Today's CPA
Texas Society of Certified Public Accountants

# Meet TXCPA's 2026-2027 Chair

# Angela Ragan

## Grounded in Faith, Guided by Purpose: The Journey of Angela Ragan

**ALSO INSIDE**

**What Private Equity and Family Offices Look for in Acquisition Targets**

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# Celebrating a New TXCPA Year

As we begin a new TXCPA year, I'm honored and grateful for the opportunity to serve as your Chair. Stepping into this role, I feel a deep sense of pride in our profession and, even more so, in the strength of the TXCPA community. Together, we represent a network of trusted advisors, innovators and leaders who make a meaningful difference across Texas every day.

What inspires me most is the way our members consistently step forward – whether mentoring students, leading in their organizations or giving back in their communities. That spirit of service is at the heart of TXCPA. It's also what ensures our profession remains strong, relevant and prepared for what lies ahead. If you are looking for a way to connect and serve this year, please reach out to the TXCPA team to learn about the variety of ways you can give back.

This year, we will continue to embrace both opportunity and change. Advancements in technology, evolving business environments and new pathways into the profession are reshaping what it means to be a CPA. Our impact and strength as a community will be vital to protecting the meaningful value of the CPA license in Texas as we prepare for the 2027 Texas Legislative Session. TXCPA is committed to helping you navigate these changes with confidence – through learning opportunities, connections, and advocacy alerts that keep you informed and supported.

As you explore this issue of *Today's CPA*, you'll find insights on critical topics impacting our work – from tax planning strategies to emerging technologies and audit innovation. These conversations reflect the dynamic nature of our profession and the value we bring as trusted advisors.

I'm truly looking forward to the year ahead and to connecting with you as I attend chapter events, hear your perspectives, and work alongside an incredible group of leaders and volunteers. Thank you for your continued engagement with TXCPA and for the role each of you plays in advancing our profession.

Here's to a successful, impactful year ahead!

Angela R

By TXCPA Chair Angela Ragan, CPA-Central Texas

**What can TXCPA do for you?**

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

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# TXCPA ADVOCACY

## A Preview of 2027

BY KENNETH BESSERMAN, JD, LLM

Just over one year ago, TXCPA concluded a remarkably successful legislative session passing two significant bills. The first bill, SB 262, created a new and additional pathway to CPA licensure, providing candidates with an alternative pathway to licensure. That legislation becomes effective on August 1, 2026.

The second bill, SB 522, modernized and individualized CPA practice mobility, ensuring that CPAs licensed in other states continue to have practice privileges in Texas. Both bills will be instrumental in addressing the CPA pipeline and continuing the seamlessness of CPA practice mobility.

As soon as the 89th legislative session concluded at the end of May 2025, TXCPA began its non-session year advocacy efforts. During the summer and fall months, TXCPA worked closely with the Texas State Board of Public Accountancy to ensure that the proposed rules relating to the new pathway legislation followed the intent of the legislation, were not overly complicated for candidates and educators, and provided a good framework for students to become licensed within the bachelor's framework.

Between the 2025 legislative session and the 2027 session, the 2026 election will take place. The TXCPA Political Action Committee has been working for the past year to review legislative and statewide races and to make recommendations for campaign contributions. The TXCPA PAC has engaged in over 100 legislative races and will review additional races for the November general election. Your contributions matter.


In the coming months before the 90th Legislative Session begins in January 2027, TXCPA and the Legislative Advisory Committee will thoroughly review and approve our legislative agenda for the session. When we all gather in Austin in January for our Advocacy Day, members will learn about our 2027 issues and how to make an impact on our Capitol visits.

TXCPA appreciates all the demanding work that our members have undertaken to spread the word about our advocacy program, our legislative successes, and communicate to legislators our issues and our thanks for supporting our efforts.

The 2027 Legislative Session is right around the corner. Please take the time to engage with TXCPA and our advocacy to learn more.

***About the Author:*** Kenneth Besserman, JD, LLM, is TXCPA's Director of Government Affairs and Special Counsel. Contact him at kbesserman@tx.cpa.

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

Members and student guests gathered at the **TXCPA Brazos Valley** Annual Meeting, where panelists shared career journeys and their passion for the accounting profession. Attendees also heard an update from TXCPA's Kenneth Besserman on key issues affecting the CPA license and ongoing advocacy efforts. This spring, members from Seidel Schroeder connected with Blinn College accounting students at its Accounting Careers Showcase across three campuses. Through real-world insights and practical advice, they helped students better understand the many paths within the profession.

**TXCPA Houston** recognized the University of Houston's VITA volunteers with a celebration lunch honoring the students, faculty and administrators who helped deliver free tax prep to more than 800 seniors and low-income families. Members also gathered at the Houston Arboretum for Cultivating Connections: A CPA Garden Party, an evening of conversation, recognition and fun in a beautiful outdoor setting. At a relaxed Mix and Mingle event, they reconnected, met new faces and strengthened ties across Houston's accounting community.

**TXCPA Panhandle** held the chapter's 1st Annual Pars for the Profession Golf Tournament and it was a swinging success! Thanks to the incredible support of players and sponsors, 12 teams took to the course for a day of camaraderie, competition and fun, raising $1,700 for scholarships benefiting accounting students in the Texas Panhandle region. This meaningful event brought the community together, and the strong turnout and generosity on display highlight the chapter's commitment to investing in the next generation of CPAs.

**TXCPA South Plains** members gathered for their final chapter meeting of the year. The event featured a presentation by Dr. Feruzan Irani Williams of the Texas Tech University Rawls College of Business Administration, who shared insights on Bridging Generations and fostering stronger connections across today's diverse workforce. The chapter also recognized their outgoing president and board members, and honored several members with awards for their contributions and commitment to the profession. It was a memorable and celebratory close to a successful year.


TXCPA Brazos Valley


TXCPA Houston


TXCPA Panhandle


TXCPA South Plains

## 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!

WORD GAME:

# Texas Sales Tax Audits

Test your insight and word-finding skills with this quick, interactive game based on the article "Texas Sales Tax Audits: Why Recordkeeping Determines Who Wins ... and Who Pays Sales Tax." Find key terms and revisit core ideas like exempt, documentation and liability – all in a fun, fast challenge.

## QUESTIONS

1. What process examines a business's tax compliance and documentation?
2. What must businesses keep organized to defend themselves during a sales tax review?
3. What documents show details of sales, purchases and tax charged?
4. What word describes sales that are not subject to tax when proper proof is provided?
5. What word describes the amount a business may owe in an audit assessment?
6. What additional charges may businesses face for noncompliance besides tax and interest?
7. Which industry group faces unique tax challenges based on contract structure?

• ADVISORS • STRATEGIC • AUDIT • SYSTEMS
• COMPTROLLER • RECORDS • BUSINESS • TAXABLE
• INVOICES • RECEIPTS • MODEL • EXEMPT • CYCLE
• TRANSACTION • RETENTION • LIABILITY • OUTCOMES
• DOCUMENTATION • PENALTIES • EXPERIENCE
• CONTRACTORS • EVIDENCE • CONTROLS

Hints:
1. A____
2. R_____
3. I______
4. E_____
5. L_______
6. P_______
7. C_______

See the answers on page 29 of this *Today's CPA* issue. Answers are not for CPE credit.

