SEPT/OCT 2016

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The Value of Education

By **Kathryn W. Kapka**, CPA | 2016-2017 TSCPA Chairman and **John Sharbaugh**, CAE | TSCPA Executive Director/CEO

President Abraham Lincoln once said, "Upon the subject of education, not presuming to dictate any plan or system respecting it, I can only say that I view it as the most important subject which we as a people can be engaged in." Likewise, TSCPA's leadership and volunteers believe strongly in the importance of students completing their education, especially in accounting. TSCPA has programs and initiatives in place that focus on reaching students of all ages who represent the future of the accounting profession. The message: Choosing the accounting profession offers vast opportunities for those who major in accounting and obtain the CPA designation.

Through our Accounting Career Education (ACE) and student membership programs, TSCPA works to engage students at Texas universities, colleges, high schools and middle schools. ACE resources are also available for students as early as elementary school.

TSCPA implements career promotions that include partnerships with the 20 chapters across Texas. The chapters are provided with training and resources that assist in the recruitment of volunteer speakers. The goal is to provide a contact for college and university accounting students in their local CPA communities.

ACE program resources include materials and presentations on pursuing an accounting degree and career. In addition to sending volunteer speakers and materials to Texas classrooms, TSCPA hosts special events for community college and university students. Over the years, TSCPA members have reached thousands of students throughout the state.

The Society continues to build relationships with associations of Texas educators. TSCPA's leaders have identified building these relationships as a means for connecting members in their communities. Through these connections, accounting and financial literacy curriculum resources are shared with high school educators at special training events and the availability of classroom speakers is promoted.

In addition, TSCPA is planning to host a pilot program of CPA2B Bootcamp in the 2016-2017 year. CPA2B Bootcamp is a one-day program designed to provide university accounting students with career resources while building awareness of TSCPA as their professional partner for life. At the conclusion of CPA2B Bootcamp, each attendee will have learned critical success skills for entering the workforce, more about the value of the CPA credential and how TSCPA can be a lifeline for them at any point in their careers. They will also meet local CPAs who can provide continuing guidance.

The Student/Faculty Campus Representative Program continues to recruit and utilize student and faculty reps to increase the Society's presence on Texas college and university campuses. The goal of the program is to share information and learn more about what TSCPA can do to support students and educators.

The Relations with Educational Institutions Committee and the Accounting Education Foundation continue to provide programs for members in academia, as well as non-CPA accounting faculty across the state. The annual Accounting Education Conference continues to be a viable and valuable way for educator members to get necessary updates and broaden their networks and relationships with TSCPA.

In July, AICPA hosted a three-day Accounting Pilot and Bridge Program at the San Antonio Chapter office. At this event, high school educators were trained on Dr. Dan Deines' proposed AP accounting curriculum, which is college-level curriculum developed for high schools. To learn more about the program, visit the website www.accountingpilot.com.

Committed to Up-and-Coming CPAs

TSCPA began inviting students as members in the 2000-2001 year. The Student Affiliate membership class has two categories, students and candidates. The student category includes part-time and full-time undergraduate and graduate students from two- and four-year colleges or universities majoring in accounting, finance or other business-related majors. Upon graduation, a student becomes a candidate. The candidate category includes college graduates pursuing CPA certification and those who have passed the Uniform CPA Exam, but have not yet met the experience requirement for certification. A candidate member may continue in this status for five years after graduation or up to five years after they pass the CPA Exam.

Reaching students and engaging the next generation of CPAs enables TSCPA to help strengthen the future of the profession and develop effective leaders for the Society. If you know an accounting student who is not yet a member, be sure to invite him/her to join and become part of TSCPA and their local chapter. More information about membership is available in the Students section of the website at tscpa.org.

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Bitcoin and Beyond: The Reality of Taxing and Regulating Virtual Currency

By Jason B. Freeman, JD, CPA | Column Editor

Bitcoin and other virtual currencies have become a growing part of our modern economy. Although their future remains a source of uncertainty – they could, after all, become anything from the future of finance, to the new "offshore banking system" or just a defunct and failed experiment – this virtual phenomenon is a modern-day reality. Perhaps not surprisingly, in the past few years they have been the target of global regulators and tax authorities. Because they fall outside the historic paradigm of government-backed currency, virtual currencies raise a number of interesting questions about how they should be treated for tax and other regulatory purposes.

Virtual currency is generally defined as a digital representation of value that functions as a medium of exchange (in some environments, much like a "real" currency) that is not issued or backed by a government and does not have legal tender status in any jurisdiction. Bitcoin is perhaps the most well-known virtual currency and has largely become synonymous with the industry, but there are a number of competitors, such as Ripple, Ether and Litecoin, to name a few. Bitcoin, itself, has proven to be highly volatile; its market price, driven by the forces of supply and demand, has fluctuated by more than $1,000 per unit over roughly the past two years.

