility on corporates' nonfinancial performance.

Strategies may include criteria such as how an organization is managing financially material ESG issues. Furthermore, investors are seeking disclosures that are clear and transparent, founded on high-quality data, and produced using robust and reliable processes and systems.

Finding value in "external assurance" of the robustness of an organization's planning for climate risk will enable investors to develop more credible and nuanced approaches to understanding what influences long-term value. Naturally, there would be a significant value in third-party assurance being independent across all "scopes" developed in the SEC's proposed rule.

Now back to the proposed SEC rule, which identifies reporting on three levels of emissions classified as Scopes 1, 2 and 3.

Scope 1 emissions are direct emissions from an enterprise's owned or controlled sources. Scope 2 emissions are indirect emissions from the purchase of generated energy. Presumably many companies will evaluate and report on their Scope 1 and 2 emissions; apparently, an easy enough exercise … relatively speaking.

For entities that may more extensively affect climate change, climate-related matters will hardly be limited to aspects of an entity's own operations. Scope 3

**The challenge that regulators and corporate officials recognize is identifying which measurements are necessary …**

emissions is about what others do … it is the result of uncontrollable activities from assets that are not owned by the reporting organization, but that the organization indirectly impacts by virtue of its supply chain.

Scope 3 emissions disclosures fall into two groups. The first group called upstream includes goods and services purchased and consumed. The second group is called downstream, which are the goods and services that a business produces and sells. Accordingly, the entire supply chain would almost always count towards a large part of any company's emissions.

Crunching greenhouse gas numbers requires detailed information from multiple companies in the supply chain that could be spread throughout the world. Given that Scope 3 emissions will inevitably be a significant part of overall GHG emissions, the challenge of accounting, let alone providing assurance on emissions, will be formidable at best. Calculating emissions promises to be more complex than traditional calculations for financial accounting.

So, the drive towards consistent, comparable and reliable information begs the question: who is spearheading the drive to ESG disclosures since ESG seems anchored in the idea that **anyone and everyone is a stakeholder in everything**? A May 10, 2022 *WSJ* article entitled "Stakeholder Capitalism Criticized"[x] addressed the creeping liberal bias inside a three-sided group of massive investment firms, which is characterized as an ideological cartel! To illustrate, the article presents one high-profile example of a group seeking board seats on a small hedge fund that then sided against Exxon Mobil regarding the company's climate-change strategy.

More alarmingly, *The Economist* on April 23rd, 2022 published an article "Lawsuits Aimed at Greenhouse-gas Emissions are a Growing Trend."[xi] It states that while the Paris Agreement of 2015 brought a greater awareness of climate change, it likewise committed governments to keeping global temperature increases below 2 degrees Celsius. The agreement also made things more actionable in a way that they had not been considered before, thus causing increased investigations and litigations.

Lawsuits related to climate change could potentially become material risks. This risk of litigation would now need to be factored into an organization's credit risk. Might ill-calculated Scope 3 emissions precipitate heightened shareholder activism and frivolous lawsuits?

Ironically, a *WSJ* article on May 9, 2022 stated that "ESG Fund Managers Find 'Greenest" Stocks Too Pricey"[xii] and they are putting their money in companies that are still working on their ESG credentials. These oft-called fund improvers have lower ESG ratings and are typically seen as undervalued. Identifying these improvers varies. It includes not only a blend of fundamental analysis but also those whose management has committed to sustainability.

Notably, Berkshire Hathaway doesn't report climate-related risks. In a three-page sustainability report, its energy unit states that it strives to achieve net-zero GHG emissions but it put no date on the target.


> **Crunching greenhouse gas numbers requires detailed information from companies in the supply chain that could be spread throughout the world.**

Add to this that BlackRock now states it won't back shareholder climate proposals it considers too prescriptive (that is, too dogmatic, authoritarian, rigid … take your pick!). BlackRock Investment Stewardship intimated it would not back stockholder proposals that try to micromanage companies and their climate-change programs but would instead support companies as they address material business challenges they face, including the decades-long transition to a low-carbon economy.

This past March, The Bureau of Investigative Journalism found that Blackrock and several banks had quietly downplayed their environmental commitments so they could keep doing business with deep-pocketed U.S. oil states.[xiii] One U.S. senator told the bureau, "If they have not been honest with investors about their climate policies, then this is a matter for the SEC to look into."

In response to the SEC's initial request for comment, on July 11, 2021, the American Petroleum Institute (API) expressed – 12 pages – the concerns of its members.[xiv] API represents all segments of the U.S. oil and natural gas industry. Within its comprehensive response, it addressed the concept of **filing** versus **furnishing** ESG information. Filed disclosures would be subject to the Securities Act of 1933. Alternatively, furnished information could be expanded to add additional perspective and context. Furnished information would still be covered by existing federal securities laws, including anti-fraud provisions.