# Celebrating the Future:

## Accounting Excellence Awards Presented

The Accounting Excellence Award celebrates top accounting students from Texas colleges and universities. Following are the recipients for 2024-2025.

**Katie Adams** - Texas Christian University
**Salvador Aguirre** - University of Texas at El Paso
**Ethan Arias** - Hardin-Simmons University
**Seth Bloom** - Midwestern State University
**John Burrus** - Texas State University
**Paige Cagney** - University of Texas at Austin
**Preston Carter** - Sam Houston State University
**Abigail Chambers** - Texas Lutheran University
**Eric Cordero** - Texas Wesleyan University
**Natalie Davis** - Texas A&M University - Texarkana
**Ashton DeRouen** - Lamar University
**Adam Elbanna** - University of Houston
**Jennifer Engles** - University of Houston - Clear Lake
**Brandon Epps** - Texas Tech University
**Rodrigo Escobar** - Texas A&M University - Corpus Christi
**Kailey Fischer** - Stephen F. Austin State University
**Santiago García Rosales** - Texas A&M International University
**Karysma Garza** - Texas A&M University - San Antonio
**Rebekah Garza** - St. Mary's University
**Carter Gray** - Southern Methodist University
**Sarah Hamdalla** - Texas A&M University - Victoria
**Matthew Harman** - University of the Incarnate Word
**Hadassah Hethcoat** - University of Texas Permian Basin
**Audrey Knoll** - Texas A&M University
**Emily Kraft** - Texas Woman's University
**Lorena Lalaj** - University of Texas at San Antonio
**Madeline Leard** - Baylor University
**Jaid Lehew** - University of Dallas
**Jennifer Lopez-Bolanos** - University of Houston - Downtown
**Juliette Lostracco** - University of Texas at Tyler
**Anthony Lovell** - Angelo State University
**SJ Marais** - Houston Christian University
**Gale Marden** - McMurry University
**Nicholas Nutt** - University of St. Thomas
**Mariam Oyeyemi** - University of Texas at Arlington
**Haylee Reyna** - Texas A&M University - Kingsville
**Lino Rodriguez** - St. Edward's University
**Katherine Romero** - Prairie View A&M University
**Nelson Rose** - Trinity University
**Lillian Ross** - Abilene Christian University
**Isaac Silvey** - West Texas A&M University
**Jennifer Soto-Rios** - East Texas A&M University
**Rohan Springe** - University of Texas at Dallas
**Jaelynne Williams** - Texas Southern University
**Heorhii Yefymenko** - Tarleton State University
**Zach Ziebold** - University of North Texas

HELP SHAPE TXCPA'S FUTURE:

# Submit Leadership Nominations Today


The 2027-2028 TXCPA leadership nominations process is officially open. TXCPA is accepting nominations for several key leadership roles, including Chair-elect, Treasurer-elect, Secretary, Board of Directors, Leadership Council Members-at-Large, Nominations and Board Development Committee Members-at-Large, Nominations Council Members-at-Large and AICPA Council.

Nominations must be submitted by **September 1, 2026**. For nomination forms, eligibility details and a complete overview of the process, go to TXCPA's website at https://txcpa-nominations.secure-platform.com/a.

## ACAN is a Safe Place to Turn

If you're facing addiction, substance use or mental health challenges, TXCPA's Accountants Confidential Assistance Network is here to help. Access support, weekly groups and resources at tx.cpa/resources/acan. Call 866-766-ACAN or text 214-566-2854. All communications are strictly confidential by law.

GROUNDED IN FAITH, GUIDED BY PURPOSE:

# The Journey of Angela Ragan

In every profession, there are leaders whose careers reflect not only technical excellence but a deeper sense of calling. Angela Ragan – TXCPA's incoming Chair for the 2026–2027 year – is one of those rare individuals whose journey blends faith, purpose and a steadfast commitment to serving others. From her beginnings in a small East Texas town to her role as a shareholder at JRBT, PC in Waco, her story is shaped by perseverance, humility and a passion for guiding people through life's most important financial decisions.

What follows is a closer look at the experiences, values and defining moments that have shaped her – a portrait of a professional whose life remains, in every sense, grounded and balanced.

## A SPARK IN A SMALL-TOWN CLASSROOM

For Angela Ragan, CPA-Central Texas, the path to accounting began before she ever imagined a career in the profession. As a high school freshman in Karnack, a small East Texas town near the Louisiana border, she stepped into her first accounting class and discovered something that immediately captivated her: the balance sheet.

The idea that "everything had to balance" was fascinating – and it felt like a puzzle she was meant to solve. Financial literacy was new territory, but the structure and logic of accounting resonated deeply.

Ironically, accounting wasn't part of her original plan. Angela intended to become a pediatrician and saw accounting as a practical skill needed for managing the financial statement of a future medical practice. But while preparing for medical school at Baylor University, she sensed her path was shifting. After prayerful reflection, she realized medicine wasn't the career for her. Accounting was instead.

## FROM BAYLOR TO THE BIG FOUR – AND BACK TO CENTRAL TEXAS

Angela graduated from Baylor University in 2003 with a degree in accounting and launched her career at PricewaterhouseCoopers in Houston. The experience gave her a strong foundation in complex financial work at one of the nation's largest firms.

> "Clients often call us first when major decisions are on the table."

In 2005, she returned to Central Texas to join JRBT, PC in Waco, a move that would define the next chapter of her professional life. Today, she is a shareholder at the firm, focusing on sophisticated compliance and planning for individuals, partnerships, corporations and trusts. Her expertise spans financial institutions, insurance companies, and oil and gas entities. For Angela, accounting has never been just about technical mastery. It's about people.

## AT A GLANCE –

**Angela Ragan**
**CPA-Central Texas**

**Hometown:** Karnack, Texas

**Education:** Baylor University, BBA in Accounting

**Current Role:** Shareholder, JRBT, PC, Waco

**Areas of Accounting Practice:**

- Complex tax compliance and planning
- Financial institutions
- Insurance companies
- Oil and gas entities
- Trust and estate planning
- Business succession and multi-generational planning

### A CALLING TO SERVE CLIENTS THROUGH LIFE'S MOST IMPORTANT MOMENTS

Angela thrives on helping clients navigate some of life's most important and complex decisions, whether it involves tax planning, business succession, trust matters or strategies for multi-generational family businesses. While the technical side of the work is important, she especially values the personal side, the conversations that help clients better understand complicated issues and feel confident about the path ahead.

"I enjoy sitting down with clients to work through challenges that often extend far beyond tax compliance," she said. One day, the discussion may focus on preparing the next generation to take over a family business. Another may involve helping a client structure a trust or evaluate a significant business opportunity. For Angela, "The most rewarding part is translating difficult concepts into practical guidance clients can trust and act on with confidence."

