Today's CPA

Texas Society of
Certified Public Accountants

Meet TXCPA's 2025-2026 Chair

Billy Kelley

From Biochemistry
to Business Leadership

How ESG Can Create
Value for Your Business

Large Language
Model Technologies

What to Know About
Profits Interest

JULY | AUGUST 2025

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DEPARTMENTS

Today's CPA **Magazine**

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> "Your engagement is crucial to the success of TXCPA and to getting the most from your membership.

Meet the Chair

Welcome to the July/August issue of *Today's CPA*. This edition is particularly special to me as it features an in-depth interview where I had a chance to share my passion for TXCPA and the profession and what I hope for us to accomplish this year. If you didn't have a chance to join us in Galveston in June for the Annual Meeting, you can get a glimpse of the work we have planned.

The articles provide valuable content to keep you informed and ahead of the curve, including more on ethical considerations with audit technologies, a one-hour CPE self-study article on future profits interest compensation strategy, creating value with ESG, and highlights of member activities happening across Texas.

Your engagement is crucial to the success of TXCPA and to getting the most from your membership. Whether it's participating in our events, contributing to TXCPA Exchange discussions or utilizing our learning resources, your involvement strengthens our community and enhances the value of our profession.

Thank you for your continued support and dedication to TXCPA. Together, we will continue to achieve great things!

Billy Kelley, CPA-Permian Basin
TXCPA Chair

How can we support you?

Send me a note with your suggestions for how TXCPA can help you this year. Email me at chair@tx.cpa.

Increasing Your Marketing Prowess:

How CPAs Can Market with Confidence

What do Steve Jobs, Bill Gates, Jeff Bezos and Mark Zuckerberg have in common? Besides being billionaires, trailblazers in technology and over the top driven people, another common quality would be laser focus on succeeding in their area of expertise. A critical step in their success was developing and delivering compelling stories of the value of their products, services and companies.

So why do many CPAs not effectively market their services? Some common reasons may include:

- The perspective that smart people don't need to market their services
- The belief that they don't have the extroverted personality needed to do it well
- They don't have time to do marketing

Before we discuss how to effectively market, let's deal with these obstacles or fallacies many CPAs use as rationale for not marketing.

Highly intelligent people don't need to market their services. Review the names at the beginning of this article. Did any of these people diminish their reputation or the appearance of their intelligence by building and delivering compelling stories of their products or services? They all had to successfully market or sell themselves and their companies to financial backers, potential employees, consumers, and shareholders. Their ability to successfully communicate value actually augmented the perception of their intellect.

JACK THURMAN is a retired partner of BKD, LLP where he was the Managing Partner of the BKD Wealth Advisors practice for 21 years.

You need to be an extrovert to be a good marketer. Networking events like business luncheons, community fundraising events and industry happy hours may energize extroverts, but for many introverts, they can feel exhausting, awkward or even inauthentic. Fortunately, modern marketing has evolved well beyond the traditional model of working the room and exchanging business cards. Today, some of the most effective strategies for building visibility and trust don't require loud personalities or constant social interaction – they require substance, strategy and sincerity.

Recent insights from *Harvard Business Review* and other respected publications highlight that successful long-term marketing does not depend on whether a person is an extrovert or introvert, but whether the marketer has a sincere desire to provide value to the client or consumer of their services.

You don't have time to do marketing. This is purely a time prioritization issue. Taking care of clients and attracting new ones are both priorities for personal and firm-wide success so it is imperative that you find time for

> **No businessperson, athlete or musician is successful in the long term without continuously taking proactive steps to improve on their skills.**

both. A critical step in overcoming this obstacle and increasing the prioritization of marketing is building a structure and process. Schedule one- to two-hour blocks of marketing time within your week that are coordinated with your annual written action plans. The action plans need to be detailed and quantifiable, yet not so detailed that you spend an inordinate amount of time creating them.

TIPS TO MARKET YOUR EXPERTISE

Now that we have addressed the common excuses for not marketing, let's move on to three quick tips for how exceptionally busy CPAs can most effectively market their services.

Tip 1: You Be You. Don't strive to be an extrovert or someone you are not. The first step is to continue to do what you care most about: take great care of your current clients. Draft ideas on how to improve your service to them. Some ideas include improving the speed of response time, better understanding clients through site visits, cross-selling other services that the firm provides, ensuring your work product is top quality, and discovering their problems so that you can work together towards a solution.

Why is the first step in marketing to take great care of our current clients? To use a quote from Horst Schulze, former COO of Ritz Carlton, "We market best by taking care of our clients best!" If your current clients are happy with your service, they are more likely to refer new clients, and receiving a referral from a client is probably the easiest and most rewarding manner to market.

Additionally, by providing great client service, your retention is strong and growth from new clients is more impactful. The most critical step in improving your marketing skills is to focus on taking great care of your current clients.

Tip 2: You Be You, Yet Continuously Improve. No businessperson, athlete or musician is successful in the long term without continuously taking proactive steps to improve on their skills. It is critical that a professional of any type seeks ways to increase or improve their productivity.

This is a step that few take, yet it quite often is the step that determines long-term success or long-term mediocrity. Bring along a partner in your firm who is exceptionally strong in marketing – and has a similar personality – to your next meeting with a prospect and ask them prior to the meeting how they would prepare for it.

After the meeting, ask them to candidly provide three to five areas of improvement for you, as well as three to five things you did well. Take detailed notes on their observations and determine strategies to improve next time.

Another step to improvement is not only to be highly prepared for each meeting as it reduces the stress of putting yourself out there, but also to become efficient in the meeting preparation. Make a quick agenda and walk through the flow – you don't have to have all the answers and solve their problems on the spot. You just have to ask the right questions to determine the next action step.

Another highly impactful step for improving your marketing ability is self-examination of your credibility. Ask yourself very honestly, "Do my words, appearance and actions build credibility or trust with my clients or do they diminish my credibility or trust?"

David Maister, author of the book True Professionalism, once said, "Credibility isn't just content expertise. It's content expertise plus 'presence,' which refers to how we look, act, react, and talk about our content." Based on your honest assessment of this, identify where you may need to improve – and take intentional steps to strengthen those areas.

Consider reading books such as True Professionalism or articles in the *Harvard Business Review*. A more advanced step may be hiring a professional coach to improve your mindset and one-on-one communication.

Tip 3: You Be You, Yet Continuously Improve and Continuously Execute! Often career professionals acknowledge they need to draft great marketing plans and market, read books and articles on the topic, and even hire a coach to improve. Yet with all of this preparation, there is still no execution.

To avoid this inactivity, build accountability. Go to your mentor or the partner you report to and show them your plan and goals and state you are going to execute on this and get their buy-in that they will assist you in encouraging you to execute. If you don't have a strong mentor or partner, commit to a family member what you want to achieve.

In summary, make a written plan, knock the socks off your current clients and have an accountability partner to maximize marketing efforts.

The 89th Session of the Texas Legislature

– A Review of TXCPA's Successes and Major Issues

The 89th Session of the Texas Legislature ended on June 2, 2025, after meeting for 140 days. The Texas Legislature only meets every two years and much needs to happen in a very short amount of time – everything from electing a new Speaker of the House, to forming committees and naming committee chairs, to introducing legislation, to committee hearings, and finally to floor debate and passing (or not passing) bills to send to the Governor for signature.

