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"Thank you for your commitment to excellence in the new year!"

Welcoming 2026 with Purpose and Possibility

As we step into 2026, I am energized by the opportunities and challenges that lie ahead for the profession and TXCPA. This issue of *Today's CPA* is a testament to the vibrancy and relevance of our community, and I encourage you to explore the content our Editorial Board has curated for you.

Inside, you'll find a thought-provoking cover article on H.R. 1, along with timely insights into SECURE 2.0 and retirement planning, equipping you with knowledge to better serve your clients and organizations. For those interested in the intersection of technology and accounting, don't miss our deep dives into the IRS's use of artificial intelligence and data analytics, as well as the first installment of "AI-Powered Tax Compliance," which explores how machine learning is transforming sales and use tax.

Beyond technical updates, this issue highlights opportunities for service and professional growth. In the What's Happening Around Texas section, you can read a recap about TXCPA's Month of Service and Accounting Opportunities Month and see how you can get involved in future outreach. We also celebrate our Professional Group Membership Program participants and highlight upcoming learning opportunities and important dates in 2026.

As we embark on a new year, I invite you to engage with TXCPA – attend events, contribute your expertise, and connect with peers. Your involvement strengthens our community and advances our mission.

Let's make 2026 a year of impact, innovation and collaboration. Thank you for your commitment to excellence in the new year!

Jodi Ann Ray, CAE, TXCPA President and CEO

How can we help?

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 at https://www.linkedin.com/in/jodiannlafreniereray/.

The Vicious Cycle of Cheating in Accounting: From Students to Practitioners

BY DR. DONALD L. ARIAIL, DR. AMINE KHAYATI, DR. KATHERINE TAKEN SMITH, AND DR. LAWRENCE MURPHY SMITH

For the accounting profession to be successful in fulfilling its role in business and society, people must be confident that accountants are ethical and reliable. Accountants play critical roles in the proper functioning of a market economy. Investors, lenders, business managers, government regulators, and others rely on the work of accountants.

This article is based on a research study titled "Student and Practitioner Cheating: A Crisis for the Accounting Profession," published in the *Journal of Risk and Financial Management.*[1]

Historically, the general public respects the integrity of the accounting profession.[2] Due to the accounting scandals of the early 2000s and more recent scandals involving professionals at major accounting firms cheating on internal tests, public trust has been negatively affected. In a recent ranking of the 20 most trusted professions, accountants placed near the bottom at number 17.[3]

Along with recent cheating by accountant practitioners, there is a notable increase in cheating by accounting students.[4] Current research indicates that students who cheat are likely to become practitioners who cheat, who then model unethical behavior for future accountants.[5] This is a vicious cycle that needs to be stopped so that the accounting profession does not impair the trust of the public.

HAVE PEOPLE BECAME DESENSITIZED TO CHEATING?

According to the International Center for Academic Integrity in 2020, almost 30 percent of college students admitted to cheating on exams.[6] With the increase in online exams and the accessibility of websites that facilitate cheating, cheating has increased. A 2024 study found that 54.7 percent of students cheat.[7] Websites have materialized in the past couple of years that, for a fee, provide students with test banks and solution manuals.[8]

With the advent of artificial intelligence, cheating has become even more prevalent. In this regard, James D. Walsh titled his May 7, 2025, article in the *New York Magazine* "everyone is cheating their way through college."[9]

With questionable resources at one's fingertips, cheating has become simple to do. The 2024 study found that the most common reason for cheating was that the student had the opportunity.[10] Accounting students may rationalize their cheating by using the theory of Ethical Egoism, which is a cost/benefit analysis.[11] Another rationalization for cheating is the opinion that everyone is cheating; this is called Ethical Relativism and can impact norms of behavior.[12]

Research suggests that students who cheat in college are likely to cheat later in their work life.[13] This means that accounting students who cheat in school may later engage in cheating in their professional accounting work. These accounting practitioners become role models for accounting students.

A vicious cycle of cheating is formed as college students mimic unethical role models.

CHEATING BY ACCOUNTING PRACTITIONERS

Over the past six years, some major accounting firms have been censured and penalized for cheating on exams, such as internal training tests, continuing professional education tests and, ironically, ethics exams. Due to cheating, firms have been censured and required to pay up to $100 million in penalties. The serial nature of this egregious ethical lapse is exemplified by one of these firms being censured and fined four times from 2019 through 2024.[14]

To some people, cheating on internal training tests and continuing professional education tests may not seem like a big deal. However, cheating is a dishonest act that indicates a lack of integrity.

The AICPA Code of Professional Conduct (AICPA, 2014) states that "integrity is an element of character fundamental to professional recognition. It is the quality from which the public trust derives and the benchmark against which a member must test all decisions."[15] As a matter of course, professionals who are dishonest in one area of practice are prone to be dishonest in other areas of practice, including performing attestations.

ACTION NEEDED BY PRACTITIONERS AND EDUCATORS

While potential monetary penalties and those actually assessed by the SEC and PCAOB are deterrents to cheating, they appear inadequate on their own. A stronger punishment would be more effective, one where the cost clearly outweighs the benefit.

The penalty for cheating should be as onerous as those bestowed on violations of Generally Accepted Accounting Principles (GAAP) or Generally Accepted Auditing Standards (GAAS). For example, CPAs who violate GAAP can be banned from public practice. Their license to practice can be withdrawn by the respective State Board.

In the case of practitioners without a CPA license who act unethically, new policies could be established to make unethical non-CPAs automatically ineligible to take the CPA Exam.

In college, steps can be taken to train future CPAs on professional and ethical behavior before they become desensitized to cheating. A few states, including Texas, require CPA Exam candidates to have completed a three-hour college course on ethics. Research shows that accounting students who take a class solely on ethics in accounting have greater ethical reasoning compared to accounting students who simply had ethics integrated into other classes.[16]

With this glimmer of hope, a course devoted to ethics in accounting seems to be worthwhile in instilling core values of the accounting profession: notably, honesty and integrity. A standalone accounting ethics course provides the time needed to delve deeper into accounting ethics codes and their application in real-world situations. Students can study past cases of accounting fraud that resulted in the loss of jobs, clientele and massive amounts of money.

LEADING BY EXAMPLE: ETHICS IN ACTION

In a society that is becoming desensitized to cheating, could cheating become a social norm, detrimentally affecting the profession of accounting? Accountants must not allow this. Now is the time to end the vicious cycle of students cheating and becoming practitioners who cheat, who are then unethical role models to students.

Punishment for cheating needs to be harsh enough to deter this unethical behavior. The SEC, PCAOB and State Boards must establish severe penalties that are strong, effective deterrents.

Accounting leaders in practice and education must act to ensure the highest level of integrity in the accounting profession. Doing so will ensure that the profession maintains the public's trust and thereby can continue to carry out its critical role in business and society.

[Click here for the End Notes]

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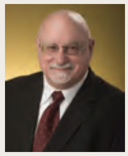

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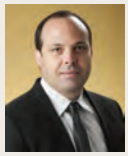

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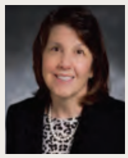

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At a Glance – Business Problems and Solutions for Cheating in the Accounting Profession

Challenge	Impact	Solution
Eroding Public Trust	Undermines confidence in financial reporting and the profession's credibility	Reinforce integrity through stricter ethical standards and meaningful accountability
Ethical Decline in the Talent Pipeline	Student cheating leads to unethical professionals and long-term reputation damage	Require standalone ethics courses and stronger academic integrity enforcement
Weak Deterrents for Misconduct	Repeat violations by major firms and ineffective penalties	Impose career-impacting consequences such as license suspension or CPA Exam ineligibility
Cheating Enabled by Technology and AI	Normalizes dishonest behavior and blurs ethical boundaries	Promote responsible technology use and emphasize ethics in digital training
Lack of Ethical Role Models	Perpetuates unethical culture across generations of accountants	Develop visible ethical leadership and mentorship within firms and classrooms

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Turning Challenges into Wins:
How TXCPA Advocates for You

BY KENNETH BESSERMAN, JD, LLM, DIRECTOR OF GOVERNMENT AFFAIRS & SPECIAL COUNSEL

The 2025 legislative session was a resounding success for the CPA and accounting profession in Texas. Texas was one of the leaders in the national and statewide movement to address the CPA pipeline. Senate Bill 262 created an additional pathway to CPA licensure. See Figure 1 for the requirements.