Over time, those conversations often evolve into long-standing relationships. Clients come to rely on her not only for technical expertise, but also for perspective during pivotal moments in their personal and professional lives. As a trusted advisor, she is frequently the first call clients make when facing a major decision – whether expanding a business, planning for the future of their company, or celebrating milestones like welcoming children or grandchildren into the family. "Being part of those moments and helping clients navigate what comes next is one of the aspects of my work I find most meaningful," she said.

Olivia Ragan, Reginald Ragan, Angela Ragan and Dennis Ragan

> "Our profession is about excellent work – and caring for the people we serve."

### ROOTS THAT SHAPED A LEADER

Growing up as the youngest of six children, Angela was raised in a family where faith, hard work and education were deeply valued. With all five of her older siblings attending college before her, she grew up knowing higher education was not only possible, but a priority. Their example gave her something to strive toward and reinforced the belief that with determination and support, she could achieve her own goals.

Attending Baylor University was a dream she worked hard to reach. Coming from the small town of Karnack, where few students left to attend a university like Baylor, the opportunity felt both exciting and humbling.

The experience expanded her perspective in ways she never could have imagined growing up, exposing her to new opportunities and possibilities while also challenging her to prove to herself that she belonged there. She knew getting accepted was only the beginning – succeeding there would require the same perseverance and work ethic she had learned growing up.

At the same time, Baylor reinforced the values that had always grounded her. Her parents taught her to trust God first, lean on family and remember where she came from. The support of her parents and siblings gave her the confidence to pursue opportunities that once seemed out of reach and helped carry her through the challenges of college life. Those lessons continue to shape how she leads, serves clients and gives back to her community today.

Angela believes a strong foundation is essential to long-term success. She said, "The principles I learned at home – treating people well, working hard and staying humble – remain at the center." For her, education expanded her world, but it was the foundation built by faith and family that made those opportunities meaningful.

### A HEART FOR SERVICE – PROFESSIONALLY AND PERSONALLY

Angela's dedication extends far beyond her firm and client work. She has been an active volunteer within TXCPA for many years, contributing her time and leadership at both the state and local levels to help strengthen the profession and support future generations of CPAs.

Her commitment to service is equally evident throughout the Waco community, where she has invested significant time in organizations focused on helping others and creating meaningful opportunities for growth. She is a past president of Caritas of Waco and Compassion Ministries, two organizations deeply rooted in serving vulnerable populations and providing support to individuals and families in need.

In addition, she mentors students through the Greater Waco Chamber's LEAD program, helping young people develop leadership skills and gain confidence as they prepare for future careers.

Her faith also remains an important part of her life and service. At Victorious Life Church, she serves as both a worship leader and board treasurer, combining her passion for ministry with her professional expertise in stewardship and leadership.

### SEEING ACCOUNTING THROUGH A WIDER LENS

Angela is passionate about helping students and young professionals understand the true breadth and impact of the accounting profession. Too often, she says: "Students view accounting as limited to taxes, spreadsheets and compliance work, without realizing how many opportunities the profession can create. In reality, accounting can open doors to leadership, entrepreneurship, consulting, finance, nonprofit work and countless other career paths."

She encourages students to think beyond the traditional image of an accountant and instead see the profession as a gateway to a wide range of possibilities. Accountants are often trusted advisors sitting at the table where important business and financial decisions are made, bringing insight, strategy and integrity to those conversations.

For students who are passionate about giving back, the profession also provides meaningful opportunities to serve communities and nonprofit organizations while building a rewarding career.

She hopes students recognize that accounting is far more dynamic and impactful than they may initially imagine. To her, choosing accounting is not about committing to a single narrow path; it is about stepping into a profession that can lead in countless directions, many of which students may not even realize exist yet.

Angela believes one of the profession's greatest strengths is its combination of flexibility, stability and long-term relevance. The COVID-19 pandemic reinforced that reality as accountants worked tirelessly to help individuals, families and businesses navigate uncertainty and rapidly changing financial conditions. In many ways, the profession became even more essential during that time, demonstrating the critical role accountants play not only for their clients, but also for communities and the broader economy.

Just as meaningful to Angela is the appreciation she receives from clients whose lives and businesses have been positively impacted by the guidance and support she and her firm provide.

### A LIFE IN BALANCE

Outside of work, Angela is intentional about nurturing the relationships, activities and rhythms that bring her joy and relaxation. A meaningful part of her life is serving in ministry alongside her husband on their church's worship team. They met nearly 24 years ago through Baylor's Heavenly Voices Gospel Choir, when he was a guest vocal instructor and she was a student. What began as a shared love of music has grown into a lifelong partnership rooted in faith, worship and service.

Music remains a central part of her life and she continues to sing on Sunday mornings with the worship team while her husband serves as worship pastor at their church. Beyond music, Angela also enjoys spending time with family and mentoring others in the community. She finds deep fulfillment in local nonprofit involvement and volunteering, viewing it as both a privilege and a responsibility to give back, especially because others once invested in her.

Family time is especially important and each year, they plan a major family vacation together. The process is collaborative, with the family choosing the destination and making it a priority to create lasting memories. This year's trip is to the Bahamas.

When she is on vacation, Angela is fully present with her family and intentionally steps away from work – no emails, no calls – so she can be fully engaged in the experience. She is intentional about communicating that boundary, knowing that when it is time to work, she works hard, and when it is time to be with family, she is fully with them.

Even in her downtime, Angela finds simple ways to unwind and reset, including watching television shows in their original languages with subtitles, which she says helps quiet her mind and offers a window into other cultures. Across all these activities, her approach remains consistent: to be fully present wherever she is, whether in service, in work or with family, and to make each moment count.

### A LEGACY OF FAITH, INTEGRITY AND SERVICE

When Angela reflects on the legacy she hopes to leave, she is not focused on titles or accolades, but on the impact she's had on people. She wants her life to reflect faith, integrity, compassion and service, and for others to feel valued and supported. At the heart of her legacy is the desire to care deeply for people and to use her abilities to make a meaningful, positive difference in their lives.

She also aspires to be a source of encouragement within the accounting profession, especially during demanding seasons when stress and pressure can overshadow purpose. In those moments, she hopes to bring perspective, reminding others of the meaning behind the work and the importance of leading with hope.

For Angela Ragan, the work is about excellence, yes – but even more, it's about caring for the people she serves. In that sense, her life and career remain perfectly, beautifully balanced.

### TXCPA Leadership:

- Past President, TXCPA Central Texas
- Leadership Council
- Governance Committee
- Strategic Planning Committee
- Former Treasurer
- Former Finance Committee Chair
- Former Executive Board Member

### Community Involvement:

- Past President, Caritas of Waco
- Past President, Compassion Ministries
- Mentor, Greater Waco Chamber LEAD Program
- Worship Leader and Treasurer, Victorious Life Church

### Fun Fact:

- She loves watching TV shows in their original languages with subtitles – her favorite way to unwind.

# Beyond the 5% Rule:

## Transforming Audit Materiality with Blockchain and Explainable AI

BY ACHINTYA GHAYAL

Professional judgment has never been a matter of strictly objective analysis and materiality has long been assessed in a manner that went beyond the results of objective calculations. In fact, for a long time, auditors have used certain benchmarks, such as 5% of net earnings or 1% of total assets, as a starting point for materiality considerations.