In its response to the SEC, The National Investor Relations Institute (NIRI) stated that calculating Scope 3 emissions would be subject to differing methodologies, subjective judgments and widespread inaccuracies … since there is no widespread consensus among companies and investors about the many different climate change metrics and risks.[xv]

The response from NIRI's president and CEO went on to say that under the proposed rule, companies would be subject to numerous mandatory requirements and a much higher level of liability than the status quo. In a scholarly article entitled "Indirect Emissions Disclosures Are Important but Tricky"[xvi] its authors noted that reporting on Scope 3 GHG emissions may give rise to higher liability risk for companies compared to other climate disclosures, since the reporting company cannot ensure the quality and accuracy of the information that it gets from third parties.

The National Association of Manufacturers suggested that the best way to protect the businesses they represented would be to strike Scope 3 from any final rule.[xvii] The American Farm Bureau stated "this is an end-run around legislation to get companies to report certain climate change information in their financial reports."[xviii]

In dissenting on the proposal, a sole SEC commissioner wrote, "We are not the Securities and Environment Commission – at least not yet."[xix] She likewise stated prophetically that she was grateful to the many commentators who had responded to the initial request for public comment and for the greater number of comments expected in response to the proposal.

In conclusion, this article begs the pertinent question, "Is GHG Scope 3 emissions reporting a step too early or too far?"

***About the Author:*** Stephen Franciosa, CPA, is a sole practitioner on City Island in the Bronx, NY. His practice consists primarily of accounting and audit services to small non-profits. He is a member of AICPA, NYSSCPA and NCCPAP. He has taught accounting and auditing courses at CUNY – Lehman College and Iona University.

***Endnotes***

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***When registration is complete, a confirmation email will be sent and provide a hyperlink to access the quiz.***

# CPE ARTICLE: IS GHG SCOPE 3 EMISSIONS REPORTING A STEP TOO EARLY OR TOO FAR?

By Stephen Franciosa, CPA

*Today's CPA* offers the self-study exam for readers to earn one hour of continuing professional education credit. The questions are based on technical information from the preceding article. If you score 70 or better, you will receive a certificate verifying you have earned one hour of CPE credit – granted as of the date the test arrived in the 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. How many SEC commissioners dissented to the proposal on March, 2022 – The Enhancement and Standardization of Climate-Related Disclosures for Investors.**

a. One c. None
b. Two d. All

**2. The SEC created a guidance document to urge companies to quantify progressive compliance costs related to climate change in what year?**

a. 2022 c.2017
b. 2021 d.2010

**3. According to the article, the SEC should develop mandatory climate-change disclosures:**

a. As soon as possible
b. Gradually over the next 10 years
c. No timeframe recommendation is being made
d. Only if they are material

**4. The SEC's proposal would require companies to reduce the negative effects on climate:**

a. No matter the cost
b. Only if costs are reasonable
c. Only when stakeholders make a formal demand to have costs disclosed
d. The SEC has not mandated a, b or c

**5. The American Petroleum Institute (API) in its comprehensive response on July 11, 2021, to the SEC's request for comment:**

a. Addressed the concept of filing disclosures of ESG in formation subject to the Securities Act of 1933
b. Addressed the concept of furnishing expanded ESG in formation to add additional perspective and context that would still be covered by existing federal securities laws, including anti-fraud provisions
c. Both a and b
d. Neither a nor b

**6. Which of the following statements is correct?**

a. Scope 1 emissions are direct emissions from an enterprise's owned and controlled sources
b. Scope 2 emissions are indirect emissions from the purchase of generated energy
c. Scope 3 emissions include goods and services purchased and consumed and goods and services that a business produces and sells
d. All of the above

**7. One work/author cited in the article is of the opinion that:**

a. The FASB rules continually improve upon the understanding of financial statements
b. Financial reporting has hardened into a compliance exercise instead of producing the best information for stakeholders
c. Investors understand accounting and do care about the information presented and disclosed in financial statements
d. There is no disclosure overload in financial statements

**8. According to the article, which statement is false?**

a. Only a small minority of institutional investors desire a more rigorous approach to evaluating a corporation's nonfinancial performance
b. The information needs of each category of users should not differ significantly and any company should be able to easily provide the informational needs of all stakeholders
c. Regulators have already identified which ESG measurements are necessary
d. a, b and c are each false

**9. Which of the following statements is correct?**

a. There already exists assorted Accounting Standards Codifications that address risks and uncertainties
b. Material matters currently need to be disclosed in financial statements
c. Organizations already consider assorted obligations when addressing contamination remediation
d. All of the above