In January, Rep. Dustin Burrows (R-Lubbock) was elected Speaker of the Texas House of Representatives, leading rule changes, appointing new committee chairs and advancing previously stalled legislation. In the Senate, Lt. Governor Dan Patrick continued to preside and helped push through key priority legislation of both the Governor and Lt. Governor.

This session, TXCPA advanced a very proactive agenda to address CPA pipeline issues. For years, TXCPA and many other organizations, firms and practitioners have worked to spark student interest in the accounting and CPA professions and provide more licensing opportunities. Since the end of the 2023 legislative session, TXCPA has worked closely with many stakeholders on initiatives to create an additional CPA licensure pathway and modernize practice mobility in the new national licensing environment.

Senate Bill 262 was the first TXCPA-backed initiative to pass this session, creating an additional pathway to CPA licensure. It will require the completion of a bachelor's degree with the required accounting and business concentration, completion of two years of relevant work experience, and passage of the CPA Exam – offering an addition to the current 150 hours and master's degree pathways. With the passage of SB 262, Texas becomes the largest state (both in population and CPA licensees) to pass an additional pathway to licensure.

Senate Bill 522 – individualizing and modernizing CPA practice mobility – will move practice mobility into the modern age and provide that only well-qualified CPAs have practice privileges in Texas and further ensures protection of the public, one of the cornerstones of the CPA profession.

With passage of SB 262 and SB 522, Texas becomes well positioned to help accounting students and candidates have more pathways to licensure and to ensure that practice disruption does not occur as states change their licensing laws.

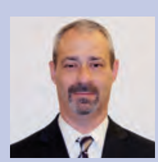
Beyond TXCPA's big wins, this session saw major legislative developments. Most notably, school choice – Senate Bill 2 – passed in 2025 after years of failed attempts. Starting September 1, 2025, the law will provide up to $10,000 per student annually for private school tuition.

The legislation includes some priority participation requirements, though many details are still being finalized. Additionally, lawmakers approved $8.5 billion in public school funding for infrastructure, operations and special education, with $4.5 billion earmarked for teacher pay raises.

The legislature passed a significant property tax proposal that will increase the property homestead exemption from $100,000 to $140,000 and an increase in senior homestead exemption to $200,000. Both proposals still need to be approved by the voters in the next constitutional amendment election, which will take place in November 2025.

Water infrastructure was the biggest issue this session outside of taxes and education. Senator Charles Perry (R-Lubbock) has long pushed for a major water fund to support development, planning, construction, and maintenance. Lawmakers passed a bill and a constitutional amendment to allocate billions to both new projects and existing infrastructure – securing Texas's most critical resource for a thriving future.

Finally, TXCPA would like to sincerely thank Senator Charles Perry and Representative Angie Chen Button for authoring TXCPA legislation this session. Without their hard work and dedication, TXCPA could not have had the successful session we had.



BY KENNETH BESSERMAN,
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In What's Happening Around Texas, we give you highlights of events and activities happening around the state in TXCPA and the TXCPA chapters.

TXCPA Austin wrapped up another demanding tax season with a lively happy hour, offering members a chance to unwind. The event was a welcome pause to reflect on months of hard work, reconnect with colleagues, and enjoy a relaxed evening of laughter and camaraderie. Here's to closing the books on tax season – and opening the door to new memories!

Volunteer spirit bloomed as **TXCPA Houston** members spent the day working at the Houston Botanic Gardens. The weather could not have been better for giving back. From beautifying the grounds to bonding over a shared mission, their time and efforts made a real impact!

TXCPA Permian Basin members, along with UTPB accounting students, came out in force to support Keep Midland Beautiful. Armed with gloves and good vibes, they collected eight bags of trash and made a visible difference in their city. Together, they showed how teamwork can result in big change.

The Spring Chapter Meeting hosted by **TXCPA Southeast Texas** at Lamar University brought together a dynamic mix of students, educators and professionals. The afternoon was filled with engaging dialog, recognition of achievement and valuable networking opportunities. Thanks to all who helped make it such a meaningful meeting!

Despite the rainy weather, **TXCPA Victoria** members gathered for a fantastic evening at Aero Crafters for the May Member Appreciation Event. The great food, fun venue and wonderful company made for a memorable time. Here's to the amazing people who make TXCPA Victoria so special!


TXCPA Austin


TXCPA Houston

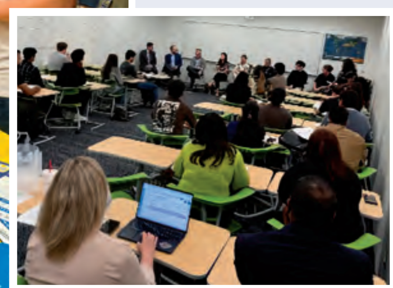

TXCPA Permian Basin

TXCPA Southeast Texas


TXCPA Victoria

Is Your Chapter Doing Something Awesome? Let Us Know!

Whether you're hosting a professional development event, organizing a community outreach project, have a leadership meeting, or celebrating a big chapter milestone, we want to hear about it! Share your chapter's activities with us. Send your photos and event details to Managing Editor DeLynn Deakins at ddeakins@tx.cpa and help us showcase the great work your chapter is doing!



Accounting Opportunities Month: Opening Doors to Accounting Careers, One Student at a Time

During April's Accounting Opportunities Month, we were close to achieving our goal of reaching 1,800 students! Thanks to the incredible efforts of 200+ members who volunteered at 20 career events – including presentations, career fairs, panels, and other student-focused activities – we engaged with 1,668 students of all ages. These valuable interactions brought us one step closer to our larger goal of reaching 14,000 students in the 2024-2025 year.

Our student outreach continues year-round and we're always looking for passionate volunteers to share their career journeys. Scan the QR code to complete our volunteer interest form and get started.

Your Voice Matters: Submit Your TXCPA Leadership Nominations Today

The nominations process for TXCPA's 2026-27 leadership is now open! We are currently accepting nominations for the following roles:

- Chair-elect
- Treasurer-elect
- Secretary
- Board of Directors
- Leadership Council Members
- Nominations & Board Development Committee
- Nominations Council
- AICPA Council

The deadline for nominations is September 2. For details on the TXCPA leadership nominations process, including links to submit a nomination, go to TXCPA's website at tx.cpa/about/leadership/nominations.

Support When You Need It Most – Accountants Confidential Assistance Network (ACAN)

If you're facing challenges with addiction, substance use or mental health, you're not alone. TXCPA Peer Assistance is here for you. Learn more at tx.cpa/resources/acan, call ACAN at 866-766-ACAN or text 214-566-2854. By law, all information and communications with ACAN are kept strictly private.

CGMA® Designation for Management Accountants

The Chartered Global Management Accountant (CGMA®) is the premiere designation for management accountants worldwide. This designation is awarded to professionals who exemplify excellence in finance, strategy, operations and management. Visit www.cgma.org to learn more about the benefits and start your journey to becoming a distinguished leader in management accounting.

TXCPA's 2025 CPE Programs

Make plans now to attend these upcoming conferences!

Summer Education Conference
Gulf Shores, Alabama, July 20-25

Summit 2025
Latest Developments in Tax and Estate Planning
Richardson, August (20) 21-22
San Antonio, August (24) 25-26
Virtual option coming this fall

2025 Annual Update for Governmental Accountants and Auditors Webcast
September 22
October 6

Accounting Education Conference
Austin, September 19-20, 2025

The Texas Society of CPAs is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors. State boards of accountancy have final authority on the acceptance of individual courses for CPE credit. Complaints regarding registered sponsors may be submitted to the National Registry of CPE Sponsors through its website: www.nasbaregistry.org.