During the summer and fall of 2025, TXCPA worked closely with the Texas State Board of Public Accountancy (TXBPA), educators and our own members in addressing the proposed Board rules to implement the new pathways legislation. Much of the discussion centered around the number of accounting and business hours required for licensure under SB 262. See Figure 1. You can read more about the State Board rules on licensing, Exam requirements and transition to the new pathway at www.tsbpa.texas.gov/pdffiles/x0036.pdf and on the TXCPA website here.

Just as important to the profession, Senate Bill 522 updated Texas's practice mobility statute, allowing CPAs licensed in other states to work in Texas if they meet their own state's requirements – via the 150-hour path, new bachelor's pathway or licensure before Dec. 31, 2024. TXBPA will verify that only properly licensed individuals have practice privileges, reinforcing public protection under the new individual-based mobility model.

Challenges Addressed by TXCPA's Advocacy

Our legislative wins directly address several critical challenges facing the CPA profession:

- The growing workforce shortage in the CPA pipeline
- Practice mobility for CPAs as requirements evolve nationwide
- Deregulatory efforts that threaten licensing and public protection

In addition to passing landmark legislation, TXCPA worked closely with legislators to address growing efforts in Texas and across the U.S. to deregulate accounting and other professions. While extreme measures like eliminating state boards or licensing have not surfaced in Texas, TXCPA helped prevent hearings on problematic bills and ensured CPAs were removed from legislation that could have affected mobility.

WHY THE TXCPA PAC MATTERS MORE THAN EVER

TXCPA's legislative successes – and efforts to protect the CPA license from ongoing deregulatory pressures – would not be possible without an effective TXCPA Political Action Committee. TXCPA PAC is one of the most influential business PACs in Texas, giving CPAs a strong, unified voice at the Capitol. Broad member participation demonstrates to lawmakers the importance of the profession and strengthens our advocacy impact.

Increased participation, even reaching just 5 percent of our membership, will help safeguard the profession and prepare us for a successful 2027 legislative session. Investing in the PAC is an investment in your license. Please contribute today at https://www.tx.cpa/advocacy/cpa-pac.

About the Author: Kenneth Besserman, JD, LLM, is TXCPA's Director of Government Affairs and Special Counsel.

Figure 1

SENATE BILL 262

CREATED AN ADDITIONAL PATHWAY TO CPA LICENSURE

- Bachelor's degree with the required accounting and business concentration
- Two years of work experience
- Passage of the CPA Exam

THE FINAL RULES ADOPTED BY THE STATE BOARD WILL REQUIRE

27 hours of upper-level accounting

21 hours of business courses

3 hour semester course in accounting or business ethics

The new rules became effective on October 10, 2025

WHILE SB 262 DOES NOT BECOME EFFECTIVE UNTIL AUGUST 1, 2026

Students currently enrolled can elect to take advantage of the new pathway to licensure if their individual and education circumstances warrant such an election.

TXCPA Members Making a Difference

TXCPA's Accounting Opportunities Month, held in conjunction with our annual Month of Service, celebrated the remarkable ways our members are giving back to their communities. In November, 68 volunteers reached more than 3,053 students across 51 school events. This year, we're working towards an annual goal of reaching 16,000 students. In addition, Month of Service activities supported local causes and charitable organizations across Texas. Here's a look at some of the ways members and chapters made an impact.

TXCPA Dallas volunteers showed up in a big way – serving at both Good Samaritans of Garland and Minnie's Food Pantry to help prepare, pack and distribute meals for neighbors in need. The work was steady, the teamwork inspiring and the impact unmistakable. A huge thanks to our volunteers and to these two outstanding organizations for making a real difference in the community.

TXCPA El Paso was pleased to once again host a free Professional Development Workshop at The University of Texas at El Paso. Participants gained practical, actionable insights as CPA volunteers shared their advice on crafting a sharp résumé, delivering a confident elevator pitch, mastering interview skills and more. It was an energizing, informative session designed to help future professionals take the next step in their careers.

TXCPA San Antonio brought together emerging and aspiring CPAs for two fantastic events. Their Yappy Hour gave Young Accounting Professionals a fun, relaxed space to network, build relationships and find support. The Professional Leadership Development Dinner welcomed students and professors from local universities to engage with firms and gain valuable, practical tips. Both events highlight the commitment to the next generation of accounting professionals.

TXCPA Victoria members truly embraced the holiday spirit! Through their generosity and community-minded efforts, they collected and donated more than $200 worth of toys to the Blue Santa program. These thoughtful contributions will help bring smiles and joy to children in their community, ensuring they have a brighter and merrier Christmas. It's a wonderful example of how giving back can make a real difference during the holidays.

TXCPA Dallas


TXCPA El Paso


TXCPA San Antonio


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! 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!

Steadfast Leadership:

William Treacy's 35 Years at the Texas State Board of Public Accountancy

When William Treacy talks about his work, he rarely talks about himself. Instead, he talks about duty, trust and the public interest – principles he traces back to Cork City, Ireland, where he grew up before becoming a naturalized American citizen in young adulthood.

"Integrity, perseverance and respect were values instilled in me by my family," he says. "Doing the right thing isn't always simple, but if you can step back and ask yourself how your actions affect others – positively or negatively – that becomes your guide."

That compass has directed Treacy through 35 years at the Texas State Board of Public Accountancy (TSBPA), a tenure few state agency leaders can claim. His path there began after serving as the executive director of another state agency and working in the private sector, experiences that ultimately clarified where he felt most at home. "I realized I preferred serving in the public sector," he remembers. When the executive director position at TSBPA opened, he applied along with many others. "I was honored to be selected."

THE DRAW OF A PROFESSION THAT SHAPES PEOPLE'S LIVES

While the role brought him to TSBPA, the profession itself made him stay. Treacy sees accounting as more than a business focus – it is a pillar of human well-being. "People worry most about two things: their health and their financial stability," he says. "And they're interdependent. You can't maintain your physical health without the financial means to support it."

That belief deepened his commitment to building a regulatory environment that protects the public while supporting a profession whose work affects nearly every household and business in Texas.

A CULTURE OF RESPONSIVENESS

Ask Treacy about his proudest accomplishment and he answers without hesitation: his staff and creating a workplace culture centered on responsiveness and public service.

Every two months, Board members receive pages – sometimes more than 10 – of unsolicited compliments from CPA Exam candidates, new licensees and occasionally, even from someone involved in an enforcement action. "For a state agency, it's unusual," Treacy acknowledges. "It's remarkable when people take the time to compliment."

He sees it most vividly at swearing-in ceremonies, where families of new CPAs and 50-year licensees regularly praise TSBPA's staff. He emphasizes that the staff makes this possible, that they make people feel supported during what can be a stressful process.

TECHNOLOGY, MOBILITY AND THE NEW REGULATORY TERRAIN

Treacy has watched the CPA profession transform – technologically, structurally and globally. That evolution, he says, has reshaped state regulation. "CPAs are now expected to pair financial expertise with the ability to leverage technology for sophisticated analysis," he notes. But the bigger challenge for regulators is online and cross-border practice. "With mobility, the state may not know who is practicing here until something negative happens. Agencies can post their rules, but we have to assume practitioners will familiarize themselves with them – and that's not always the case."

He believes CPAs have the same obligation to understand state requirements as they do IRS rules or attest standards. He says a practitioner would be remiss not to know the rules of the jurisdiction where they practice.

One of Treacy's greatest concerns looking forward is the growing influence of private equity in accounting firms – and the uneven regulatory responses emerging across states.