**10. Berkshire Hathaway Inc. is an example of a company that always reports climate-related risks.**

a. True
b. False

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$1,130,000 gross. Houston Beltway CPA firm. Motivated seller willing to assist in transition. Revenues 43% tax, 32% accounting, 25% other for year-round income. Knowledgeable staff in place ready to support. TXS1307

$120,000 gross. Tarrant County CPA practice. Semi-virtual, home operated with occasional in-person meetings. Well established firm with many quality business clients. Revenues derived predominately of tax work and over 70% cash flow to owner. TXN1622

$600,000 gross. North Dallas CPA practice. Solid fee structure boasts about 70% gross income from services for businesses. Loyal clientele consisting of affluent individuals and solid businesses in a variety of industries. Experienced and knowledgeable staff available to transition. TXN1623

$202,000 gross. Plano, TX CPA practice. Located in a desirable community. Nice mix of revenues for year-round cash flow. 80% tax prep, 10% accounting services, 10% consulting/payroll/other services. Seller assisted transition. TXN1624

$287,000 gross. Revenues nice mix of services 66% tax, 23% bookkeeping, 9% payroll, 2% consulting. High quality, loyal client base with large number of businesses. Strong fee structure and high referral rate. TXN1625

$162,000 gross. Allen, TX EA practice. Strong cash flow to owner of around 80%. Loyal client base with 93% tax work. No lease and minimal overhead make an exceptional opportunity for growth with referrals and expanding services. TXN1621

$90,000 gross. Olney, Texas CPA practice. Perfect startup size that boasts a cash flow of almost 80%. Focus mostly on tax preparation services but has large number of business clients for expansion. TXN1619

$186,000 gross. North Texas business appraisal firm. Full-service business valuation and consulting firm. Strong fee structure and minimal overhead yield almost 90% cash flow to owner. Reliable referral sources and great reputation in the community make this a fantastic opportunity. TXN1618

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$148,000 gross. Addison, TX CPA practice. Revenues are 76% tax work and 24% accounting to provide year-round income. Nearly 60% income is from business clients and a cash flow of almost 60%. TXN1616

$585,000 gross. Dallas, TX CPA practice. Sophisticated client base grown from primarily referrals and is primarily made up of tax work (95%). Clients are high net worth individuals and businesses. Perfect size for an experienced CPA. TXN1603

$135,000 gross. Greater Killeen area CPA practice. Loyal client base made up of 82% tax preparation and 18% bookkeeping for year-round income. Over 67% cash flow. Owner assist transition available. TXC1083

$109,400 gross. Addison, TX CPA practice. Desirably located with a nice mix of quality clients. Solid fee structure and strong fee structure yield 60% cash flow. TXN1604

$68,000 gross. North Texas (near Wichita Falls). Strong fee structure and high realization rate. Over 50% revenues are from audits and 45% from tax work. TXN1609

$506,000 gross. Northern San Antonio metro CPA. 59% tax preparation (30% individual, 59% business, 11% other), 29% bookkeeping, 8% consulting, 4% Texas franchise returns. TXC1083

$190,000 gross. Virtual NE Houston CPA firm. Year-round revenue and excellent cash flow. Services composed of tax (57%), accounting (12%) and other (31%). TXS1304

$292,000 gross. Brazoria County CPA firm. Reputable practice with growth opportunities due to referrals from loyal clients. Owner transition available. Service mix tax (62%), accounting (29%) and other (9%). TXS1293

$323,000 gross. Virtually based DFW medical practice. Strong fee structure and low overhead that yields cash flow of over 80%. Ample growth opportunity for this niche firm. TXN1613

$1,285,000 gross. Allen, Texas CPA practice. Rapidly growing revenues and loyal client base. Services composed of tax (75%), accounting (17%) and tax planning services 8%. Strong staff in place ready for a smooth transition. TXN1614

$1,076,000 gross. Northeast Dallas CPA. Respected, established practice for over 40 years. Over 65% is business clients. Revenues nice mix of tax (65%) and accounting (35%). Long-term staff, excellent fee structure. TXN1615

$140,000 gross. Addison, TX CPA. High quality, loyal clients. Centrally based location in DFW. Revenues tax (76%) and accounting (24%) for year-round income. Cash flow near 60%. TXN1616

$620,000 gross. Brownwood, TX area CPA. Nicely balanced revenues between 75% tax work, 15% accounting services, 10% payroll/compliance. Great cash flow to owner. TXN1534

$1,119,000 gross. Heart of Texas CPA practice. Tax prep is 85-90% of revenue yearly, 2/3 individuals. Business and trust make up the remainder. Bookkeeping 10-15%. Tenured staff. TXC1077