2025-2026 Free CPE Webcasts for Members

Professional Issues Update
August 6

August 19
(Replay from August 6)

November 5

November 19
(Replay from November 5)

February 11, 2026

February 26, 2026 (Replay from Feb 11)

May 6, 2026

May 21, 2026
(Replay from May 6)

Texas Taxes: Quarterly Updates
July 17

October 16

January 15

View the complete schedule and register now in the Education area of our website at tx.cpa or call the TXCPA staff at 800-428-0272 for assistance.

Celebrating the Future: Accounting Excellence Awards Presented

The Accounting Excellence Award celebrates top accounting students from Texas colleges and universities. Each recipient's name is engraved on a permanent plaque at their school and they receive a personal award at a local TXCPA chapter meeting. Following are the recipients for 2024-2025.

Hannah Abenojar - University of Dallas
Felicia Alvarado - University of the Incarnate Word
Megan Beach - St. Mary's University
Taylor Castillo - Stephen F. Austin State University
Madison Chapman - Angelo State University
Madeline Claybrook - Texas A&M University
Devin Conne - University of North Texas
Muhammad Durvesh - Texas Southern University
Adam Elbanna - University of Houston - Main Campus
Jax Ferrel - West Texas A&M University
Kirstan Garcia - Texas A&M University - San Antonio
Patrick Gonzales - Texas Tech University
Bianca Guerrero - Lamar University
Gabriel Guzman - Texas A&M International University
Abenet Hinton - St. Edward's University
Kathryn Johnson - Abilene Christian University
Madison Jones - Prairie View A&M University
Aaron Keathley - University of Texas Rio Grande Valley
Sam King - University of Texas Permian Basin
Dalton Locke - Trinity University
Rashmi Manandhar - University of Texas at Arlington
Emily Maroul - Texas A&M University - Texarkana
Trinity Perez Martinez - University of Texas at El Paso
Eli Matteck - Texas State University
Erin McCutcheon - Midwestern State University
Emily McGrail - Baylor University
Ryan McKelvey - University of Texas at Tyler
James Mier - University of Houston - Downtown
Ken Minoguchi - Texas Wesleyan University
Felicia Odom - East Texas A&M University
Jocelyn Orta - Hardin-Simmons University
Shivani Radhakrishnan - University of Texas at Dallas
Joel Reyes Jr. - Texas A&M University - Kingsville
Nathan Roy - Texas Lutheran University
Jose Santos - Houston Christian University
Caitlyn Sauer - McMurry University
Brendan Shelley - Southern Methodist University
Ruslan Shukurov - University of Texas at San Antonio
Brooke Speights - Texas Woman's University
Grace Staten - Texas A&M University - Corpus Christi
Cian Stevens - University of St. Thomas
Keerthi Suresh - University of Houston - Clear Lake
Austin Thompson - University of Houston - Victoria
Tyler Walden - Sam Houston State University
Brandy Watson - Tarleton State University
Katherine West - University of Texas at Austin
Lacy Zolton - Texas Christian University

Meet TXCPA's 2025-2026 Chair Billy Kelley

BY TXCPA PRESIDENT AND CEO JODI ANN RAY, CAE

From Biochemistry to Business Leadership

Before becoming a respected CPA and TXCPA's 2025-2026 Chair, Billy Kelley was on a very different path. As a college student, he initially majored in biochemistry with plans to enter the medical field until one pivotal realization changed everything. "I remember taking a general bookkeeping class in high school," Billy recalls. "I understood it – and I enjoyed it."

That memory resurfaced during his time at McLennan Community College, where he made a bold decision: to change majors and pursue accounting. With encouragement from inspiring professors and a scholarship to Baylor University – at the time, they would give two accounting scholarships from McClennan Community College to major in accounting at Baylor – his new path began to take shape.

At Baylor, he found both academic support and a community that would shape his career. He graduated with a degree in Accounting and Financial Services and Planning and passed the CPA Exam shortly after. That early shift in direction laid the foundation for a career that has included roles in both public accounting and industry, as well as entrepreneurship and leadership at the highest levels of the profession.

> **This profession is full of dynamic and creative business professionals. I want them to be engaged and give back to the profession to create new opportunities to have a profound impact on business and personal lives … and to create opportunities for the next generation."**

Billy's professional journey includes time with firms like KPMG and Weaver, experience at Basic Energy Services, and eventually becoming the managing partner of Dutton, Harris & Co CPAs in Midland, Texas. What truly energizes him now is working with family offices and family-owned businesses, helping them grow and thrive.

He finds evaluating business models intriguing and takes great satisfaction in uncovering opportunities for growth and development. The potential to drive meaningful progress is what keeps him energized and committed to advancing these businesses. "Being able to make an impact where it matters – on job creation, generational planning and long-term development – is the most rewarding part of what I do today," he says.

Of course, growth comes with challenges. One of Billy's most significant personal transitions was moving from a technically focused CPA into a leadership role. Leading teams, making strategic decisions and managing people requires a different skill set, and a mindset shift. It's a challenge he welcomed and one that helped him grow not only as a professional but as a mentor and motivator.

His curiosity and exposure to business owners in his accounting work also sparked an interest in entrepreneurship. He's since launched or partnered in several ventures outside his CPA firm. Accounting and consulting gave him an insider's view of how businesses succeed – or don't. "That inspired me to get involved and build something myself," Billy shares. "When challenges arise, I ask myself: can this really help others? That keeps me motivated."

FUELING THE FUTURE

As the accounting profession faces a talent shortage, attracting the next generation is more critical than ever. Billy is deeply involved in efforts to build the CPA pipeline, working closely with TXCPA's Pipeline Task Force and Young Professionals Advisory Board.

"TXCPA has had a strong focus on pipeline issues for years," he explains. "We have to understand what younger professionals want – not just from a job, but from a community. We must meet them where they are and engage them through the technology and communication styles they use. That's how we grow the future of the profession."

For young professionals considering starting their own business or firm, Billy offers practical yet heartfelt advice: know what you're signing up for. "It's a commitment every single day. You have to be ready for the ups and downs. It can be a hard road. Surround yourself with people you can learn from and ask yourself: do you really

William J. (Billy) Kelley, Jr., CPA-Permian Basin, CGMA, is the Chair of TXCPA and managing partner at Dutton, Harris & Co CPAs in Midland, Texas. A Baylor graduate and CPA since 2003, Billy brings over 20 years of experience in both public and industry accounting.

A past President of TXCPA Permian Basin and former TXCPA Treasurer, Billy has served on numerous committees and boards, earning recognition such as TXCPA's Young CPA of the Year and Rising Star Award. He's also a graduate of the TXCPA Leadership Development Institute.

Beyond accounting, Billy is an entrepreneur, community leader and dedicated family man. He's active with organizations like the Museum of the Southwest, Midland Community Theatre and the University of Texas Permian Basin. He and his wife Felicia also established a scholarship at Baylor's Hankamer School of Business.

Billy has had an interesting career journey and has a bold vision for the future of TXCPA.

want to lead and make the sacrifices and commitments to make it work? Leadership isn't easy, but if it drives you, that's your path."

Billy also believes mentorship is essential. "Find someone you can learn from and grow with. That can make all the difference."