"The public expects uniformity," he stresses. "We need consistency in how the CPA designation is used and protected."

He points to the national Uniform Accountancy Act Committee, which is working to anticipate issues and create consistent guidelines. Without coordination, he warns that some states may pass laws that dilute the importance of the CPA designation in the eyes of the public.

ADVICE FOR THE NEXT GENERATION OF CPAS

Treacy wants students and young professionals to understand the weight of what they are stepping into. "This is not just another certification," he says. "The CPA license is a social contract between the individual and the state. Your first obligation is to the public."

He often reminds new CPAs that this applies beyond public practice. "Many major failures begin inside private companies. CPAs in industry have as much – or sometimes more – responsibility to the public as those in public practice."

Treacy also hopes they see the possibilities the license unlocks. He says this is a global opportunity, noting high performers who have taken international roles or risen to CFO positions. "A high degree of professionalism can take you very far."

What Candidates Say About the Texas State Board of Public Accountancy

"I've appreciated your help through this process. Thank you for your kind words and I am happy to see that there is someone out there who cares as much as you do for others' success!"

"Along the way, I got so much help from TSBPA. Everyone is so helpful and supportive. I am really grateful for that. It did take me a long journey to this step … Now I'm almost there and I really thank you all for your help!"

"I want to note that I had a very positive experience with TSBPA. They were super helpful. You can literally just call but they'll highly recommend you submit an application so they can look at everything even if you've not met all the requirements. From application of intent to registering for exams, I never had any issues."

> "The CPA license isn't just another certification. It's a social contract with the public."

PURPOSEFUL LEADERSHIP IN A CHANGING PROFESSION

Balancing a demanding leadership role with a personal life requires discipline – and technology. Treacy sets boundaries, but he remains on call. "I don't mind taking my iPad on trips," he says with a laugh. "Keeping up with issues as they arise makes everything more manageable than trying to catch up later."

Above all, Treacy takes pride in the people he serves alongside. "The caliber of our appointed Board members is outstanding," he says. "They serve voluntarily and their commitment to the public is exceptional."

After 35 years, Treacy remains motivated by the same values that guided him from Cork City to Texas: integrity, responsibility and a deep commitment to guard the public's trust. As the profession faces new challenges – from AI to private equity – his steady leadership continues to anchor one of the state's most essential regulatory bodies.

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What better backdrop than College Station – a city that began as a humble railroad town and has evolved into a dynamic hub of education, innovation and entrepreneurial spirit. Home to Texas A&M University, it's a place rich in history and energy, offering something for everyone to enjoy. Also, come in a day early and attend a Federal Tax Update on January 21. Click here to register.

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Reach out at 866-766-ACAN or 214-566-2854, or visit tx.cpa/community/peer-assistance.

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May 11 – 12 | Webcast/Webinar

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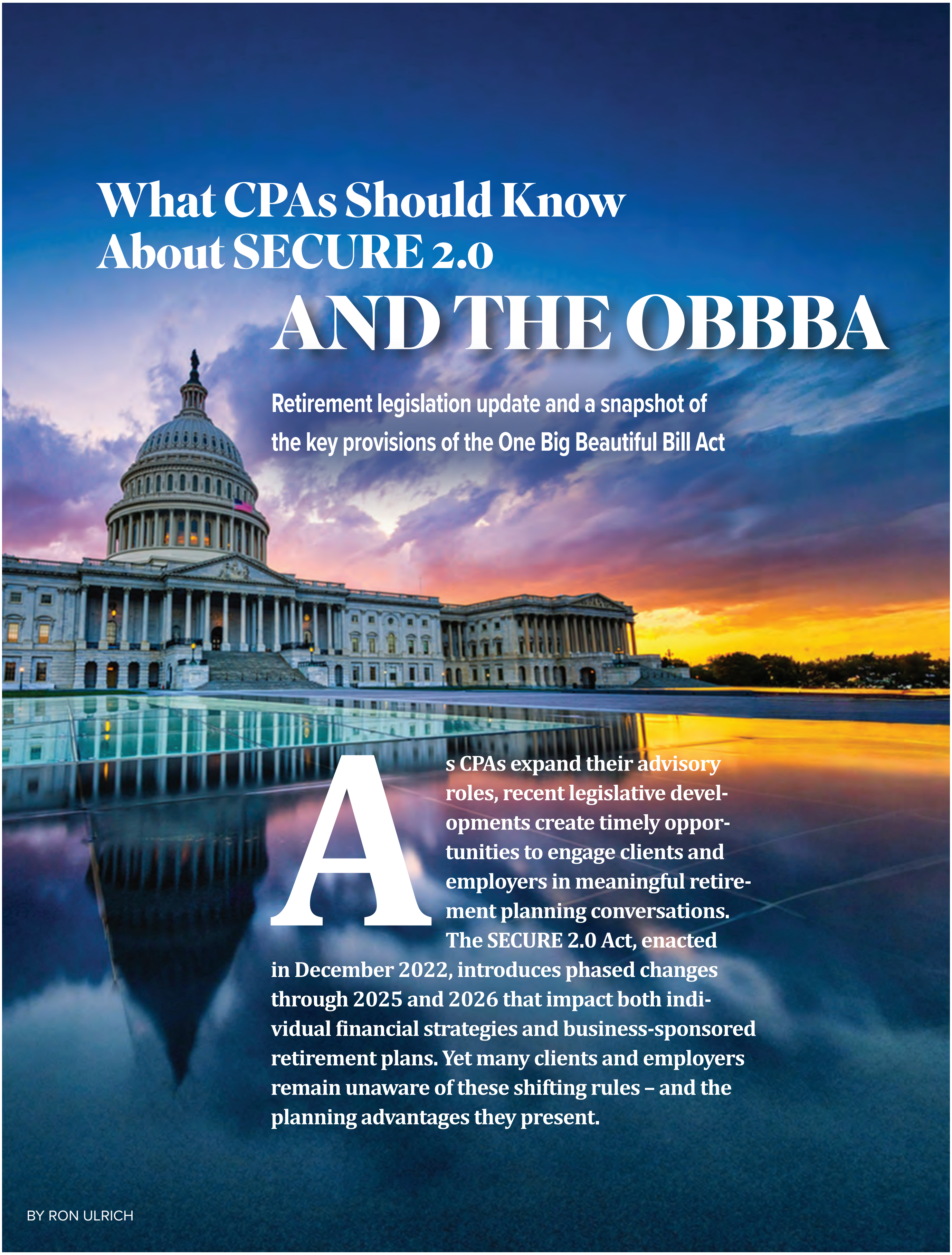

What CPAs Should Know About SECURE 2.0 AND THE OBBBA

Retirement legislation update and a snapshot of the key provisions of the One Big Beautiful Bill Act

As CPAs expand their advisory roles, recent legislative developments create timely opportunities to engage clients and employers in meaningful retirement planning conversations. The SECURE 2.0 Act, enacted in December 2022, introduces phased changes through 2025 and 2026 that impact both individual financial strategies and business-sponsored retirement plans. Yet many clients and employers remain unaware of these shifting rules – and the planning advantages they present.

BY RON ULRICH

Compounding these changes is the passage of the One Big Beautiful Bill Act (OBBBA), which overlaps with several SECURE 2.0 provisions and may influence how employers and employees approach retirement savings. Notably, the OBBBA makes permanent many elements of the 2017 Tax Cuts and Jobs Act (TCJA), reinforcing the need for proactive, informed guidance from trusted advisors.

To provide a more complete view of the OBBBA's scope, Table 1 includes an overview of the law's most significant provisions, including those beyond the retirement-specific changes.

WHAT'S NEXT FOR SECURE 2.0?

Many Americans remain significantly underprepared for retirement. The SECURE 2.0 Act aims to change that by eliminating key barriers to increased savings. Building on the foundation of the 2019 SECURE Act, this legislation, signed into law at the end of 2022, broadens access to retirement plans – making it easier for employers to offer plans and for workers to participate.