$447,000 gross. Heart of Texas CPA firm. 80% tax, (78% inv., 13% bus., 9% other), 11% bkkpng, 9% audits/reviews, cash flow around 43%, staff in place, owner available to stay on as employee after sale if needed. TXC1078

$510,000 gross. NW of Dallas CPA firm. Tax 72%, accounting 28%, strong fees, solid cash flow, experienced staff in place, turn-key location in desirable DFW community. TXN1526

$307,000 gross. North Texas CPA practice. Tax 65%, accounting 35%, solid fee structure, experienced staff and the perfect size starter or add-on practice. TXN1558

$730,000 gross. Northeast Texas CPA firm. Tax 55% and 45% accounting, solid fee structure, experienced staff and exceptional client base. Lots of room for growth, 80% total revenues from businesses. TXN1587

$480,000 gross. Fort Worth, TX CPA tax practice. Strong cash flow to owner 55%, quality clientele, year-round income, and amazing expansion ability with individual and business referrals. TXN1588

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$1,125,000 gross. W. Houston CPA firm. 66% tax, 22% audit/review, 12% bookkeeping. Excellent cash flow to owner, premium clientele and experienced staff in place. TXN1246

$283,000 gross. Southeast Texas CPA firm. 60% tax and 40% bookkeeping. Building available for lease or purchase. Friendly and loyal clients, growth opportunities and owner-assisted transition available. TXS1232.

$1,700,000 gross. N. Houston CPA practice. Great service mix to provide year-round revenue with heavier workload during Sept/Oct deadlines. Strong, experienced staff in place. TXS1264

$116,000 gross. The Woodlands area CPA firm. Operates remotely from anywhere in Houston. Excellent cash flow, high-income clients. TXS1291

$567,000 gross. NE of Houston CPA firm. Owner looking to semi-retire and will assist buyer as agreed. Great service mix of tax, bookkeeping and payroll/consulting. Turn-key opportunity with experienced staff in place and office available for lease. TXS1283

$905,000 gross. Semi-virtual Texas-based CPA firm. Multiple location firm with possibility to be completely virtual over time. 66% tax work and 27% accounting and 7% payroll. Year-round income with about 55% income derived from businesses. TXN1606

$255,000 gross. North Dallas CPA tax clients. Loyal clients from a variety of businesses and industries. About 80% of business done by portal, making it an easy acquisition for an existing firm. Option to maintain space for seamless transition. TXN1605

$3,560,000 gross. North Texas CPA practice. Well-established and growing firm that is exceptionally profitable for a firm its size due to fee structure and high realization rate. 50% auditing services, 45% tax work. Complete with long-term staff and partners to aid in transition. TXN1597

$477,000 gross. NW Houston CPA firm. Revenues made up of accounting 74%, tax 24% and other 2%. Year-round cash flow and knowledgeable staff. Owner willing to assist transition. TXS1300

$1,040,000 gross. South Texas CPA firm. Nicely mixed revenues 43% accounting, 38% tax and 19% other services. Year-round cash flow and knowledgeable staff. TXS1298

$650,000 gross. West Houston accounting firm. Service mix 93% accounting and bookkeeping and 7% tax. Nice location for buyer with extra room to bring in additional staff. TXS1297

$1,013,900 gross. SW Houston CPA firm. Desirable location and cash flow. Well-trained support staff already in place. Services desirably mixed 67% tax, 12% accounting, 15% reviews and 5% audits. Seller-assisted transition. TXN1295

$354,000 gross. NW Houston CPA firm. Predominately made up of complex tax returns. Nice cash flow and high-income quality clients. Excellent staff ready and able to assist. TXS1296

$316,000 gross. Galveston County CPA. Service mix includes 67% tax, 14% audit/review and 6% other. Year-round work provides excellent cash flow. Prime location with loyal clients. TXS1287

$2,201,000 gross. West Texas firm. Highly motivated multi-owner CPA firm. Revenue mix is 14% accounting services, 29% tax preparation (49% individual, 41% business, 10% other and 57% attest services. Large tenured staff and long assisted transition by owner. TXW1030

$95,000 gross. Conroe CPA firm. Owner transition available. Service mix 75% tax and 25% other for year-round income. TXS1311

$296,000 gross. West Houston tax firm. Services mixed 93% tax and 7% other services. Year-round cash flow and knowledgeable bilingual staff in place to support transition. TXS1306

$115,000 gross. Matagorda County tax and accounting. 60% tax work and 40% accounting. Many referrals for growth. TXS1308

$172,000 gross. Houston Galleria area tax firm. Owner transition available. 83% tax and 17% accounting. Great reputation and constant referrals. TXS1310

$150,000 gross. Katy, TX CPA firm. Service mix tax (96%) and other (4%). Loyal, long-term clients with many referrals for growth. Owner transition available. TXS1305

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