LEADERSHIP, DECISIONS AND THE IMPORTANCE OF THE CPA LICENSE

Billy is also mindful of the weight of leadership. When asked what keeps him up at night, he doesn't hesitate. "If I have to make a difficult decision that might negatively impact someone, I lose sleep over it. I try to evaluate all sides and make decisions based on long-term values. I want to get it right – for everyone."

Despite the challenges facing the profession, Billy remains optimistic. He believes the CPA license is still one of the most powerful tools for credibility and opportunity in business but warns that we can't take it for granted.

"The future of the profession is still bright. We must evolve and protect the CPA brand and license. The CPA license truly is a differentiator and we need to make the necessary changes to ensure it is well into the future. We cannot rest on the fact that it is not possible for the license to go away. It was created by law and it can be taken away by law. We need to be stewards of the brand, keep it relevant and continue telling our story."

Billy encourages TXCPA members to stay engaged and take pride in their work. "CPAs are not number pushers. We're strategic, dynamic professionals making real business impact. Let's honor the past but also leave footprints for the future. We owe it to future CPAs to leave this profession better than we found it."

Billy Kelley's Professional and Community Leadership Highlights

- Entrepreneur and Managing Partner of Dutton, Harris & Co CPAs PLLC in Midland
- Certified Public Accountant (CPA) and Chartered Global Management Accountant (CGMA)
- Degree in Accounting and Financial Services and Planning from Baylor University
- Past President of TXCPA Permian Basin
- Past Chair of the Permian Basin CPA PAC
- Past Treasurer of TXCPA
- Served as Member of TXCPA's Executive Board
- Awarded the TXCPA Young CPA of the Year in Texas
- Graduate of the Inaugural TXCPA Leadership Development Institute
- Received a TXCPA Rising Star Award
- With his Wife Felicia, Established the Kelley Family Endowed Scholarship for the Baylor Hankamer School of Business
- Served with Numerous Local Community Service Organizations
- Served on Numerous TXCPA Committees, including the Strategic Planning Committee, Young Professionals and Emerging Professionals Task Force/Committee, Awards Committee, Chapter Coordinating Committee, Finance Committee, Audit Committee, and Membership Committee

FAMILY, COMMUNITY AND GIVING BACK

Outside the office, Billy's life is rooted in family and community. He met his wife, Felicia, when he was attending McClennan Community College and she was a student at Baylor. The couple has been married for over 20 years and have two children – Layne, an incoming junior at Baylor, and Breleigh, a high school sophomore. "Felicia, Layne and Breleigh are my A-team," Billy says with pride.

The Kelleys enjoy traveling together, and Billy finds time for reading, exercising and staying active. Managing work, family and community involvement is a balancing act, one that he navigates with intention. He controls his schedule as much as possible and has an incredible team around him who assists him in managing the chaos that comes with running a business.

Billy and Felicia also established the Kelley Family Endowed Scholarship at Baylor's Hankamer School of Business, an act of gratitude and forward-looking generosity. "Baylor and the accounting profession have been amazing to our family. We wanted to give back and support others on their journey. We hope it continues to grow and help future students for years to come."

LEADING TXCPA WITH PASSION, INTEGRITY AND VISION

Billy Kelley's story is a powerful reminder that careers – and lives – don't always follow a straight line. Sometimes, the best journeys begin with a course correction, a moment of clarity or a memory from a high school class. What matters most is having the courage to follow your passion, the discipline to lead with integrity and the heart to lift others along the way.

As he leads TXCPA into the future, Billy's message to members is simple but profound:

"Be proud of this profession. Stay engaged. Give back. Together, we can create opportunities for the next generation – and leave a legacy worth building on."

JODI ANN RAY, CAE,
is TXCPA's President and CEO. Contact her at jray@tx.cpa.

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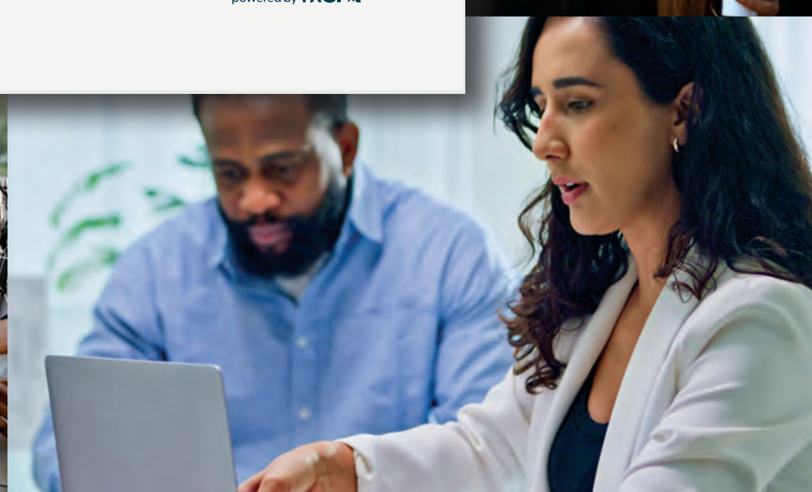

How ESG Can Create Value for Your Business

BY DERRICK BONYUET, PH.D., CFA, CFP, CPA

The Securities and Exchange Commission (SEC) has implemented reporting requirements to enhance public company disclosures regarding risks and impact of climate-related issues. The purpose of these rules was to provide investors with consistent and reliable information to support their investment decision making. However, the rules also faced intense criticism from corporations and some lawmakers.

Rather than seeing environmental, social and governance (ESG) as a reporting compliance standard, this article seeks to educate users on how ESG can create value for their business.

BACKGROUND

Any business is deeply interconnected with ESG matters. To understand this statement, let's review each of these elements:

- The environmental aspect encompasses the energy consumption and waste generation by the company, the resources required, and any resultant impact from its operations.
- The social aspect denotes the relationship between the company and the communities in which it operates, including labor relations and diversity.
- Governance pertains to the internal systems, controls and procedures a company implements to operate efficiently, comply with regulations and meet the expectations of external stakeholders.

As businesses are influenced by these elements, management can take proactive steps to support a strong ESG framework that can provide value and long-term sustainable success.

WHERE IS THE VALUE COMING FROM?

Regardless of a company's industry, value can be extracted with a strong ESG proposition. The following areas allow management to understand where value can be derived.

Improved company reputation: By maintaining consistent and transparent communication about their ESG initiatives, companies can present themselves as ethical and responsible. This builds trust with stakeholders and increases brand value. Furthermore, higher brand value is likely to be reflected in increased stock prices, as studies have shown a positive correlation between brand valuation and stock prices[1].

Revenue growth: A robust ESG proposition can project an image of "good corporate citizenship," enabling the company to access new markets and opportunities. Governments and other organizations may be more inclined to offer partnerships, licenses, resources, and contracts to companies that demonstrate responsible stewardship. Additionally, consumers prioritize sustainability, as evidenced by a joint study from McKinsey and NielsenIQ, which found that products with ESG-related claims saw a 28% cumulative growth over five years, compared to 20% for products without such claims[2].

Cost savings: By integrating ESG commitments into their business models, companies can foster innovation and operational efficiencies. Strategies can lead to reduced operating costs through decreased raw material consumption, water usage and carbon footprint. For example, adopting paperless processes, using recycled materials, optimizing waste management, and implementing energy-efficient upgrades can enhance ROI and boost the bottom line.

Fewer regulatory and legal interventions: A robust ESG proposition can offer companies greater operational freedom by potentially lowering regulatory scrutiny. Companies committed to ESG are often viewed as responsible actors in the business environment, reducing the risk of adverse government actions[3]. This may have huge implications for the business, as up to one-third of corporate profits might be susceptible to state intervention[4].