Of course, these benchmarks are very helpful, but they were never designed to be used in isolation. In fact, auditors have long considered various qualitative factors in the course of their planning activities. However, as the complexity of financial reporting has increased, these fixed benchmarks have proven increasingly less relevant for reflecting the views of financial statement users regarding what is material.

The listed companies are now under more intense scrutiny. The enhanced financial reporting obligations, the rise of ESG reporting and the threat of cybersecurity breaches have changed the landscape of assessing information. Under these circumstances, relatively immaterial discrepancies or nonfinancial matters below the conventional thresholds may have a bearing on judgment and undermine confidence.

In this article, there is no implication that auditors ignore their professional judgment and blindly follow a certain percentage. Rather, there is a structural issue that has been pointed out with regards to reviewing, documenting and assessing materiality judgments throughout an engagement.

To fill this gap, this article proposes an Adaptive Materiality Framework that can be used for a systematic re-evaluation of materiality when risk events arise. This framework is not intended to supplant professional judgment or existing audit procedures. Rather, it is a systematic way of identifying risk events, recalculating thresholds with specified inputs and tracing logical adjustments made with a clear rationale.

### THE ADAPTIVE MATERIALITY FRAMEWORK: KEY DISTINCTIONS

The goal of the Adaptive Materiality Framework is "to fill a gap in traditional audit planning, whereby once materiality is determined, it is seldom remeasured systematically even when new risk factors arise." This framework does not supersede existing standards or professional judgment; rather, it is used in conjunction with them.

In this approach, auditors would begin with a baseline, such as a percentage of net income, revenues or total assets, as in firm methodology. The difference is in the manner of the baseline. Rather than being constant, it is now open to review whenever there are considerations of risk. The considerations are those that auditors already review but are not necessarily quantified within materiality limits.

The recalculation process has three structured inputs, which are financial sensitivity, ESG disclosure risk and operational or cyber disruption risks. These three inputs are linked to distinct types of risk that can influence how financial information is viewed by stakeholders. When there are risks identified by one or more inputs, it is possible to reduce materiality to ensure that important information is not missed due to a traditional cut-off point.

One of the hallmarks of the framework is documentation. Every change of materiality is accompanied by a reason for the change. The importance of traceability is what ensures that the adaptive method is distinct from the traditional method of change.

### STEP-BY-STEP RECALCULATION PROCESS

The Adaptive Materiality Framework provides a replicable procedure that allows auditors to reassess materiality as new information emerges. Professional judgment remains central, but the procedure promotes consistency and clarity.

The process begins with establishing baseline materiality using existing benchmarks embedded within firm methodologies. This serves as the foundation for audit planning. As the engagement progresses, the audit team monitors for trigger events such as financial volatility, emerging ESG disclosures and operational or cybersecurity disruptions. Not every identified matter requires recalculation and the framework provides guidance for determining when reassessment is appropriate.

When a trigger event is identified, the auditor evaluates it against the three structured inputs. These inputs translate qualitative risk considerations into a basis for reassessing materiality, particularly where stakeholder sensitivity is high. When recalculation is warranted, both the adjustment and its justification are documented in a standardized format.


**A Summary**

**This article will help you:**

- **Apply professional judgment more consistently**
- **Defend materiality decisions under regulatory scrutiny**
- **Adapt to modern risks (ESG, cyber, volatility)**
- **Improve audit documentation and quality**
- **Prepare for the future of tech-enabled auditing**

This cycle continues throughout the engagement. The recalculation process is depicted in Exhibit 1.

### ESTABLISHING THE INPUTS USED IN THE RECALCULATION PROCESS

The Adaptive Materiality Framework relies on three structured inputs to guide decisions regarding when and how materiality thresholds should be reconsidered.

**Financial sensitivity** refers to the degree to which financial performance is affected by small changes in transactions or estimates. Indicators of heightened financial sensitivity include unstable income streams, significant period-end fluctuations, low profit margins, and extensive use of estimates and accruals. Elevated financial sensitivity supports the use of lower materiality thresholds.

As ESG information becomes more integrated into investor analysis and regulatory frameworks, gaps or inaccuracies in such disclosures may influence stakeholder perceptions beyond immediate financial performance. **ESG disclosure risk** refers to the possibility that non-financial information, such as environmental performance or governance practices, may be material to stakeholders. Elevated ESG risk may warrant reconsideration of materiality.

**Operational issues, system disruptions and cybersecurity incidents** may signal weaknesses in internal controls, even if they have not yet resulted in material misstatements. Such disruptions may increase the likelihood of error or fraud, so they merit increased audit attention.

### WHY BLOCKCHAIN ANCHORING AND EXPLAINABLE AI ARE IMPORTANT

Within the Adaptive Materiality Framework, blockchain anchoring and explainable artificial intelligence are used to strengthen documentation rather than replace professional judgment. Through blockchain anchoring, the rationale for materiality adjustments can be recorded on a permissioned, immutable ledger accessible to the audit team, reviewers and regulators.

Explainable AI complements this process by providing a standardized means of communicating rationales. Rather than relying on narrative workpapers of varying detail, explainable AI enables concise explanations that clearly link risk inputs to materiality thresholds.

### CASE ILLUSTRATION: CANTALOUPE INC.

The application of the adaptive approach can be illustrated using the SEC enforcement action involving Cantaloupe Inc. In June 2023, the SEC charged the company with improper revenue recognition related to transactions occurring between 2017 and 2018. The company overstated revenue by $2.56 million in 2017 and by $2.05 million during the first three quarters of 2018. Although these amounts fell below the 5% threshold, they were deemed material and misleading.

Under the Adaptive Materiality Framework, these misstatements would have been evaluated differently once risk signals emerged. Significant quarter-end revenue variability indicated heightened financial sensitivity, meaning even relatively small misstatements could distort performance trends. In addition, the nature of the misstatements reflected operational risk related to revenue recognition timing.

Taken together, these factors support reducing the materiality threshold below conventional levels. Under the revised threshold, the misstatements would not be considered immaterial and would be identified for further testing earlier in the audit process. The rationale for this adjustment would be documented and anchored for subsequent review.

### ADAPTIVE MATERIALITY: A FLEXIBLE FRAMEWORK FOR MODERN AUDIT REALITIES

While fixed materiality benchmarks have long provided a useful starting point, today's reporting environment demands greater flexibility. The Adaptive Materiality Framework addresses this challenge by allowing materiality to be recalculated as risk conditions change.

By integrating structured risk inputs with transparent documentation, the framework improves consistency and inspection readiness without displacing professional judgment. When applied thoughtfully, the framework enables firms to align materiality judgments with the realities of modern audits.

#### Exhibit 1. Step-by-Step Recalculation Process

**STEP 1.** Establish Baseline Materiality - Define initial threshold using company benchmarks (i.e., 5% of Net Income)

**STEP 2.** Identify Trigger Event - Detect significant risks that may warrant recalculating materiality, such as financial sensitivity, ESG disclosure issues, operational/cyber risk, business and cyber disruptions, etc.