Below is a look at how implementation is progressing, the practical challenges CPAs may face and what to anticipate as additional changes take effect.

AUTOENROLLMENT MANDATE FOR NEW 401(K) AND 403(B) PLANS

Under the SECURE 2.0 Act of 2022, most new 401(k) and 403(b) plans must automatically enroll employees at a default contribution rate of 3 percent of pay, with automatic annual increases of 1 percent until reaching at least 10 percent. These provisions apply to plan years beginning on or after January 1, 2025.

Eligible employees are enrolled by default unless they choose to opt out. In preparation for final IRS guidance, employers should already be incorporating automatic-enrollment provisions into their plan documents.

However, the mandate exempts employers with 10 or fewer employees, businesses operating for less than three years and certain plan types such as governmental plans, church-sponsored plans and SIMPLE IRAs. Plans adopted prior to December 29, 2022, are also grandfathered in, regardless of their effective date.

Additionally, SECURE 2.0 introduces an "automatic portability" feature, enabling small account balances to transfer directly to a new employer's plan when an employee changes jobs, helping preserve retirement savings and reduce early withdrawals.

Navigating SECURE 2.0 and the OBBBA: Key Business Challenges

1

Confusion About the New Rules

Many clients and employers remain unaware of SECURE 2.0 and the OBBBA. Clear guidance transforms complex, phased changes into actionable strategies.

2

Compliance Risks for Employers

Auto-enrollment mandates, Roth catch-up contributions and other new requirements starting in 2025–2026 require updates to plan documents, payroll systems and employee communications.

3

Missed Tax-Opportunities

Expanded catch-up contributions, Saver's Match benefits, student loan matches and permanent TCJA deductions create openings for strategic planning and increased savings.

4

Retirement Plan Design Challenges

Long-term part-time employees, auto portability and plan eligibility rules demand thoughtful plan design and operational readiness.

5

Confusion About Law Interactions

Overlapping provisions in SECURE 2.0 and the OBBBA impact both employer and individual retirement strategies. Consolidated advice helps navigate these intersections.

6

New Family Savings Vehicles

Tax-free children's accounts under the OBBBA may shift retirement and education planning priorities, influencing how families and employers allocate resources.

7

Staying Ahead of IRS Guidance

With key rules rolling out through 2027, proactive monitoring ensures plans maximize benefits and adapt to evolving regulations.

On September 16, 2025, the IRS issued final regulations. Employers setting up new plans should ensure compliance with default enrollment provisions, assess eligibility for exemptions and monitor IRS updates closely.

STUDENT LOAN ASSISTANCE

Employees struggling to repay student loans often forgo contributing to retirement plans, missing not only long-term savings opportunities but also potential employer matching contributions. To address this, the new SECURE 2.0 provisions allow employers to make matching retirement plan contributions based on an employee's qualified student loan payments – even if the employee does not contribute directly to the plan. This provision applies to borrowers and co-signers making payments on behalf of themselves or their dependents, provided they certify their loan payments annually.

Separately, the Tax Cuts and Jobs Act (TCJA) of 2017 introduced a tax deduction for employers offering student loan repayment assistance. The OBBBA has made this deduction permanent and indexes the current $5,250 qualified educational assistance limit for inflation starting in 2026.

While SECURE 2.0's student loan match provision offers an innovative long-term benefit, the permanence of the TCJA deduction may lead some employers to favor the simpler, immediate tax benefit for now. As a result, adoption of the retirement match tied to student loan payments may be slower in the near term, though it is still expected to become a common feature over time.

RETIREMENT PLAN ACCESS FOR LONG-TERM PART-TIME EMPLOYEES

As of 2025, anyone who has worked at least 500 hours per year for two consecutive years will be eligible to join their employer's retirement plan, down from the previous three-year threshold. This rule only applies if a plan uses service-based or minimum hours of service exclusions.

In October 2024, the IRS issued guidance on including long-term part-time staff in 403(b) plans. Although final rules for 401(k) plans haven't been released, proposed regulations appeared in November 2023 and the IRS has stated that any effective date won't precede plan years starting January 1, 2026.

EXPANDED CATCH-UP CONTRIBUTIONS FOR AGES 60–63

As of January 1, 2025, SECURE 2.0 enables individuals aged 60 to 63 to make enhanced catch-up contributions to their employer-

Table 1. One Big Beautiful Bill Act: A Summary of the Key Provisions

Individuals	Businesses
• Makes TCJA brackets and higher standard deductions permanent and inflation indexed. • 2025 standard deduction: $15,750 (single), $23,625 (head of household), $31,500 (joint). • Raises SALT cap to $40,000 (indexed through 2029) and keeps PTET workarounds. • Adds temporary deductions: $6,000 for seniors and up to $25,000 for tip income and overtime (through 2028). • Expands family benefits: child tax credit up to $2,200, dependent-care credit up to 50% of costs. • Creates Trump Accounts (up to $5,000/year for minors) and expands 529 plan uses. • Makes adoption credit refundable (up to $5,000) and provides above-the-line charitable deductions ($1,000 single / $2,000 joint).	• Permanently restores 100% bonus depreciation and raises Sec. 179 limit to $2.5M. • Allows immediate expensing of domestic R&D and returns interest limits to EBITDA. • Makes paid Family and Medical Leave credit permanent. • Increases employer child-care credit to 40% with a higher cap. • Encourages investment with 100% depreciation for production property, a 35% manufacturing credit, and permanent Opportunity Zones and New Markets Credits. • Updates small-business stock exclusion: 75% after four years, 100% after five.
Clean Energy and International	**Compliance**
• Phases out several clean-energy credits from 2025–2028. • Replaces GILTI and FDII with new 14%-rate regimes and raises deemed-paid credit to 90%.	• Returns 1099-K threshold to $20,000/200 transactions, with a $2,000 indexed floor. • Tightens ERC due-diligence rules.

Source: "Tax provisions in the One Big Beautiful Bill Act" by Alistair M. Nevius, J.D., *Journal of Accountancy*

sponsored retirement plans. They can contribute the greater of $10,000 or 150 percent of the standard catch-up limit, which will be $11,250 for 2025 (with inflation adjustments in subsequent years).

This exceeds the standard $7,500 catch-up limit available to those aged 50 and older, providing an important opportunity for higher earners approaching retirement to increase their savings. For more information, refer to the IRS guidance on 401(k) limit increases and catch-up contributions for 2025.

ROTH CATCH-UP CONTRIBUTIONS FOR HIGH EARNERS (2026)

Beginning January 1, 2026, employees who earn over $145,000 (indexed for inflation) from the same employer in the previous year will be required to use a Roth (after-tax) account for their catch-up contributions. This has significant implications for payroll and retirement plan systems. The transition from pre-tax to Roth will also affect paycheck amounts, which must be clearly communicated to employees.

In January 2025, the Department of the Treasury and the IRS issued proposed regulations to help plan administrators implement and comply with the new Roth catch-up rule. Employers will have the option to automatically switch employees' contributions from pretax to Roth without needing new authorization.

In addition, the IRS has provided a few options on how to correct errors, which will allow employees to keep assets in the plan.

Related CPE

- Federal Tax Update CPE
- Beyond Borders: Navigating H.R. 1's New International Tax Rules
- Rethinking Estate Planning After H.R. 1 for CPAs and Advisers

SAVER'S MATCH (COMING IN 2027)

In 2027, the federal government will provide a matching contribution of up to $1,000 annually for eligible individuals contributing to retirement accounts, replacing the current nonrefundable Saver's Credit. This aims to incentivize lower- and middle-income individuals to save for retirement. Formal IRS guidance on the Saver's Match is pending.

OBBBA: TAX-FREE SAVINGS ACCOUNTS FOR CHILDREN

While not part of SECURE 2.0, a provision in the OBBBA may influence retirement savings decisions. These accounts are tax-deferred savings vehicles for children under age 18. Parents will be able to contribute up to $5,000 annually, with the accounts structured similarly to traditional IRAs. Employers can also contribute up to $2,500 of the $5,000 limit.