Increased employee productivity: Employees, particularly younger ones, are often drawn to companies that demonstrate a positive social impact. A strong ESG proposition can help attract and retain talent, boost employee motivation and enhance productivity. Studies have shown that a positive social impact correlates with higher job satisfaction[5]. Moreover, employee satisfaction has been positively linked to shareholder returns, with Edmans[6] finding that companies on *Fortune's* "100 Best Companies to Work For" list generated 2.3% to 3.8% higher stock returns than their peers.

Investment and asset optimization: A strong ESG proposition can lead to the allocation of resources towards more promising and sustainable opportunities, such as renewable energy and waste reduction[7]. Additionally, considering environmental factors and their long-term impact on assets is crucial. Consequently, assets may need to be proactively repurposed to address future challenges. This approach results in improved long-term investment decisions.

Greater access to capital: A strong and well implemented ESG proposition may attract more investors and financial institutions. Studies have shown that almost 80% of investors now consider ESG risks when making investment decisions[8].

A rigorous ESG report will focus on a sustainable process built on exceptional data quality. This reporting process must include comparisons to benchmarks based on peer data and industry averages, as well as ratings from third-party agencies to assess relative performance.

HOW CAN WE MEASURE THE BENEFITS?

Measuring the benefits of ESG efforts can be challenging, as the field continues to evolve. There are many ways to associate specific initiatives with financial value and no single agreed-upon methodology exists for assessing the impact. However, there are different frameworks available, such as:

- Global Reporting Initiative (GRI): A widely used framework for sustainability reporting.
- Sustainability Accounting Standards Board (SASB): Standards for reporting on sustainability in SEC filings.
- Task Force on Climate-related Financial Disclosures (TCFD): Recommendations for disclosing climate-related risks.
- United Nations Sustainable Development Goals (SDGs): Aligning ESG efforts with global sustainability goals.

Once a framework has been selected, management must focus on the company's operations and identify relevant KPIs to track across the different ESG elements. Examples include:

- Environmental
  - Carbon Footprint: Total greenhouse gas emissions.
  - Energy Consumption: Total energy usage and the proportion from renewable sources.
  - Water Usage: Total water consumption and water recycling rates.
  - Waste Management: Amount of waste produced, recycled and properly disposed of.
  - Biodiversity Impact: Effects on local ecosystems and efforts to mitigate biodiversity loss.
- Social
  - Labor Practices: Employee turnover rate and employee satisfaction scores.
  - Health and Safety: Workplace accident rates and health and safety initiatives.
  - Community Engagement: Investments in community projects and corporate social responsibility (CSR) activities.
  - Human Rights: Policies and practices regarding human rights in operations and supply chains.
- Governance
  - Executive Compensation: Alignment of executive pay with long-term company performance.
  - Ethics and Compliance: Incidents of corruption, bribery and adherence to ethical guidelines.
  - Transparency: Quality and frequency of ESG disclosures and reporting.

Next, management must ensure an integrated and rigorous reporting process is implemented across the whole organization. An integrated report will provide a more complete story of how efforts are impacting different segments and silos, along with meaningful insights into how value is created.

A rigorous ESG report will focus on a sustainable process built on exceptional data quality. This reporting process must include comparisons to benchmarks based on peer data and industry averages, as well as ratings from third-party agencies to assess relative performance.

Last, a feedback loop process must be in place to enable continuous improvement of ESG practices and metrics.

DRIVING ESG SUCCESS THROUGH EFFECTIVE IMPLEMENTATION

There is no doubt a strong ESG proposition can create value for a business. However, ESG activities must be well implemented and reporting the results can be a challenging task.

That's why it's imperative for management to embrace ESG by creating cross-functional committees supported by executives from different parts of the business. An ESG roadmap must be defined and communicated to all members of the organization to ensure alignment and commitment from all employees.

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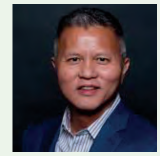

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Optimizing Auditor Precision:

Addressing Biases in Large Language Model Technologies

BY KARINA KASZTELNIK, PH.D.

The domain of accounting and auditing is evolving rapidly with the integration of Large Language Models (LLMs), which offer new possibilities for efficiency and analytical depth. However, this surge of innovation comes with its own set of challenges, particularly in addressing the potential biases that could influence critical financial assessments and decision-making processes.

This article explores the practical applications of LLMs within the accounting and auditing profession, highlighting specific tasks where LLMs can provide substantial benefits, identifying potential biases and suggesting constructive strategies to effectively mitigate these biases.

Benefits include enhancing the scrutiny of financial statements, identifying trends and anomalies, and predicting future performance. Additionally, LLMs can effectively extract valuable information from unstructured data sources, such as emails and social media posts.

Despite the advantages, potential inherent biases can result in significant challenges. These biases can stem from various sources, including the training data, algorithms used for interpretation and specific context of LLM deployment. Therefore, it is crucial to use effective strategies to address and mitigate these biases. Ongoing monitoring and the flexibility to adjust strategies are also essential.

LLM RISK MEASUREMENT FRAMEWORKS, RISKS AND BIASES

The LLM System Evaluation entails a systematic review of LLM assessment across multiple dimensions, including knowledge, reasoning, tool learning, toxicity, truthfulness, robustness, and privacy. This framework categorizes evaluation tasks and methodologies, providing a comprehensive understanding of LLM capabilities and associated risks. It also underscores the significance of alignment and safety considerations to ensure that LLM outputs align with user expectations and are devoid of malicious exploits.

The process of identifying risks in LLMs encompasses several fundamental steps. This systematic approach guarantees recognition, analysis and effective mitigation of potential biases and risks associated with LLMs. Please see Figure 1.

LLMs are artificial intelligence systems that have been trained extensively on diverse datasets to comprehend and generate human-like text. They are particularly valuable in the field of accounting and auditing, where they can analyze financial documents, interpret tax laws, scrutinize ledger entries and even draft audit reports.

LLMs can rapidly sift through vast amounts of data to identify patterns, anomalies and discrepancies that suggest fraudulent behavior. Their ability to manage tasks ranging from simple computations to complex reasoning has positioned LLMs as an indispensable asset in the financial sector.

However, despite their numerous advantages, LLMs are not without limitations. Auditors must remain vigilant to the potential biases that models may harbor, safeguarding the veracity and integrity of their work.

The risk of bias can manifest in several ways. Historical bias is the first type of bias, where LLMs trained on past data may perpetuate outdated norms and practices, potentially overlooking recent changes in accounting standards or tax regulations. Sampling bias is another type, where the training data may not be representative of the full spectrum of financial scenarios.

STRATEGIES FOR NAVIGATING BIASES

The following strategies can be employed to navigate and mitigate potential biases.