**STEP 3.** Reassess Materiality Level - Use structured inputs to determine threshold adjustment, such as financial sensitivity, ESG risk, operational disruption, etc.

**STEP 4.** Document Materiality Changes - Record revised threshold and rationale in a standardized format

**STEP 5.** Evaluate and Monitor - Continuously monitor changes and reassess materiality as new risks emerge

**Adjusting materiality should be a documented and structured process that turns risk insights into clear audit decisions.**

***About the Author:*** Achintya Ghayal is a Data Science major with a strong focus on accounting, auditing and emerging technologies. His work explores how innovations such as blockchain, artificial intelligence and sustainability analytics can modernize traditional financial practices.

Please see the *Today's CPA* section of TXCPA's website for the works cited in this article.

Author's Note: AI-assisted tools were used solely for editorial support, including grammar, wording and flow. All ideas, analysis and conclusions are the author's own.

# What Private Equity and Family Offices Look for in Acquisition Targets

BY EVAN LEE AND RICK STEIN

**Why This Matters for CPAs**

This article equips CPAs to bridge the gap between financial reporting and transaction readiness – helping clients build businesses that are not just profitable, but marketable and valuable to sophisticated buyers.

## KEYS TO A SUCCESSFUL ACQUISITION

For founders and CPAs advising closely held businesses, understanding how private equity firms and family offices evaluate potential acquisitions can meaningfully impact outcomes for clients considering a sale or recapitalization. While financial performance matters, the most attractive opportunities often combine strong fundamentals with thoughtful leadership and operational discipline.

**1. Quality of Earnings and Cash Flow**
Consistent, defensible cash flow is the foundation of any transaction. Buyers look for businesses with recurring or repeat revenue, healthy gross margins and clean financial statements. Well-prepared financials build credibility and speed up diligence. Businesses that invest early in financial hygiene tend to command better terms and valuations.

**2. Leadership and Succession Readiness**
Strong management teams materially increase buyer interest. Businesses that are overly dependent on a single owner often face valuation or structure challenges. Companies that invest in leadership depth, document processes and develop next-level managers are more attractive and more flexible in deal structuring. Succession planning, even informally, is one of the most value-accretive steps an owner can take.

**3. Durable Market Position**
Buyers prioritize companies with defensible niches, long-standing customer (and/or vendor) relationships, and products or services that are mission-critical to their customers. Market leadership does not require being the largest player, but it does require clarity on why customers choose you and why they stay. Concentration risk, pricing power and supplier dependencies are key areas buyers evaluate closely.

**4. Operational Discipline and Growth Runway**
Buyers look for clear operational rhythms: defined KPIs, budgeting discipline and basic process documentation. Just as important is visible runway for growth, whether through geographic expansion, new products, or professionalizing sales and marketing. Buyers favor companies with proven demand and a credible plan to scale responsibly.

**5. Cultural and Strategic Fit**
In the lower middle market, culture matters. Many family offices and investors are long-term partners. Alignment on values, customer philosophy and treatment of employees often determines whether a transaction creates durable value post-close.

## A REAL-WORLD EXAMPLE:

### PORTAL DRIVE PARTNERS ACQUIRES BUSINESS

Portal Drive Partners recently acquired a specialty distributor and manufacturers' representative serving both residential and commercial contractors. The owner had spent decades building the business and stayed on post-close – which has made the transaction a good illustration of how these five criteria actually show up in a deal.

**1. Quality of Earnings and Cash Flow**

The business had consistent repeat revenue and healthy margins. What stood out in diligence was the limited number of addbacks – the financials were largely what they appeared to be, which is not always the case in businesses of this size. Fewer adjustments meant less friction in negotiations and a cleaner story for lenders.

**2. Leadership and Succession Readiness**

The owner had a trusted right-hand person who knew the business well and he was willing to remain involved after close in the same capacity. That said, a full management team was not in place – and we were all aligned on this matter. The plan is to bring on an additional team member to take on day-to-day operational responsibilities, so the owner can focus his time where it matters most: customer relationships, manufacturer partnerships, growth initiatives, etc. Buyers can work with gaps in a management team if there is a concrete plan to address them.

**3. Durable Market Position**

The company holds exclusive, territory-based representation agreements with its manufacturers, earned over decades and not easily displaced. In this business model, those territorial exclusivities are the competitive advantage. Whoever holds the agreements controls the territory. The strength and tenure of those manufacturer relationships drove a significant portion of our investment thesis.

**4. Operational Discipline and Growth Runway**

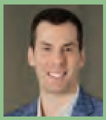
The business ran on processes that had been refined over many years – vendor agreements documented, customer relationships understood, nothing held together with duct tape. Post-acquisition, the work has been adding financial reporting infrastructure and controls. On growth, the focus is organic first, with selective M&A where the right opportunity presents itself.

**5. Cultural and Strategic Fit**

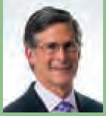
The owner was not chasing the highest number. He wanted to know the business would be taken care of – the employees, the vendor relationships, the reputation he had built. That conversation happened early and it shaped everything that followed. When a seller and a buyer are aligned on what a good outcome looks like, the process tends to go better. This one did.

## EARLY PLANNING DRIVES THE BEST EXIT OUTCOMES

For CPAs working with business owners, the lesson is simple: none of this happens overnight. The clients who get the best outcomes are the ones who started preparing – often with their CPA's help – well before they were ready to sell.

Evan Lee, CPA, is the Founder of Portal Drive Partners. Evan is a former CFO and brings an operator's perspective to working with management teams on growth strategy, financial discipline and value creation. He has completed 20+ transactions in his career.



Rick Stein, a former CPA, is a Partner at Portal Drive Partners. He previously was managing partner at a local CPA firm that grew from five employees to 500+ employees and later assisted in the acquisition of 35+ CPA and consulting firms during his tenure at BDO. Rick brings deep experience in professional services, transaction execution and integration.


About Portal Drive Partners: Portal Drive Partners is a private equity firm/independent sponsor focused on partnering with founders and management teams of lower middle market businesses across industrial and health care services. The firm focuses on businesses that generate EBITDA of $2MM to $8MM. The firm provides flexible capital, collaborative partnership and hands-on operational support to help businesses scale, professionalize and execute successful ownership transitions.

# Texas Sales Tax Audits:

## Why Recordkeeping Determines Who Wins … and Who Pays Sales Tax

BY MICHAEL J. ROBERTSON


Texas sales and use tax audits are increasingly driven by data, speed and documentation. For Texas businesses, the difference between a manageable audit and a costly assessment often comes down to one factor: recordkeeping.

CPAs are trusted advisors and should know what to ask their clients when faced with an audit. This article explores the importance of recordkeeping in Texas sales and use tax audits and provides practical insights for businesses.

### A NEW ERA OF AUDIT ENFORCEMENT

Over the past several years, the Comptroller of Public Accounts has undergone a steady shift in audit activity marked by stronger staffing levels, enhanced training programs and standardized testing. These changes reflect a broader strategic effort to increase audit efficiency, expand taxpayer coverage and reduce backlogs. For business owners, this translates into an audit process that begins sooner, moves faster and demands greater precision in documentation.