Initial language in the OBBBA legislation indicates potential uses may include retirement savings, education costs or even seed capital for entrepreneurial ventures. These new accounts could influence how families allocate funds between personal retirement savings and child-focused accounts, especially if employer contributions are involved. Employers and advisors will need to communicate clearly about the options and tax implications.

NAVIGATING THE SHIFTS IN RETIREMENT PLANNING

With the SECURE 2.0 Act and the OBBBA reshaping retirement policy, CPAs and advisors are well positioned to help clients and employers navigate new opportunities and compliance requirements. From auto-enrollment mandates and student loan matches to expanded catch-up contributions and new tax-advantaged accounts, these changes call for timely, informed guidance.

As IRS rules continue to roll out, staying ahead of implementation details will be key to helping maximize benefits and make strategic, forward-looking decisions.

RON ULRICH is Service Executive for ADP Retirement Services. He is responsible for delivering products and services to plan sponsors to help them maintain their retirement plans in compliance with all applicable IRS and DOL regulations. Ron also works with plan sponsors to design and implement plan features that will enhance the overall health of their plan, streamline administration, and help participants define and achieve their retirement goals.

YOUR TXCPA CALENDAR:

Key Dates, Leadership Opportunities and CPE Ahead

Plan your year with this snapshot of essential events, deadlines and learning opportunities for TXCPA members.

JANUARY

Federal Tax Update Programs
January 2026 | Cities Across Texas

TXCPA Midyear Leadership Council and Members Meeting
January 22-23 | College Station

FEBRUARY

AcctoFi/TXCPA Dallas Scholarship Gala
February 6 | Dallas

Professional Issues Update - February
February 11 | Webcast

Professional Issues Update - Feb Replay
February 26 | Webcast

MARCH

Spring Virtual Cluster - Industry
March 18-19 | Webcast

APRIL

TXCPA Award Nominations
Open Until Late April

Spring Accounting Opportunities Month
April

MAY

TXCPA Membership Renewal - Time to Renew Your Membership!
Expires May 31, 2026

Technology Conference
May 4-5 | Webcast

Professional Issues Update - May
May 6 | Webcast

Energy Conference
May 11-12 | Webcast

Single Audits and Government Accounting and Auditing Conference
May 14-15 | Webcast

Nonprofit Organizations Conference
May 18-19 | Dallas and Webcast

Professional Issues Update - May Replay
May 21 | Webcast

JUNE

TXCPA Leadership Day - Volunteers Invited to Attend
June 2 | Dallas

Texas School Districts Conference
June 1-2 | San Antonio and Webcast

CPAs by the Bay
June 15-17 | Houston

Business Valuation and Forensic Accounting Conference
June 16-17 | Houston

San Antonio Cluster
June 22-24 | San Antonio

TXCPA Annual Meeting of Members
June 24-26 | San Antonio

JULY

Galveston Cluster
July 6-8 | Galveston

Summer Education Conference
July 20-24 | Gulf Shores, AL

AUGUST

TXCPA Leadership Nominations
Open Until End of August

Advanced Estate Planning and Tax Institute Summit + Pre Conference
August 23-25 | San Antonio and Webcast

SEPTEMBER

Fall Virtual Cluster
September 9-10 | Webcast

Single Audits and Governmental Accounting and Auditing Conference
September 24-25 | Austin and Webcast

OCTOBER

Accounting Education Conference
October 16-17 | Dallas and Webcast

NOVEMBER

Fall Accounting Opportunities Month
November

TXCPA Month of Service
November

Expo Dallas
November 12-13 | Dallas and Webcast

Expo San Antonio
November 17-18 | San Antonio

DECEMBER

Expo Houston
December 3-4 | Houston

*Event dates and locations subject to change. Check www.tx.cpa for the most current details.

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INSIDE THE IRS:

Use of Artificial Intelligence and Data Analytics to Modernize Operations

The IRS's growing use of AI and data analytics is reshaping compliance, enforcement and taxpayer interactions.

BY LEO UNZEITIG, CPA, JD, AND WILLIAM STROMSEM, CPA, JD

Writing an article on technology applications and artificial intelligence at the IRS is difficult – changes are occurring faster than we can type. However, the pace of change at the agency has slowed somewhat after Congress clawed back funding in the Inflation Reduction Act of 2022 from $79.4 billion to $37.6 billion and failed to include any funds for business systems modernization in either the 2023 or 2024 IRS budget. And with the government shutdown, furloughs and layoffs, there's further slowing that may allow our keyboarding skills to at least provide a status report. Perhaps we should use artificial intelligence to write this article, hoping that maybe it can keep up with itself!

The IRS has used rudimentary data analytics and artificial intelligence for many years, actually forming an artificial intelligence laboratory in 1986 as part of an initiative to explore new technologies for tax return processing. The IRS Discriminant Income Function (DIF) used basic artificial intelligence and data analytics to help select returns for audit, and "flowcharted" responses to taxpayer inquiries were used in telephone service centers to almost turn humans into chatbots.

Collection and analysis of tax return data was automated to produce the IRS "Statistics of Income Bulletins." With all this early background, new chips, computers and programs will enable IRS computers to powerfully use generative artificial intelligence to learn and evolve as they work, potentially bringing revolutionary change in all IRS mission areas.

As of 2024, the IRS had initiated 68 projects involving artificial intelligence, with the number likely increasing since then.[1] These projects span various areas, including taxpayer services, encouraging compliance and automating IRS processes to make operations more efficient.

In the area of taxpayer services, the IRS is using AI chatbots to respond to taxpayer questions, thereby reducing the number of employees needed to answer the phone.

In the taxpayer compliance area, AI and data analytics are being used to select returns for audit and to detect errors and fraud. For example, LB&I discovered that its traditional audit selection criteria were inadequate and resulted in a high no-change rate. After implementing an AI model, it was able to locate noncompliant returns more effectively while simultaneously relieving employees from the classification function.

Similarly, in the criminal investigation function, the agency is using AI programs developed by Palantir to sift through large volumes of data (including suspicious activity reports) to identify patterns and locate noncompliance – a process that used to take an agent many hours.[2]

Before the recent reductions in force, IRS CI had hired a number of data scientists to use AI to develop a software engine that suggests future actions based on historical analysis of agent decisions. The prior CI Chief stated that its 2,000 agents were instructed to use the tool to develop cases and that doing so had "sped up" its investigations and "what used to take hours; now it's taking minutes."[3]

REALLY BIG DATA!

Data analytics tools are ideal for the massive amount of information collected by the IRS. Almost all tax returns are submitted electronically or scanned into IRS computers, providing the IRS with years of tax records for all taxpayers that can be readily analyzed.

The IRS also purchases data and analytical programs from various outside providers. In December 2023, the IRS solicited bids for a commercial off-the-shelf AI tool to meet specific criteria.[4] A 35-page performance work statement indicated that the IRS intended to use the tool to assist with a number of very specific goals.

For example, the IRS Collection Division apparently receives a lot of undelivered mail. The IRS hopes to use AI to find a way to locate the current address of a delinquent taxpayer without having to involve personnel.

The challenge with implementing AI thus lies in utilizing information and tools to efficiently enhance results across the IRS's various missions.

IRS ORGANIZATION TO LEVERAGE BENEFITS FROM AI AND DATA ANALYTICS

The IRS Office of Research, Applied Analytics and Statistics (RAAS) works across the various silos of the IRS to share information and analytic techniques, to collaborate on projects, identify learning and training opportunities, and to encourage the use of technology throughout the IRS. The Chief Data and Analytics Officer is in charge of this division and reports directly to the Deputy Commissioner of Operations Support.

Their work has become increasingly important due to current staffing restrictions and other budget constraints. This group employs a range of research methods, including:

- Economic modeling,
- Forecasting,
- Compliance studies,
- Analysis of proposed legislative initiatives, and
- Strategic program evaluations.