Nonetheless, major retailers like Overstock, Microsoft and Amazon have jumped on board, accepting Bitcoin in some form or fashion – either directly or through an industry of gift card providers that serve as a go-between for exchanging virtual currency – lending weight and legitimacy to the virtual-currency movement. In fact, Blockchain.info, a Bitcoin data tracker, calculates that there are now nearly 16,000,000 Bitcoin in circulation and that figure will continue to grow as more Bitcoin are "mined" in the future.

Virtual currencies pose a number of challenges. Because virtual currencies offer relative anonymity, many fear that they could facilitate tax evasion, money laundering and other underlying crimes, operating as a sort of shadow "banking system." And because they operate in a decentralized manner, their unregulated growth also threatens many of the traditional tools of economic policy and regulation. These perceived threats have prompted regulators to give particular focus to their treatment.

To date, the IRS and other regulators have issued some basic guidance, but they have left many important questions unresolved. The primary philosophical dispute has been whether to treat Bitcoin as property or currency – a question with implications in a number of contexts. Virtual currencies, after all, bear characteristics of both property and currency. The IRS, for its part, has opted to treat Bitcoin as property, much like stock or real estate. This characterization appears in line with the position taken by the Commodity Futures Trading Commission (CFTC), which characterizes Bitcoin and other virtual currencies as "commodities," but seems in tension with the U.S. Treasury Department's Financial Crimes Enforcement Network's (FinCEN) position that virtual currencies are more akin to (or at least a substitute for) real currencies for purposes of regulating "money transmitters." Perhaps the relevant principle at play here is that regulators are likely to take the view that brings virtual currency within their purview and, of course, it is not necessary that federal, state or foreign jurisdictions take consistent stances.

The Basic Tax Approach

The use of convertible virtual currency like Bitcoin can have "real" federal tax implications. As previously mentioned, the IRS generally treats it as property, rather than currency, for federal tax purposes. As a result, for example, virtual currency does not give rise to foreign currency gain or loss for U.S. tax purposes. A taxpayer who receives virtual currency as payment for goods or services must include its fair market value in gross income and takes a corresponding "basis" in the virtual currency equal to its fair market value.

If a taxpayer exchanges virtual currency for property, the taxpayer may realize gain or loss (much like any other property transaction) based on the difference between the taxpayer's basis in the property and its fair market value. The character of the gain or loss (i.e., capital or ordinary) is determined under normal federal tax principles: It is capital if the virtual currency is a capital asset in the hands of the taxpayer and ordinary otherwise. If capital in nature, the gain or loss should be reported on Schedule D, and its related Form 8949, of an individual's Form 1040 return. If ordinary, it should be reported on either line 21 (*Other Income*) or Schedule C of an individual's return, as appropriate.

When virtual currency is used to pay employee wages, the payment must be reported on a Form W-2 and is subject to federal income tax withholding, FICA and FUTA. Similarly, an independent contractor who receives virtual currency for the performance of services has self-employment income that is subject to self-employment tax. In other words, payments made using virtual currency are generally subject to the same information reporting requirements as cash payments. And because payments of virtual currency are also subject to the backup withholding rules, a taxpayer making a payment in virtual currency should be sure to first obtain the payee's taxpayer identification number where necessary to comply with such rules.

One other important aspect of virtual currency taxation is currency "mining." Under existing guidance, currency "miners" recognize gross income equal to the fair market value of the "mined" virtual currency when it is received. The IRS has taken the position that if the taxpayer's "mining" activities rise to the level of a trade or business, the income is also subject to self-employment tax.

Many Unanswered Questions Remain

While regulatory guidance has answered a number of basic questions about the tax treatment of virtual currency, many important questions remain unanswered. AICPA recently underscored this fact, calling on the IRS to issue expanded guidance. Others have voiced similar concerns.

There are numerous questions about how the general property transaction rules apply in the context of virtual currency. For instance, when one virtual currency is exchanged for another, when (if at all) does this give rise to a like-kind exchange under Section 1031? The answer is unclear under existing interpretations and rulings. Likewise, does the installment method under Section 453 apply differently to virtual currency? Again, it is unclear.

Last year, the CFTC ruled that Bitcoin and other virtual currencies are "commodities." This raises the question whether Bitcoin transactions – or derivative transactions – may fall under the "Section 1256 Contract" rules. If so, some such dealings would be subject to Section 1256 and its mark-to-market regime that treats 60 percent of the net gains or losses on Section 1256 Contracts as long term and 40 percent of such gains or losses as short term.

The use of virtual currencies also raises a number of questions regarding international tax and asset reporting requirements. For instance, can holding virtual currencies give rise to an obligation to file a FinCEN Form 114, *Report of Foreign Bank and Financial Accounts* (FBAR) or Form 8938, *Statement of Specified Foreign Financial Assets*? FinCEN has already deemed administrators and exchangers of virtual currency to be engaged in a "money service business," a type of "financial institution" subject to regulation under the Bank Secrecy Act. This treatment implies that virtual currencies may ultimately be reportable if they can be characterized as a "foreign" account (or similar asset) unless they are otherwise excepted, although the answer in any given case could ultimately depend upon the type of technology underlying the specific virtual currency.