Although auditor turnover remains an ongoing challenge, the burden of continuity falls largely on the taxpayer. When an auditor leaves midstream, the newly assigned auditor may request that portions of the audit be revisited to ensure completeness. This can extend timelines, disrupt operations and introduce uncertainty into the process.

Many business leaders do not fully appreciate the importance of proactively managing communication and documentation during auditor transitions. When records are well-organized,

**"WITH STRONG RECORDKEEPING, CPAS CAN HELP PROTECT THEIR CLIENTS FROM A COSTLY AUDIT."**

reconciled and accessible, disruption is minimized. When they are not, the audit expands in both scope and duration. In this new audit environment, preparation is not optional – it is essential.

### THE PRIMARY REASON SALES TAX AUDITS FAIL: MISSING OR INCOMPLETE RECORDS

Business leaders often assume that an auditor's role is to uncover wrongdoing, but the reality is far more procedural: auditors must verify tax outcomes using supporting evidence. In a Comptroller audit, that evidence comes in the form of invoices, receipts, resale certificates, reports, and digital accounting records. If these records are incomplete or unavailable, auditors cannot confirm compliance. As a result, the law permits estimation.

An estimated audit is not a punishment, but it may feel like one. Businesses that cannot substantiate their tax handling may face liability that far exceeds actual exposure. This is especially true when exempt sales or tax-paid purchases are questioned. The result frequently includes unnecessary tax due, penalties and interest – all of which could have been avoided through proper documentation.

### THE COST OF AN ESTIMATED AUDIT: A REAL-WORLD EXAMPLE

Consider a business currently facing more than $1,000,000 in estimated liability. The issue was not fraud or intentional underpayment. Instead, the business experienced turnover, software changes and storage failures that resulted in lost records. Without invoices to review, the auditor developed a projection model based on available samples. That model assumed that a large percentage of untaxed transactions were taxable, an assumption the taxpayer believes is inaccurate.

Our role is to rebuild records, evaluate methodology, challenge sample validity and support alternative calculations. This process requires technical skill, extensive experience and the ability to apply Comptroller rules strategically. The lesson is clear: complete records protect taxpayers, while missing records create risk far beyond what most businesses anticipate.

### WHY TEXAS SALES TAX RECORDKEEPING IS DIFFERENT

Texas imposes documentation standards that are far more rigorous than those commonly associated with federal audits. While the IRS may review sales summaries, the Comptroller reviews transaction-level detail. Consider this:

- Sales invoices must be reconciled to the general ledger
- Exempt sales require resale certificates, exemption letters or interstate proof of delivery
- Purchase invoices must include tax treatment, vendor information and item descriptions
- Job-cost materials and capital assets receive special tax consideration

Many business leaders assume that verbal proof, internal notes or common industry practice is sufficient. Unfortunately, none of these qualify as acceptable evidence under Comptroller rules. This difference in documentation standard is one of the most powerful reasons taxpayers struggle to defend their records during audit.

### THE FOUR-YEAR RULE

Most sales tax audits review four years of activity. This extended lookback period amplifies the consequences of missing or damaged records. A two-month gap in documentation is not limited to that period alone; auditors may extrapolate exposure across the full audit cycle to determine liability. Businesses that change accounting systems, transition personnel or store paper files offsite frequently encounter problems reconstructing the past.

The best defense is consistent retention planning, digital archiving and secure backup. When retention policies are proactive, audit outcomes improve significantly. When they are reactive, taxpayers face steep challenges.

### COMPTROLLER AUDITS ARE MANDATORY

Some business leaders believe audits can be delayed or avoided if they are not ready to produce records. In reality, audit notices impose legal obligations. Failure to comply does not prevent assessment – it accelerates it. The Comptroller may issue estimated determinations, apply penalties or pursue enforced collection. Once an audit begins, businesses must participate actively.

The most successful audit defenses start early, rely on accurate information and anticipate Comptroller priorities. Businesses that wait until the later stages of audit often lose strategic opportunities to reduce exposure.

### WHO IS MOST AT RISK?

Although any registered taxpayer may be audited, certain industries experience higher frequencies due to transaction volume, statutory complexity and historical exposure trends. For example:

- Restaurants, bars, manufacturers, contractors, transportation companies, retailers, and hospitality providers may face routine audit cycles
- Nearly all mixed beverage permit holders will experience both sales tax and mixed beverage audits
- Contractors face unique challenges depending on contract structure – lump sum versus separated contract
- Manufacturers must document qualifying exemptions

Businesses with high cash volume, manual systems and decentralized accounting functions are especially vulnerable. Preparation is key, regardless of industry type.


### SMART STRATEGIES FOR ACCURATE RECORDKEEPING

Effective recordkeeping begins with clearly defined internal controls. Businesses should standardize invoice storage, implement digital archiving and reconcile accounts monthly. Retailers and restaurants should align point-of-sale data with tax reporting. Contractors must label materials purchases accurately to reflect taxability. All businesses should maintain resale certificates, exemption letters and bills of lading.

Regular internal reviews help identify exposure early and avoid audit expansion. Staff training is critical. When employees understand documentation requirements, errors decrease, efficiency increases and audit outcomes improve. Good records are not simply compliance … they are protection.

### WHY PROFESSIONAL AUDIT DEFENSE CHANGES THE OUTCOME

Audit success depends on knowledge. Defending a sales tax audit requires:

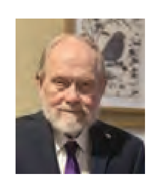
- Understanding Comptroller rules
- Audit sampling
- Nexus law
  - Mixed beverage regulations
  - Contractor taxability
  - Manufacturing exemptions
  - Penalty relief frameworks

Professionals with experience inside the Comptroller office understand how and why decisions are made. They know which questions to ask, which assumptions to challenge and which methodologies may be flawed. Audit defense is not a back-office function – it is a technical practice informed by law, policy and negotiation. Businesses that work with experienced audit professionals consistently achieve better outcomes.

### FINAL THOUGHT: SALES TAX ISN'T A NUMBER – IT'S A SYSTEM

The most important lesson in Texas sales tax is simple: success is not based on intent. It is based on evidence. Accurate documentation, consistent controls and proactive review define audit outcomes long before an auditor arrives.

When tax systems are designed, maintained and tested, businesses thrive. When they are not, audits become costly and disruptive. In today's expanding audit environment, preparation is the strongest financial protection available to Texas businesses.



***About the Author:*** Michael J. Robertson is a former Texas Comptroller audit supervisor. His firm Michael J Robertson P.C. is a CPA firm concentrating on sales and mixed beverage tax audits and compliance. The firm includes former Texas Comptroller auditors with more than 100 years of combined experience in audit administration. This perspective allows them to guide businesses through the entire lifecycle of an audit - from initial notice to resolution - while minimizing liability, disruption and monetary impact. Contact them at michael@robertson-cpa.com or 817-478-5788.