It combines advanced analytics, dynamic testing, reporting, and prototyping with scientific applications using the expertise of various IRS divisions to provide practical and actionable recommendations for improvements. It is responsible for evaluating and improving the quality of data for various IRS applications, including the Statistics of Income report. RAAS also provides recommendations to support budgeting and human resources deployment.

USES OF DATA ANALYTICS

The IRS understandably provides general (rather than specific) information on its use of artificial intelligence and data analytics to avoid giving tempted taxpayers a map to the audit minefield. This is similar to the approach taken with the currently used criteria in computer analysis of returns for audit selection. However, the IRS should be doing better.

Executive Order 13960 titled "Promoting the Use of Trustworthy Artificial Intelligence in the Federal Government" requires agencies to publish an inventory of all its AI use cases. The IRM (at 10.24.1 et seq) provides instructions in that regard.[5] And apparently, the IRS historically complied with that mandate, at one time publishing 68 use cases on Treasury's website.[6] Unfortunately, that is no longer the case. There has been little transparency regarding specific algorithms and programs. And while that may be appropriate for law enforcement activities, it should not be a blanket rule.

That said, there are some general stated goals and some specific discernible results from IRS AI and Big Data applications, including:

- Analyzing data to identify patterns and anomalies, particularly with emphasis on large and complex partnerships,
- Better understanding the taxpayer environment and assessing compliance risks to understand relationships among non-compliant actors,
- Combatting identity theft,
- Estimating and recommending steps to reduce the tax gap and encourage voluntary compliance,
- Increasing the efficiency of audits by focusing limited resources on likely issues,
- Enhancing customer service and reducing wait times at call centers by using AI applications and chatbots to handle routine taxpayer inquiries and reduce human staffing of this function,
- Identifying and analyzing abusive tax shelters,
- Catching unreported cryptocurrency transactions,
- Finding employers who have not properly remitted payroll taxes, and
- Identifying tax return preparers who have helped clients fraudulently claim employee retention and other credits for which they did not qualify.

The RAAS also helps the IRS identify administrative needs for newly enacted legislation and can develop recommendations for legislative corrections where needed. It assesses the compliance burden on taxpayers and tries to develop ways to make compliance more cost effective for them.

POTENTIAL PROBLEMS IN AI AND DATA ANALYTICS AT THE IRS

The IRS has provided some guidance to ensure that the power of AI is used fairly and supports taxpayer compliance and confidence in the system. AI will often automatically learn and improve itself based on experience, without needing specific human programming, which raises some concerns.

There are numerous examples of potential issues, including whether certain algorithms, databases and queries may contain biases that unfairly target specific groups for audits. With workforce cuts, are there sufficient human resources to review artificial intelligence conclusions and will employees be reluctant to challenge the power of artificial intelligence? While the IRS clearly focuses on taxpayer privacy, are there sufficient safeguards as they

How the IRS Uses AI to Streamline Operations

These are a few of the ways the IRS is leveraging artificial intelligence:

- **Taxpayer services:** AI chatbots handle routine questions, reducing the need for human staff
- **Compliance and audits:** AI and data analytics improve audit selection, detect errors and fraud, and reduce employee workload
- **Criminal investigations:** AI tools analyze large data sets to identify noncompliance, speeding up investigations from hours to minutes
- **AI-driven decision support:** Historical data analysis helps IRS agents develop cases more efficiently
- **Collections:** AI is being explored to locate delinquent taxpayers' current addresses, reducing the need for personnel to handle undelivered mail

use external databases and contractors to assist them with AI applications?

Nina Olsen, former National Taxpayer Advocate, highlighted Australia's debt recovery system, "Robodebt" as a cautionary tale. It used an automated data matching technique in a catastrophic fashion, wrongfully sending debt notices to welfare recipients.[7] And further concerns with respect to the IRS's use of AI in the audit selection process were highlighted in a May 2025 TIGTA report.[8]

It thus remains to be seen whether the efficient use of Big Data by AI will bring about enough increased efficiency to offset cuts in human resources at the IRS and maintain confidence in its audit credibility.

Footnotes

[1] Governance Efforts Should Be Accelerated to Ensure the Safe, Secure, and Trustworthy Development and Use of Artificial Intelligence, TIGTA, November 12, 2024.

[2] IRS Using Data Analytics for Bigger, Better, Faster Investigation, Nathan J. Richman, Tax Notes, 12/5/2018.

Related CPE

- The AI Advantage: Leveraging AI for Efficiency and Impact
- Data Analytics: Practical Insights for Today's Accountant
- Data Science for Accountants Business

[3] Artificial Intelligence Yields Promises, Risks for IRS, William Hoffman, Tax Notes, 10/9/2018.

[4] https://www.highergov.com/contract-opportunity/24-4-ira-oita-research-applied-analytics-statis-24-4-ira-oita-r-59dd9/

[5] https://www.irs.gov/pub/foia/ig/spder/raas-10-0325-0001-public.pdf

[6] https://www.irs.gov/pub/irs-pdf/p3415.pdf at 30.

[7] Report: IRS Brushed Off Suggestions for Improvement, Lauren Loricchio, Tax Notes 4/10/2023.

[8] The IRS Could Leverage Examination Results in Artificial Intelligence Case Selection Models and Improve Processes to Evaluate Performance, TIGTA, May 19, 2025, Report Number 2025-308-022.

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A big thank you to all the firms and organizations that participated in TXCPA's Professional Group Membership program this year. Your renewals and new activations for 2025–2026 help strengthen the fabric of our membership community.

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AI-Powered Tax Compliance, Part 1:

How Machine Learning is Revolutionizing Sales and Use Tax

Sales and tax compliance have grown more complex in the *Wayfair* era as states expand economic nexus rules and update guidance at a rapid pace. Traditional rule-based engines struggle with scale, ambiguity in product descriptions and cross-system data quality issues.

In this first article of a two-part series, we explain why machine learning (ML) complements rules to improve consistency, speed and auditability in sales and use tax operations. We outline the data and governance foundations for adopting ML and present Case Study 1: Automated Nexus Detection, showing how a hybrid rules-plus-ML approach pulls forward registrations, reduces manual review time and strengthens evidence for auditors.

Part 2 of the series will continue with taxability classification, error management via confusion matrices and thresholds, and filing operations.

BLENDING BRIGHT-LINE RULES WITH MACHINE LEARNING

Economic nexus thresholds and evolving state guidance have turned sales and tax into a high-frequency, data-intensive process. Teams must detect exposure, classify products correctly and file on time – across jurisdictions, channels and changing catalogs. Hard-coded rules remain essential for bright lines, but they are brittle when data are messy or when workloads spike.

ML adds lift where scale and ambiguity dominate. By learning from labeled history and pairing predictions with human review and immutable logging, ML helps prioritize effort, standardize decisions and create defensible audit trails.

BUSINESS PROBLEM SOLVED: Companies can struggle to stay on top of complex, high-volume sales and use tax obligations, and this article shows how a hybrid rules-plus-machine-learning approach enables earlier detection, reduces manual review and ensures scalable, auditable compliance.

This article frames the modern tax stack and demonstrates a pragmatic first step – nexus detection – that combines rules for certainty with ML for triage and foresight. (Part 2 will extend this foundation to taxability classification and filing at scale.)

CASE STUDY 1: AUTOMATED NEXUS DETECTION

A mid-sized e-commerce retailer specializing in health and wellness products experienced substantial growth during the pandemic. Leadership quickly recognized a gap in visibility regarding when their activities would trigger economic nexus obligations.

To address this issue, the company partnered with a tax technology provider to implement an ML-based nexus detection system (Bloomberg Tax (n.d.)). This solution aggregated transactional data from order management, payment processors and shipping carriers. Using supervised learning, the model was trained to identify patterns that indicated the threshold for nexus had been crossed, including cumulative gross receipts and transaction counts.