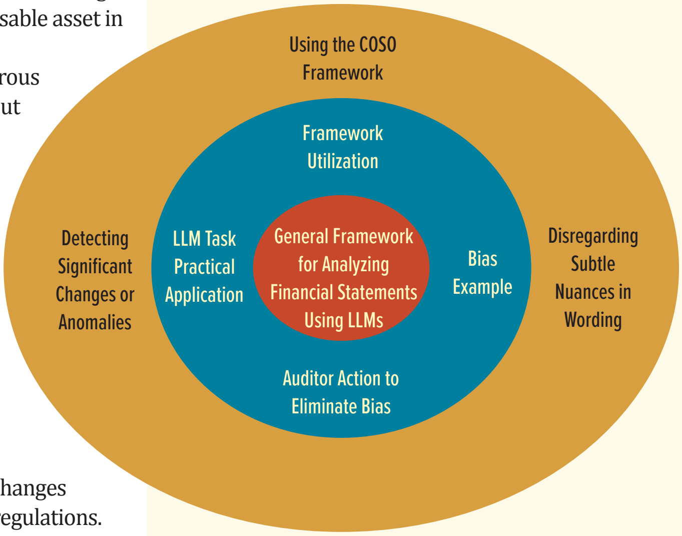
1. Diverse and Up-to-Date Training Data: Regularly updating LLM training data with recent regulatory changes, standards and a broad range of financial scenarios helps reduce historical and sampling biases, improving model accuracy.

2. Human Oversight and Expertise: LLM outputs should support – not replace – professional judgment. Accountants and auditors must critically assess model suggestions within a broader analytical context.

3. Ethical Use and Transparency: Clear documentation of training data sources and decision-making processes is essential. This promotes transparency, accountability and easier identification of embedded biases.

4. Continuous Monitoring and Feedback Loops: Ongoing performance reviews and feedback mechanisms help detect and correct biases, allowing for iterative model improvements.

5. Professional Development and Training: Continuous education in AI, ethics and bias mitigation equips professionals to use LLMs responsibly and adapt to evolving technologies.



APPLICATIONS AND STRATEGIES FOR MITIGATING BIASES

Analyzing Financial Statements. LLMs have emerged as a popular tool for analyzing textual disclosures in financial statements. LLMs can analyze textual disclosures in financial statements to detect significant changes or anomalies, providing early warnings of discrepancies. According to PwC's whitepaper on AI in financial services, using LLMs can reduce the time spent on initial financial statement reviews by up to 30% (PwC, 2021).

Framework: Utilizing the COSO framework, practitioners can incorporate LLMs in the monitoring component to enhance the effectiveness of internal controls.

Bias Example: Models may overlook subtle wording or context that signals financial misstatements, especially if such cues were not emphasized in the training data.

Auditor Action: To ensure the accuracy and completeness of the analysis, auditors should manually review all LLM-flagged sections to ensure important signals are not missed or misinterpreted.

Risk Assessment: LLMs have proven to be a valuable tool in assessing risk. They analyze historical and real-time data to identify potential risk factors. Deloitte's risk management services have integrated machine learning models, including LLMs, to improve risk assessment accuracy (Deloitte, 2022).

Framework: The ISO 31000 risk management framework can be adapted to include LLM-driven risk analysis as part of the risk assessment process.

Bias Example: If the data used to train an LLM does not include a wide range of risk scenarios, the model may be prone to underemphasizing or overlooking novel risk factors, which could result in incomplete or inaccurate risk assessments.

Auditor Action: Auditors should cross-reference LLM outputs with industry knowledge and professional expertise to fill any analytical gaps and validate completeness. This will allow for a more thorough assessment of potential biases or other limitations.

Regulatory Compliance. LLMs enable firms to stay current with changing regulations by analyzing legal texts and comparing them to existing practices. Firms like KPMG have adopted LLMs to keep track of regulatory changes and ensure compliance. KPMG's AI-driven compliance solutions have helped reduce client compliance costs by up to 25% (KPMG, 2021).

Framework: The Basel Committee on Banking Supervision (BCBS) compliance framework can be enhanced by integrating LLMs to monitor and analyze regulatory changes.

Bias Example: LLMs trained on outdated or incomplete regulatory data may misinterpret or miss the implications of new rules, leading to compliance gaps. For example, if the model was trained merely on historical data, it may not be able to accurately predict the impact of new regulations.

Auditor Action: To mitigate bias, auditors should verify model findings against regulatory texts and interpret them in the company's context. They should also assess model performance (e.g., accuracy, precision, recall, F1 score) and ensure regular updates to maintain reliability and accuracy.

Fraud Detection. LLMs are used to analyze transactional data and financial reports to identify fraud indicators. EY has implemented LLMs in its forensic services to detect fraudulent activities, leveraging them to analyze transactional data and identify suspicious patterns (EY, 2023).

Framework: The *Fraud Risk Management Guide* by the Association of Certified Fraud Examiners (ACFE) can be updated to incorporate LLMs for continuous fraud monitoring.

LLMs represent potent tools for auditors seeking to streamline workflows, analyze data, generate reports, and enhance decision-making processes.

Bias Example: Auditors should use multiple tools – not just the model's output – when investigating flagged fraud. Over-reliance can lead to false positives or missed fraud. Context and human behavior must also be considered to validate findings.

Auditor Action: While LLMs and machine learning models have the potential to enhance fraud detection, their limitations must be taken into account. Auditors must use a diverse set of techniques and not rely solely on the output of the model.

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THE AUDITOR'S ROLE IN EVALUATING A MODEL'S OUTPUT

In various scenarios, the auditor's role is to undertake a critical evaluation of a model's output, applying professional skepticism, informed judgment and subject-matter expertise. Auditors need to validate results against independent data, established standards and a clear understanding of the client's business.

In summary, this rigorous approach helps ensure that conclusions are accurate, reliable and free from bias. By integrating objective analysis with professional insight, auditors help ensure model outputs support sound, well-informed decisions.

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CPE

CURRICULUM:
Accounting and Auditing; Tax

LEVEL:
Basic

DESIGNED FOR:
CPAs in industry and public practice; tax practitioners

OBJECTIVES:
Review IRS regulations and FASB standards to provide companies and employees with the guidance needed to structure profits-interest contracts that align with their desired tax and financial reporting outcomes

KEY TOPICS:
Definition and use of profits interest; tax treatment; FASB financial reporting guidance; implementation guidance for companies; and strategic considerations

PREREQUISITES:
None

ADVANCED PREPARATION:
None

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What to Know About Profits Interest

BY BARBARA W. SCOFIELD, PH.D., CPA, AND JIM MARTIN, MPA, CPA

Profits interest is an ownership interest, usually in a partnership, that provides returns based on future profits and losses of an entity with no capital interest. When used as a part of a compensation system, a profits interest eliminates the need for incoming profits-interest partners to contribute toward capital, since they have no claims to already earned or acquired capital.

In addition, profits-interest contracts offer tax advantages. If criteria on initial value and the length of time of the contract are followed, profits-interest distributions are considered capital gains rather than ordinary income, lowering tax on distributions. For these reasons, profits-interest partnership participation is common, especially in real estate, investment, entertainment, and natural resource industries. Entities as diverse as the Houston Astros[1] baseball team and WeWork[2] use profits-interest contracts for executives.

This article will look at both the Internal Revenue Service (IRS) regulations and the Financial Accounting Standards Board (FASB) standards to provide companies and employees with the information they need to create the profits-interest contracts that fit with the tax outcome and financial reporting outcome desired.

TAX REGULATIONS AND PROFITS INTEREST

The tax treatment of a profits interest to the recipient of the interest and to the grantor of the interest traveled an uncertain path for years as courts in different jurisdictions reached conflicting conclusions. Does the granting of a profits interest to a partner or prospective partner result in taxable income to the recipient as ordinary income under IRC Section 83 in the year granted? In some jurisdictions, courts held no income tax was due in the year the profit interest is granted.