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CPE

**CURRICULUM:**
Tax

**LEVEL:**
Basic

**DESIGNED FOR:**
Tax Practitioners and Public Practice

**OBJECTIVES:**
To provide actionable guidance on cryptocurrency taxation; highlight the importance of regulatory monitoring and proactive recordkeeping to support accurate, ethical and compliant tax reporting

**KEY TOPICS:**
Cryptocurrency taxation; IRS rules; property classification; capital gains; cost basis; Form 1099-DA; digital assets; DeFi/NFTs; recordkeeping; tax software

**PREREQUISITES:**
None

**ADVANCED PREPARATION:**
None

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# Cryptocurrency

## Tax Rules and Challenges Explained

BY THUMINH DANG AND RAN LI

Cryptocurrency taxation has become an increasingly important issue for tax practitioners as digital assets integrate into financial activity. The IRS treats cryptocurrency as property, requiring sales, exchanges, mining, staking, and airdrops to be reported as capital gains or ordinary income. For practitioners, the primary challenge lies in accurately tracking cost basis, holding periods and fair market values when clients transact across multiple wallets, centralized exchanges, decentralized platforms, or emerging instruments such as decentralized finance (DeFi) and non-fungible tokens (NFTs).

Recent IRS initiatives - including the Form 1040 digital asset disclosure, Form 1099-DA reporting and wallet-by-wallet identification - have heightened compliance expectations. Practitioners must consistently apply Internal Revenue Code provisions (§§61, 1012, 1221), leverage specialized software tools and advise clients on strategies such as tax-loss harvesting and long-term holding. This article provides actionable guidance, highlighting the importance of ongoing education, regulatory monitoring and proactive recordkeeping to support accurate, ethical and compliant crypto tax reporting.

### UNDERSTANDING DIGITAL ASSETS AND TAX COMPLIANCE

Cryptocurrencies, such as Bitcoin and Ethereum (ETH), are digital currencies that operate on decentralized blockchain networks and are generally not backed, controlled or owned by governments or central banks (Fidelity, 2025). Created, stored and transferred electronically, cryptocurrencies have no physical form and exist as a cryptographically secure representation of value (PwC, 2019). As adoption accelerates globally (see the Central Bank Digital Currency tracker at atlanticcouncil.org/cbdctracker), digital currencies are increasingly influencing financial markets, investment behavior and regulatory policy (Atlantic Council, n.d.).

Recent developments underscore the growing relevance of cryptocurrency regulation. At the World Economic Forum Annual Meeting 2025 in Davos-Klosters, Switzerland, professionals discussed the potential impact of a more pro-cryptocurrency policy stance in the United States, which could accelerate regulatory clarity and influence global adoption trends (World Economic Forum, 2025). As cryptocurrencies become integrated into financial activity, accounting and tax professionals must understand both existing compliance requirements and emerging regulatory risks.

For U.S. tax purposes, digital assets are treated as property rather than currency. Public Law 117-58 (2021) defines a digital asset as "any digital representation of value recorded on a cryptographically secured, distributed ledger (blockchain) or similar technology." IRS guidance further described examples of digital assets as "convertible virtual currencies and cryptocurrencies such as Bitcoin, Stablecoins and NFTs" (IRS, n.d.-a). IRS Notice 2014-21 establishes this classification in tax, requiring that buying, selling or receiving crypto be treated as capital gains or losses, or ordinary income or losses, and that income received in cryptocurrency be recognized at fair market value.

**Related CPE**

Cryptocurrency Transactions: Navigating Federal Tax Rules
Multiple Dates

Accounting & Auditing for Cryptocurrency
Multiple Dates

Crypto, Blockchain and Taxes
Multiple Dates

Notice 2023-34 further explains the modification of Notice 2014-21 a) to clarify that the statement that virtual currency does not have legal tender status in any jurisdiction is no longer accurate as to Bitcoin; and b) to clarify that virtual currency may serve one or more of the functions of "real currency" through the use of virtual currency to perform "real" currency functions is limited.

Capital gain arises when cryptocurrency is held as an investment and later sold or exchanged at a profit. For example, purchasing one Bitcoin for $20,000 and later selling it for $30,000 results in a $10,000 capital gain. In contrast, cryptocurrency received as compensation, mining rewards or staking income is treated as ordinary income based on its fair market value at the date of

**Table 1. IRCs Application of Crypto and Examples**

| Internal Revenue Code | Key Point | Crypto Application | Examples |
|---|---|---|---|
| § 61 – Gross Income | All income from any source is taxable, including compensation for services, business income and other gains | Crypto received through mining, staking, airdrops, or as payment is treated as ordinary income at fair market value when received | Mine $1,000 in crypto ➔ report $1,000 as income |
| § 1221 – Capital Assets | Defines capital assets and determines when gains or losses apply | Crypto is usually treated as a capital asset; gains or losses are recognized when they are sold, exchanged or disposed of | Buy at $20,000, sell at $30,000 ➔ $10,000 capital gain |
| § 1012 – Cost Basis | Establishes the original value (cost basis) for tax calculation | Basis = purchase price or fair market value when received; used to calculate capital gain or loss | Buy at $20,000, sell at $15,000 ➔ $5,000 capital loss |

**Table 2. Summary of Software for Cryptocurrency**

| Software and Website | Advantages | Limitations | Individual-User Pricing | Business/Pro Pricing |
|---|---|---|---|---|
| CoinTracker https://www.cointracker.io/ | Easy to use; strong exchange integrations; good portfolio tracking | Limited DeFi/NFT support in lower tiers; expensive for high volume | Free (basic); $59-$599/year; Ultra up to ~$1,999/year | Custom pricing for enterprise or Pro plans |
| Koinly https://koinly.io | Supports many exchanges and blockchains; detailed reports; strong DeFi support | Manual edits are needed for complex transactions; limited features are in the free plan | Free, $49 (Newbie), $99 (Hodler), $199 (Trader) | From ~$599/year (for accountants/business use) |
| TokenTax https://tokentax.co | Supports many exchanges and blockchains; detailed reports; strong DeFi support | No free plan; higher cost for advanced features | $65 (Basic), $199 (Premium), $3,499 (VIP), depending on plan | Pricing depends on scale and complexity; a custom quote is required for enterprise plans |

CPE

receipt. These distinctions are fundamental for accurate reporting and tax planning.

Cryptocurrency transactions commonly occur on online exchanges and taxpayers remain responsible for reporting taxable income, including tracking cost basis, holding period and fair market value, even when the third party does not provide a Form 1099-B or equivalent statement. Acceptable accounting methods, such as first-in-first-out (FIFO), late-in-first-out (LIFO) or highest-in-first-out (HIFO), must be applied consistently.

### NAVIGATING CURRENT TAX REGULATIONS OF CRYPTOCURRENCY

The decentralized and pseudonymous nature of cryptocurrency has historically created reporting gaps and opportunities for noncompliance, particularly when transactions span multiple platforms without adequate documentation. In response, the IRS has expanded its enforcement framework through mandatory taxpayer self-disclosure on Form 1040, third-party reporting by exchanges and brokers via Form 1099-DA and retrospective identification methods, such as John Doe summonses[1] directed at exchanges (Gordon Law, 2025).