Within six months, the ML model successfully identified four additional states where economic nexus had been triggered but not yet registered. As a result, manual review time was reduced by 60 percent, allowing the company to register proactively and avoid potential penalties (Gartner, 2024).

Main Points from the Case Study: ML enables continuous monitoring and provides early warnings regarding nexus obligations, relieving tax teams from the burden of manually reviewing thousands of transactions.

NEXUS DETECTION WORKFLOW USING ML

Figure 1 shows how ML can help companies know when they must register to collect sales tax in a state. At the start of the process, all the company's sales and shipping data are gathered from different systems, like order records and shipping logs. This information is combined and cleaned up so that it is consistent and easy for the ML program to read.

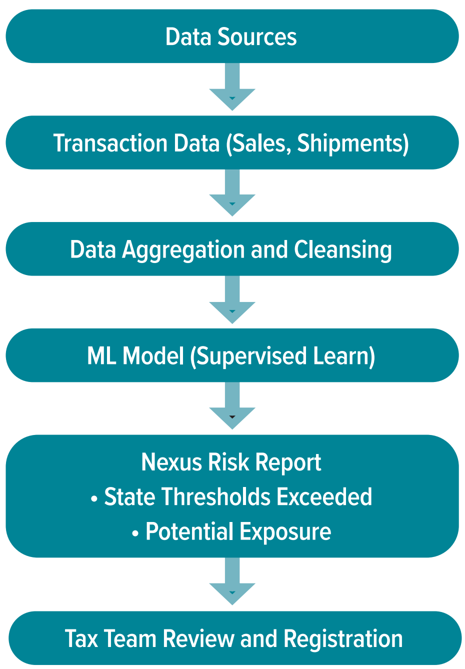
Next, the cleaned data is fed into the ML model. This model has been trained to recognize patterns that signal when sales or transactions in a state are getting close to the legal threshold that requires registration. For example, some states set a dollar amount or number of transactions that trigger tax obligations.

The model uses the company's historical data to learn what those patterns look like over time. Every month, the machine learning system checks the latest transactions against these thresholds. When it sees that a state's threshold has been crossed or is about to be crossed, it automatically creates a risk report.

This report highlights which states need attention and shows exactly why the system flagged them. The tax team reviews this report to confirm whether registration is necessary. If needed, they can then register in that state before penalties or interest apply.

Figure 1: Nexus Detection Workflow Using Machine Learning

The ML system aggregates sales and shipment data, trains on historical thresholds and generates monthly risk reports for proactive registration.



Source: Compiled by Author

By automating this process, the company avoids the risk of missing important deadlines. This system also saves time, because employees no longer have to review thousands of records manually. In short, the workflow helps tax teams stay proactive and confident that they are meeting all sales tax rules.

ADVANTAGES OF EARLIER NEXUS DETECTION

ML doesn't replace bright-line rules in sales and use tax – it amplifies them. In the *Wayfair* era, exposure detection is as much a volume and timing problem as a legal one. A pragmatic hybrid approach – rules for certainty, ML for scale and prioritization – lets teams spot nexus earlier, focus analyst effort where it matters and preserve decision evidence for auditors.

The Nexus case study shows that even a lightweight model, paired with clear ownership and immutable logs, can reduce manual review time and pull forward registrations without overbuilding a platform.

The path forward is straightforward: start with a time-boxed proof of value, measure lift against last year's outcomes and institutionalize monthly calibration. With this foundation in place, tax teams are ready to tackle the two daily bottlenecks that drive risk and workload – taxability classification and filing – which we address in Part 2 of this series using recall-centric evaluation, human-in-the-loop thresholds and right-sized deployment choices.

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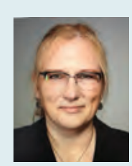

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CPE

CURRICULUM:
Accounting and Auditing, Management

LEVEL:
Basic

DESIGNED FOR:
CPAs in business and industry and public practice

OBJECTIVES:
To explain stock repurchase advantages and disadvantages, accounting methods, and excise tax liability

KEY TOPICS:
Accounting for stock repurchases, benefits to companies, paying for buybacks, the impact on equity, and the application and reporting requirements of excise taxes

PREREQUISITES:
None

ADVANCED PREPARATION:
None

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The State Board stipulates that the quiz is valid for one year from its publication in *Today's CPA*. Quizzes submitted after this one-year period will not be accepted.

Share Repurchases:

Playing in the Big Leagues

Although share repurchases return more cash to shareholders than dividends, the financial-reporting and tax risks that large share repurchases create must be managed – from negative equity and distorted ratios to rising excise-tax costs

BY KAREN M. OXNER, CPA, DBA, MBA, BS, AND ASHLEY D. PHILLIPS, LL.M., JD, BSBA

For decades, U.S. corporations provided cash returns exclusively through dividends and share repurchases were considered off limits due to perceptions of market manipulation. Returning cash to shareholders through buybacks first began in 1982 when the Securities and Exchange Commission (SEC) issued Rule 10b-18, which eliminated an unwritten ban on share repurchases.

Within about 15 years, cash spent on buybacks had eclipsed cash spent on dividends. For 2024, total S&P 500 repurchases were about 1.5 times dividends ($942.5 billion in buybacks versus $629.6 billion in dividends). Over 85 percent of the S&P 500 companies executed buybacks in 2024; however, 20 companies with the largest buybacks accounted for nearly half of the repurchases (S&P Dow Jones Indices 2025).

Since stock repurchases are accounted for similarly regardless of their size, the very large buyback programs can create undesired effects on the balance sheet and have also attracted government attention in the form of excise taxes.

ACCOUNTING FOR STOCK BUYBACKS

Two methods exist for recording stock buybacks: the treasury stock method and the par value method. The treasury stock method records the cost of the shares in the contra-equity treasury stock account and it is subtracted to compute total equity (FASB Accounting Standards Codification 505-30-30-6).

The par value method instead directly reduces the stock and paid-in capital accounts by the amount for which the shares were originally issued. If the cash paid to repurchase shares is greater than the original amount received at issuance, then either paid in capital from previous repurchase transactions or retained earnings will also be decreased using the par value method (ASC 505-30-30-8). In fact, some companies simplify this method by debiting the entire amount to retained earnings. Debiting the cost of repurchased shares to retained earnings has the same accounting effect as a cash dividend.

No gains or losses can be recorded when companies buy, sell or hold their own stock. Thus, share repurchases and reissuances do

not directly affect net income or comprehensive income. However, certain repurchases are now subject to a 1 percent federal excise tax, which will decrease net income due to excise tax expense.

BENEFITS OF BUYBACKS TO COMPANIES

If companies can use both dividends and repurchases to return cash to shareholders, why have buybacks outstripped dividends? Investors often expect dividends to be an every-quarter distribution and they may be seeking a target dividend yield. Thus, dividends typically become a recurring cash budget item. In addition, once a cash dividend is declared, it is a true liability and must be paid.

In contrast, stock repurchase plans can be announced and then reduced or never executed if conditions change. Consequently, repurchase plans have the benefit of flexibility and are less likely to establish investor expectations of specific cash returns in the future. From the shareholder's perspective, buybacks may be taxed at lower capital gains rates on their personal tax returns.

Equally important as flexibility, stock buybacks have an antidilutive effect on earnings per share. Thus, an adequate number of shares can be repurchased to offset the dilutive impact on earnings per share of issuances related to employee stock purchase plans, stock option plans and acquisitions purchased with stock. In fact, large repurchase plans can result in a net decrease to the number of outstanding shares, increasing earnings per share.

As examples, Apple Inc.'s (ticker AAPL) buyback programs are some of the largest in the U.S. and Apple's total outstanding shares have decreased by over 5 percent during the three-year period from fiscal 2022 - 2024. Apple's earnings per share have increased by 3 percent for each fiscal year 2022 - 2024 due to the impact of buybacks.