In other jurisdictions, where the courts held that the granting of the interest resulted in ordinary income to the recipient at the grant date, the presumptive tax treatment to the granting partnership would be a deduction in the year of grant, counting it as income from compensation for the recipient and a deductible expense for the grantee. However, immediate recognition of the value of profits interest as ordinary income with a corresponding deduction was a far cry from the intended result. That is, the tax planner's goal was usually to defer the taxability of the profit interest to the partner until the partner's interest substantially vests or is sold or redeemed, years in the future. At that time, the hope was also for the partner to receive long-term capital gain treatment. Such a long-term capital gain would be taxed at a federal income tax rate of 0% to 20% versus up to 39.6% for ordinary income, depending on the taxable year involved.

After years of uncertainty, the IRS brought more clarity to the tax treatment of the receipt of a profits interest with the issuance of Rev. Proc. 93-27 and Rev. Proc 2001-43. These two provisions provided a "safe harbor" whereby the IRS would not consider a profits interest to be a capital interest when granted and would not consider the receipt of the interest to be taxable to the recipient when granted. In essence, the recipient was deemed to have received a $0 liquidation value asset as its profits interest on the day of receipt. The Revenue Procedures also enabled compliant taxpayers, who own a profits interest, to receive capital gains treatment when the interest vests or is disposed of in the future.

Three specific situations were identified as not receiving the desired favorable tax treatment of a $0 liquidation value profits interest. Rev. Proc. 93-27 provides that it **does not apply to a profits interest**:

- If the profits interest relates to a substantially certain and predictable stream of income from partnership assets, such as income from high-quality debt securities or a high-quality net lease;
- If within two years of receipt, the partner disposes of the profits interest; or
- If the profits interest is a limited partnership interest in a "publicly traded partnership" within the meaning of section 7704(b) of the Internal Revenue Code.

Secondly, Rev. Proc 2001-43 further clarifies the favorable tax treatment by setting the date the partner becomes the owner of the untaxed $0 basis profits interest at the grant date subject to the two conditions below. By avoiding the three disqualifying events of Rev. Proc. 93-27 described above, Rev. Proc 2001-43 describes the clear path of a partner to receive a profits interest that will not be taxed at the now established grant date as opposed to a taxable capital interest that would have been subject to tax at grant date. Rev. Proc 2001-43 provides:

- The partnership and the service provider (partner or future partner) treat the service provider as the owner of the partnership interest from the date of its grant and the service provider takes into account the distributive share of partnership income, gain, loss, deduction, and credit associated with that interest in computing the service provider's income tax liability for the entire period during which the service provider has the interest.
- Upon the grant of the interest or at the time that the interest becomes substantially vested, neither the partnership nor any of the partners deducts any amount (as wages, compensation or otherwise) for the fair market value of the interest.

Finally, one last election available to taxpayers in receipt of a profit interest, that further locks in the $0 basis and date of receipt, is the Section 83(b) election. This election, if made within 30 days of the grant date, sets the acquisition date of the profits interest and presumptive $0 basis for use in the determination of a future long-term capital gain upon disposal of the profits interest.

In summary, favorable tax treatment requires partnership avoidance of the three disqualifying behaviors outlined in Rev. Proc. 93-27 and adhering to the two requirements of Rev. Proc 2001-43.

FINANCIAL REPORTING AND PROFITS INTEREST

The financial reporting classification recognizes the limited rights provided to profits interest holders. These contracts can have many different features determining vesting and payouts. The key feature that determines the rights conveyed by profits-interest contracts is eligibility to participate in payouts associated with exit events of the underlying entity.

Exit events are events such as an initial public offering, a change in control or a liquidation of the entity's assets that bring the profits-interest contract to a conclusion. Profits-interest contracts in which the recipients receive proceeds at the time of an exit event are a hallmark of having a residual interest in a company and thus being characterized as stock-based compensation at the date of grant. On the other hand, a profits-interest contract that terminates without any further proceeds at the time of an exit event is characteristic of compensation that does not share in the overall risk of the company and is not considered stock-based compensation.

FASB has provided clarification on the financial reporting for profits-interest awards by issuing ASC 2024-01. The Private Company Council reported to FASB that there were differences in the accounting treatment of the issuance of profits-interest contracts in practice even when the contracts had matching features. The differences stemmed from interpreting FASB guidance on the underlying classification issue. Is the contract stock-based compensation that should be accounted for using ASC Topic 718 – *Stock Compensation*, or is it general compensation that should be accounted for using ASC Topic 710 *Compensation – General*? The Codification already set the guiding principle in 2004[3] with SFAS 123 R, which is now incorporated into ASC 718-10-15-3:

> *The guidance in the Compensation – Stock Compensation Topic applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in the grantor's own operations . . . issuing (or offering to issue) its shares, share options or other equity instruments.*

When is profits interest an "other equity instrument?" FASB now provides four illustrations to help issuers apply this general rule consistently. Companies

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Table 1. Summary of Case A to Case D Illustrations in ASC 718-10-55-138 to 148

	Case A ASC 718-10-55-140 to 141	Case B ASC 718-10-55-142 to 144	Case C ASC 718-10-55-145 to 146	Case D ASC 718-10-55-147 to 148
Is it share-based compensation?	Yes.	Yes.	Yes.	No.
Vesting	Three-year service period. Cliff vesting. Immediate vesting at an exit event.	Immediate vesting at an exit event only.	No vesting.	Three-year service period. Cliff vesting. Immediate vesting at an exit event.
Distributions	Participation in distributions subordinate to other equity after vesting.	Participation in distributions subordinate to other equity beginning at date of grant.	No distributions.	Distribution after three years of service at a fixed percentage of prior year income.
At termination of employee	If vested, issuer has a right to repurchase at fair value.	Recipient forfeits interest at termination.	Recipient forfeits interest at termination.	Recipient forfeits interest at termination.
At an exit event	Recipient may retain or, if settling, will use subordinated distribution as above.	Recipient may retain or settle based on exit event.	Recipient receives cash based on fair value of other equity.	No distributions at exit events.

Table 2. Impact of Profits-Interest Partnerships

	Employer Impact	Employee Impact
Corporate Strategy	Companies offer variable compensation that matches company performance, managing labor costs. Companies motivate employees for long-term commitment to the company.	Employee shares in the overall performance of the company. Employee shares future risk and reward, especially in start-up companies without large investment.
Financial Reporting	When classified as share-based compensation, profits interest requires more complex estimates and annual accounting.	
Tax	Distributions through profits interest can have a greater after-tax benefit to employees, so lower cash outflows have the same impact as higher-taxed compensation.	A well-designed plan results in distributions classified as capital gains, taxed at a lower tax rate than regular income.

providing a profits interest that qualifies as share-based compensation must estimate its fair value at the date of grant, allocate the compensation expense over the vesting period and include the value in Stockholders' Equity. Companies providing it as general compensation can avoid balance sheet involvement in their financial reporting.

ASU 2024-01 *Compensation – Stock Compensation (Topic 718): Scope Application of Profits Interest and Similar Awards* issued in March 2024 illustrates how current GAAP applies to a variety of profits-interest contracts. (See Table 1.) The illustrations present a typical profits interest context with different vesting conditions, distribution policies, treatment when an employee terminates employment, and outcome at the time of an exit event. Profits interest will be a share-based compensation that follows Topic 718 when the returns to the recipient are based, at least in part, on the share price, market value or fair value of the company.