Under current regulations, cryptocurrency sales and exchanges are subject to capital gains taxation, while income from mining, staking or airdrops is treated as ordinary income with rates depending on holding periods and income brackets. Filing requirements involve reporting dispositions on Form 8949, summarizing results on Schedule D and reporting income on Schedule 1 on Form 1040. Beginning with the 2025 tax year, the IRS introduced a wallet-by-wallet identification requirement, although a temporary safe harbor remains in effect through December 31, 2025 (IRS, 2025).

Accurate recordkeeping is essential to compliance and risk mitigation. Taxpayers may reduce their liability through strategies such as long-term holding and tax-loss harvesting, which uses investment losses to offset capital gains and reduce tax liability. Given the technical complexity and volume of transaction data, using specialized cryptocurrency tax software or consulting with a crypto-knowledgeable CPA is strongly advised.

### CURRENT CHALLENGES FOR TAX PROFESSIONALS

CPAs face growing challenges as client participation in digital asset markets expands. Complexity arises when clients use multiple wallets, transact across centralized and decentralized exchanges, or engage in intricate activities such as mining, staking, yield farming, liquidity provision, or airdrops. Each activity may trigger distinct tax consequences, requiring careful classification as ordinary income or capital gain based on timing and intent.

A strong understanding of relevant IRC provisions is essential. Section 61 broadly defines gross income; income from mining rewards, staking income and airdrops is not exempt. Section 1221 governs the classification of digital assets as capital assets, while Section 1012 governs the rules for determining cost basis and calculating gains or losses upon disposition (see Table 1).

To manage transaction complexity, practitioners may increasingly rely on specialized cryptocurrency tax software platforms such as CoinTracker, Koinly and TokenTax (see Table 2). These tools aggregate transaction data across wallets and exchanges, track cost basis and fair market value, apply consistent accounting methods, and generate reproducible reporting outputs. Without such software, manual compliance for active crypto investors would be impractical.

Moreover, IRS enforcement efforts further heighten compliance risk. The digital asset disclosure question on Form 1040 integrates cryptocurrency activity into mainstream tax reporting. Judicial actions, including *United States v. Coinbase, Inc. (2017)*, demonstrate the IRS's willingness to pursue user transaction data through court-approved summonses. Ongoing guidance – including Notice 2014-21, Revenue Ruling 2019-24 and the IRS Virtual Currency FAQs – continues to shape practitioner responsibilities (see Table 3).

### AUTHORITATIVE SOURCES AND RECOMMENDATIONS

Given the evolving regulatory environment, CPAs must rely on a clear hierarchy of authoritative sources when advising clients on cryptocurrency taxation. At the statutory level, the IRC and Treasury Regulations provide the legal foundation, particularly §§ 61 (gross income), 1012 (basis) and 1221 (capital assets). IRS Notices and Revenue Rulings, most notably Notices 2014-21, 2023-34 and Revenue Ruling 2019-24, serve as primary administrative guidance and should guide tax positions involving cryptocurrency transactions.

In contrast, the IRS Virtual Currency Frequently Asked Questions (FAQs) functions as interpretive guidance rather than binding authority (IRS, n.d.-b). While FAQs offer practical insight into common reporting issues, such as valuation, wallet-to-wallet transfers, and mining or staking income, practitioners should exercise caution when relying on them in isolation. Note that documentation and consistency with statutory authority remain critical, particularly in areas where guidance continues to evolve.

Enforcement developments further inform professional judgment. The use of John Doe summons and judicial decisions such as *United States v. Coinbase, Inc.* (2017) signal heightened IRS scrutiny and reinforce the importance of conservative, well-documented reporting positions. Expanded third-party reporting under Form 1099-DA further reduces the margin of error and increases exposure for inconsistent or incomplete reporting.

From a financial reporting perspective, AICPA has updated its digital assets practice aid to reflect the FASB Accounting Standards Update (ASU) No. 2023-08, which requires certain cryptoassets to be measured at fair value with changes recognized in net income. Although primarily an accounting standard, ASU 2023-08 highlights the growing need for alignment between financial reporting and tax compliance, particularly for entities holding digital assets (*Journal of Accountancy*, 2025).

### MANAGING THE EVOLVING DIGITAL ASSET TAX LANDSCAPE

Cryptocurrency taxation remains a complex and rapidly evolving area requiring sustained professional attention. As digital assets become further integrated into mainstream financial activity, continued

**Table 3. Key U.S. Regulatory Sources on Cryptocurrency Taxation**

| Regulatory Sources | Effective Year | Focus/Guidance | Implication for Taxpayers |
|---|---|---|---|
| Form 1040 with Crypto Disclosure Questions | Since 2020 | Requires taxpayers to disclose crypto transactions on the front page of the return | Increases IRS monitoring and compliance obligations |
| *United States v. Coinbase, Inc.* | (2017) | A legal case is forcing Coinbase to share user data with the IRS | Signals IRS will use legal action to enforce compliance |
| IRS Notice 2014-21 (Modification of Notice 2014-21, IRS Notice 2023-34) | 2014 (2023) | Classifies cryptocurrency as property | Crypto transactions taxed under property rules (capital gains/losses) |
| Revenue Ruling 2019-24 | 2019 | Addresses hard forks and airdrops | Clarifies when taxpayers must recognize crypto income |
| IRS Virtual Currency FAQs | Updated continuously | Practical reporting guidance, cost basis and FMV calculation | Help taxpayers apply IRS rules to real-world situations |

regulatory developments and enhanced enforcement are expected. Tax professionals must remain informed, apply authoritative guidance consistently, adopt robust documentation, and exercise sound professional judgment to ensure accurate reporting and effective risk management.

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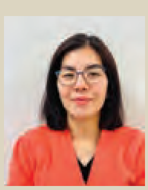


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$232,000 gross. Brazoria County CPA firm. Good reputation in the area with excellent growth possibilities. Service mix comprised of primarily tax with great cash flow. Turn-key opportunity complete with knowledgeable staff and the seller is available for transitional assistance. TXS1326

$2,168,000 gross. East Texas (Near I-20) CPA practice. Reputable firm serving a premier, diverse client base. Boasts an excellent fee structure with revenues derived from a well-balanced mix of tax (55%), audits (20%), acctng/bkkpng (12%), payroll (4%). Equipped with the infrastructure, including a competent staff, it's primed for a new owner and continued growth. TXN5447

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### Get the Answers: Texas Sales Tax Audit Word Game

These are the answers to the word game for the article "Texas Sales Tax Audits: Why Recordkeeping Determines Who Wins ... and Who Pays Sales Tax." How many did you answer correctly? (Answers are not for CPE credit.)

ADVISORS STRATEGIC **AUDIT** SYSTEMS
COMPTROLLER **RECORDS** BUSINESS TAXABLE
**INVOICES** RECEIPTS MODEL **EXEMPT** CYCLE
TRANSACTION RETENTION **LIABILITY** OUTCOMES
DOCUMENTATION **PENALTIES** EXPERIENCE
**CONTRACTORS** EVIDENCE CONTROLS