General Motors' (ticker GM) share buybacks increased earnings per share over the same three-year period by as much as 18 percent. Overall, approximately 12 percent of the S&P 500 reduced their share counts by 4 percent or more in 2024 by repurchasing more shares than they issued (S&P Dow Jones Indices 2025). (Note that all company information cited is available in filings on the SEC Edgar database.)

PAYING FOR BUYBACKS

Buybacks require cash and for companies with large programs, they can be a huge outlay. During 2022 - 2024, Apple's buybacks were between 70 percent and 80 percent of cash flows from operations. General Motors' repurchases ranged from 16 percent to 53 percent of cash flows from operations during those three years.

The use of cash for buybacks has met with criticism for not being in the best long-term interest of the company. The detractors of large repurchase programs propose that the money could be invested in revenue-producing assets, used to enhance core competencies or pay off debt. In addition, some companies issue debt to fund the share repurchases because cash from operations is not sufficient to pay for the stock. Debt that does not provide a means to earn additional revenue is especially risky.

As a case in point, in 2023, RTX (defense and aerospace company; ticker RTX) used a combination of debt and cash on hand

Key Points to Consider

Cash Return: Buybacks now exceed dividends as the primary method of returning cash to shareholders

Equity Impact: Accounting methods related to share repurchases reduce equity, and large programs can drive equity very low or negative

Balance Sheet Impact: Negative or minimal equity distorts key ratios (debt ratio, ROE) and can create covenant issues

Earnings Per Share: Buybacks boost EPS and offer flexibility but can strain cash flow or increase leverage when funded with debt

Excise Tax: Repurchases above $1M are now subject to a 1% federal excise tax with new reporting requirements

Advantages vs. Disadvantages: Companies must balance EPS benefits with financial-reporting impacts, liquidity risks and tax costs

CPE

to fund their accelerated share repurchase program of approximately $10 billion. RTX repurchases in 2023 amounted to 160 percent of its cash flows from operations. The RTX debt ratio (total liabilities/total assets) increased from 53 percent in 2022 to 62 percent in 2023, remaining at 62 percent in 2024.

IMPACT ON EQUITY

Large, long-running repurchase programs can deplete equity balances to the extent that the balance sheet equation has little representational faithfulness to the financial position of the company. In other words, assets still equal liabilities plus equity, but the equity amount is so small that liabilities are disproportionate related to assets. Normally, a financial statement user might assume such a company is in financial distress, but this mismatch can be an unintended result of the fact that repurchase accounting always decreases equity.

The debt ratio loses its usefulness when equity is very low or negative. Other financial statement ratios would also be affected by small or negative total equity, such as return on equity (ROE) and the debt-to-equity ratio. Because of this impact, companies with restrictive debt covenants tied to financial statement ratios must consider these effects when undertaking share repurchases. Large share repurchases can create an accounting "elephant in the room" when equity gets extremely low or negative.

The financial reporting community has not addressed the impact of large buyback programs. Absent a change in accounting standards, a solution to this problem does not currently exist.

Share Repurchases and Equity Deficits: A Closer Look at Boeing and McDonald's

Boeing (ticker BA) has executed large buyback programs for many years and in 2023, their total shareholders' equity was a deficit of $17.2 billion because the combination of treasury stock of $49.5 billion and accumulated other comprehensive loss of $10.3 billion was larger than the sum of the other equity accounts. Thus, liabilities are greater than assets and the debt ratio is greater than 1.0 at 1.13 for 2023. During 2024, Boeing had significant reissuances of stock, bringing the stockholder's equity deficit down to $3.9 billion.

McDonald's (ticker MCD) also typically repurchases stock and its total equity is likewise a deficit of $3.8 billion for 2024, with a debt ratio of 1.07. McDonald's bought back stock each year 2022 – 2024.

EXCISE TAX ON REPURCHASES

Federal regulators have also taken notice of share repurchase programs. On August 16, 2022, the U.S. Congress enacted the Inflation Reduction Act of 2022 (IRA), which was codified as Internal Revenue Code Section 4501. Among many other provisions, the IRA imposed a 1 percent excise tax on share repurchases by covered corporations that exceed $1 million in a calendar year beginning with repurchases in 2023. (H.R. 5376).

In April 2024, the IRS issued two sets of proposed regulations. The first set of proposed regulations provide substantive guidance regarding the application of the tax. The second set of regulations addresses reporting requirements.

APPLICATION OF THE EXCISE TAX

Most stock repurchased by a covered corporation and transactions that are economically similar to a stock repurchase are subject to the 1 percent excise tax. A covered corporation includes a domestic corporation whose stock is traded on an established stock exchange.

While the excise tax targets domestic corporations, a U.S. affiliate of a publicly traded foreign corporation in certain circumstances may be subject to the 1 percent excise tax. The proposed regulations treat instruments that are treated as stock for federal tax purposes as stock for purposes of the excise tax. Furthermore, the proposed regulations do not provide a safe harbor for privately held corporations for which stock price quotes are regularly available.

Generally, the excise tax liability is calculated by multiplying 1 percent by the excise tax stock repurchase base. The excise tax stock repurchase base is the aggregate fair market value (FMV) of all stock repurchased by a covered corporation, less the FMV of stock that qualifies for a statutory exception and less the FMV of the stock issued by the covered corporation under the netting ruling.

Corporations can select one of four methods to determine FMV for purposes of the repurchase rule: (1) daily volume-weighted average price on date of repurchase; (2) daily closing price on date of repurchase; (3) average high and low price on date of repurchase; or (4) trading price of the stock at the time of repurchase.

There are several statutory exemptions to the excise tax that reduce the excise tax stock repurchase base. These exemptions include the following:

- Stock repurchased to the extent it is part of a tax-free reorganization pursuant to IRC Section 368 and where no gain/loss is recognized by the shareholder;
- Stock repurchased and contributed to an employer-sponsored retirement plan or employee stock ownership plan;
- Stock repurchases that do not exceed $1 million during the taxable year;
- Stock repurchases by a dealer in securities in the ordinary course of business;
- Stock repurchases by real estate investment trusts and regulated investment companies; and
- Stock repurchases treated as a dividend.

REPORTING REQUIREMENTS

The proposed regulations relating to reporting requirements for the excise tax were finalized on June 28, 2024. In accordance with the final regulations, a covered corporation reports its stock repurchases annually on Form 720, Quarterly Federal Excise Tax Return. Repurchases are to be included on Form 720 for the first calendar quarter after the corporation's tax year-end.

In addition, the company must also attach Form 7208, Excise Tax on Repurchase of Corporate Stock, to Form 720. Form 7208 is used to compute the excise tax owed. The estimated tax impact for 2024 repurchases made by the S&P 500 was $8.41 billion and $7.24 billion for 2023 buybacks. This tax represents less than ½ percent of operating income, but the tax could certainly be increased in the future (S&P Dow Jones Indices 2025). Alternatively, the federal government could institute a distributed profits tax or decide to treat buybacks as dividend for tax purposes (Osborn 2024).

WEIGHING THE FINANCIAL IMPACT OF SHARE REPURCHASES

Based on aggregate data for the S&P 500, share repurchases return more cash to shareholders than dividends. However, large buybacks can leave unintended financial reporting consequences in their wake: very low or negative equity. This impact on the balance sheet reduces its representation faithfulness and decision-usefulness, and it negates the value of ratio analysis based on total equity, such as the debt ratio and ROE.

On the income statement, buybacks can have a significant antidilutive effect on earnings per share by reducing shares outstanding. While an increase in earnings per share is desirable, issuing debt to fund the repurchases may compromise the financial stability of the firm, since no income-producing asset is acquired.

To the extent buybacks are subject to the excise tax, share repurchases now have a negative effect on both cash from operations as well as net income. Thus, taxable repurchases have both dilutive and antidilutive effects on earnings per share.

The first excise tax payment was due October 31, 2024, and it is entirely possible that the excise tax rate will be increased in the future. No such excise tax exists on corporate dividends. Companies making repurchase vs. dividend decisions should carefully consider the financial reporting impacts and the tax consequences of their choices.

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