Illustrations A to C portray profits-interest compensation classified as share-based with the following profits-interest features:

- Treatment of Distributions
  - Distributions that begin at date of grant (Case B) or at vesting (Case A)
  - Distributions in a waterfall after class A equity (Case A and B) or no distributions at all (Case C)
- Vesting Policy
  - Vesting over a service period (Case A and B)
  - Vesting at an exit event (Case A, B and C)

- Alternative policy at the termination of employees
    - Retention of profits interest (Case A)
    - Call option for issuer repurchase (Case A)
    - Forfeiture (Case B and C) at termination
- Exit Event
    - Retention of profits interest (Case A and B)
    - Settlement based on fair value of other equity (Case C)
    - Settlement based on the exit event contract (Case B)
    - Settlement subordinated to other equity (Case A)

These illustrations demonstrate that the key risk-sharing feature that determines share-based compensation treatment focuses on variable returns at the time of an exit event.

Case D illustrates profits-interest compensation that is classified as general compensation and not share-based compensation. In this case, distributions are based on a fixed percentage of the prior year's income and no distributions occur at an exit event or employee's termination. This illustration has distributions based on an operating measure and not on an equity-based measure, and no equity instrument will be issued, even at an exit event.

In summary, financial reporting distinguishes the risk of sharing company GAAP income performance and the risk of sharing the market value of the company. Profits-interest contracts must be evaluated to distinguish which type of risk sharing occurs.

APPLYING PROFITS INTEREST REQUIREMENTS

Companies with profits-interest contracts now have specific standards from FASB as well as regulations from the IRS to use in planning the specific financial statement and tax results desired. It is important to realize that there are profits-interest contracts that provide favorable tax treatment to employees that may be classified as either share-based compensation or general compensation. Likewise, there are profits-interest contracts that are classified as share-based compensation but may have favorable or unfavorable tax treatment.

What should a company that offers profits-interest partnerships do now that ASC 2024-01 has been issued? The transition requirements allow either prospective or retrospective adoption of this new GAAP. Companies will need to review their currently open profits-interest contracts and identify any reclassification based on the new illustrations. If there is sufficient information readily available to restate past compensation practices, companies may want to adjust past financial statements for any misclassifications and put all contracts on a consistent basis. However, ASC 2024-01 allows prospective treatment so that the company can recognize share-based profits-interest equity beginning in the year of adoption.

In addition, companies now have an opportunity to review any planned profits-interest partnership contracts to ensure that the financial accounting treatment intended matches with the GAAP classification guidance. If exit-event equity risk sharing is crucial to the profits-interest contract's intent, the profits interest will be share-based compensation and will share GAAP accounting with stock options and restricted stock compensation systems. If exit-event equity risk sharing can be eliminated from profits-interest contracts while still appropriately compensating profits-interest partners, companies can revise contracts to qualify for general compensation accounting treatment.

STRATEGIC BUSINESS TOOL WITH TAX POLICY UNCERTAINTY

Profits-interest contracts are both a common business strategy and controversial tax policy. While employees benefit from well-planned profits-interest contracts, employers must balance the greater financial reporting complexity that profits-interest contracts may require. (See Table 2.) However, as long as employees benefit from profit-sharing with their employers, these contracts will continue to be issued.

With ASC 2024-01, FASB brought consistency to profits interest financial reporting – but stability in tax treatment is less clear. Ending the capital gains treatment of profits interest continues to be on the radar of federal budget proposals.

Footnotes:

1. "General Manager During Sign-Stealing Scandal Sues Astros" by Tyler Kepner. *New York Times*. November 10, 2020.

2. "WeWork Sweetens Ex-Chief's Exit Deal" by Eliot Brown and Maureen Farrell. *Wall Street Journal*. May 28, 2021.

3. SFAS 123R was issued in December 2004 and its text was incorporated into the Codification when the Codification was launched in 2009. Moreover, the 1995 SFAS 123's original scope definition is largely consistent with that of SFAS 123R and ASC 718-10-15-3 in the Codification.

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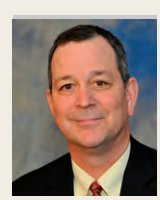

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$169,000 gross. Orange County tax and accounting practice. Service mix comprised of tax (64%) and accounting (36%). Knowledgeable staff in place and good reputation in the area with excellent growth possibilities. Turn-key practice ideal for an individual looking to step into a wonderful book of business. TXS5426

$130,000. Bryan-College Station area tax practice. Caters to international clients in the TAMU community. Experienced staff available to support buyer after closing. Great cash flow with opportunities to expand services. Buyer has flexibility to operate from a nearby location. Turn-key opportunity for an individual looking to start with a wonderful book of business. TXS5283

$168,000 gross. Wichita Falls area CPA tax practice. Revenues are composed of a nice balance between individual returns (55%), business returns (39%) and others. The practice has a strong fee structure and is a great size for an individual starting. TXN5543

$265,000 gross. Matagorda County tax and accounting practice. The service mix is a balance of both tax (72%) and bookkeeping (28%) that includes payroll. Great cash flow with an exceptional reputation in the developing community providing continued growth. Knowledgeable staff in place interested in working with the new owner. Buyer has flexibility to lease, purchase the building or move practice nearby if desired. Available for transition after closing as agreed with buyer. TXS5425

$477,000 gross. West Houston CPA practice. CPA owner looking to semi-retire and is available for transition as agreed with buyer. Primarily tax services with year-round revenues in a prime location with great cash flow. An office share arrangement is available for the buyer. High-income, long-term quality clients who provide continuous referrals. Perfect opportunity for an individual or firm looking to grow their practice. TXS5314

$1,500,000 gross. East Texas CPA practice. Loyal client base of businesses and individuals, which should continue to generate referrals and opportunities for growth. Revenues are derived from a nice balance of accounting and tax services that provides steady, year-round income. There is a strong fee structure and a tenured staff in place. The seller is willing to stay on to assist after closing, prefers a 3-5 year transition and is open to different buyout structures. TXN1631

$1,303,000 gross. Midland-Odessa CPA practice. Revenues derived from 40% tax, 40% bookkeeping, 4% franchise reports, and 16% payroll services. Cash flow to owner 57% of gross. One owner retiring. One owner staying full-time and all staff available to assist in transition. TXW1034

$861,000 gross. Bryan-College Station CPA firm. Owner looking to sell to focus on consulting business. 2023 gross revenue estimated over $900K! The service mix includes tax (57%), accounting (38%) and other (5%). Solid reputation in the community with growth opportunities. Knowledgeable staff in place for smooth transition. Buyer can lease or buy building. TXS5067

$410,000 gross. Brownwood, Texas CPA practice. High-quality client base made up of large businesses that provide opportunities for growth. Balanced revenues include tax work (66%), accounting (14%) and other services (14%). TXN1638

$285,000 gross. Brazoria County CPA firm. Good reputation in the area with excellent growth possibilities. Service mix composed of tax (94%) and accounting (6%). Knowledgeable staff in place and seller available for transitional assistance. Turn-key opportunity for an individual looking to start with a quality book of business. TXS1326

$445,000 gross. Houston CPA firm. Service mix includes tax (63%), accounting (36%) and other (1%). Buyer can operate from anywhere in the Houston area. Year-round cash flow with experienced staff in place to continue with new owner. TXS1315

$253,000 gross. Far North Dallas CPA practice. Reputable firm that boasts a strong fee structure and desirable service mix between bookkeeping (38%) and tax work (62%). Experienced staff in place to assist in transition and provide capacity for growth. Perfect-size, turn-key opportunity for any experienced accountant or an easy profitable addition for an established firm. TXN5213

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