The Future

The emergence of virtual currencies has given rise to questions about their future role in the economy. Are they the future of finance and tomorrow's universal economic medium, or are they destined to fall out of favor and prove a failed experiment? The answer, of course, remains to be seen.

For the time being, however, they have become an increasingly important part of our economy and have been at the center of ongoing regulatory attention. For the armchair regulator, they raise a number of intellectually stimulating and perplexing questions, challenging conventional regulatory regimes and assumptions. And as the rule makers, in seeking to turn the virtual into reality, grapple with those questions, we are likely to see a growing body of rules develop that will serve as the foundation for governing the technologies of tomorrow. ■

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Behavioral Biases

By Mano Mahadeva, CPA, MBA | Column Editor

Finance professionals make significant daily decisions for their companies, so it is important that individuals become aware of personal biases that may affect the reliability of the decision-making process. In an ideal situation, all decisions are made as the result of deliberate thought, analyses and research. However, due to various reasons – personal biases, earnings pressure, anxiety and limited resources among many others – we make errors. Minimizing the impact of these biases is crucial!

Here is where both behavioral science and behavioral finance offer many nuggets of insight to us that will help strengthen the relevance and reliability of our decision-making process.

Behavioral science involves the research on how people make judgments and decisions and how they interact with one another. Research in this area draws on theory and methods from areas such as cognitive and social psychology, sociology and economics, and offers a wealth of knowledge in understanding behavior in the workplace.

A subset of such studies is related to finance – known as behavioral finance. Behavioral finance suggests that not all economic decisions can be described by the equilibrium conditions in markets. It focuses not on economic theory, but on how people behave in the real world when faced with financial decisions. Controversial as this subject may be, resulting takeaways on various calamities in financial events over the last 20 years have offered this area more credibility.

An employee is given a rating of five based on likeability and not on performance. Investors bid up stocks sold in initial public offerings when they hear a hot story about a new opportunity. A very conservative financial forecast is prepared for the next 12 months without regard for the positive outlook in its business sector. A controller makes a snap judgment during an interview on a potential accounting candidate, all based on superficial cues without any substantive information. At retail outlets, shoppers fall for the "buy four for the price of $4" instead of when each item is priced at $1.

Even though these actions are very common, it is possible that the actors are not aware of the reasons underlying them. These reasons, or biases, are a result of a person's view of the world due to the lifetime accumulation of judgments, beliefs and prejudices that get unconsciously drawn into most decisions normal people make. And being unaware of these biases might mean incorrect judgments, missed opportunities or ending up on a land mine.

We interact with professionals who do the following: are slow to update a forecast because less value is placed on more recent information; support their analyses with parts of information while ignoring contradicting elements; draw conclusions incorrectly due to a smaller than required sample size; think they are in control but *believe* they can control outcomes by individual effort; prefer to stay the course without change because of a previous bad experience; place a smart, hard worker who does not have people skills in charge of a team.

What steps can we can take to discover and mitigate our irrational side? Education is a must – this will require attending a workshop on the basics of modern portfolio theory and one on behavioral science pertaining to people and organizations. Any projects, proposals and initiatives (PPI) brought forth need to be supported by information – supportive and contradictory – with past, present and future data. They also need to be compared jointly, with a long term in mind, rather than in isolation. If any PPI is being planned, ask decision makers to bring their objectives with them prior to discussion to avoid group think. It is *critical* to keep notes and assumptions made on PPIs completed so that we can look back on them in the future to learn from them. Did we succeed? Did we fail and if so, why?

Come up with different ways to look at projects and use fundamental analysis or relative value methods or any other reasonable and suitable way. Flip it on its head and see if we're biased one way. Ask for insights and opinions from buy- or sell-side analysts. Ask for outside help, such as an independent party, to assist. Or possibly reward people when intentions and efforts are sound.

By nature, biases create problems for us. Even the smartest of us exhibit biases in our choices. Quick decisions save time and energy, but sometimes those knee-jerk reactions lead to poor choices. Instead of exploring uncertainties, we rely heavily on intuitive, heuristics to get work done. This logic only narrows our vision for the future and the way we get there. But given the knowledge and their nature, we can broaden our awareness, work diligently to mitigate them and make better choices.

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The Pros and Cons of Pro Forma Financial Reporting

By C. William (Bill) Thomas, CPA, Ph.D.

Pro forma (definition): A presentation of data, typically financial statements, where the data reflects the world on an "as if" basis; that is, as if the state of the world were different from that which is in fact the case.[1]

Pro forma data adds to or subtracts from information that is required by Generally Accepted Accounting Principles (GAAP) to provide users information that is supposedly more relevant, pertinent and reflective of an entity's ongoing core business activities. Pro-forma adjustments strip out such nonrecurring expenses as asset write downs or the effects of foreign-currency fluctuations that the companies' executives and many investors consider to be outside a company's core operations. Companies also often omit results from newly opened and recently closed units to better reflect expected ongoing operations.

What's the Problem?

The central problem associated with presenting non-GAAP data as a yardstick for measurement for financial performance is that there is no standard accounting definition of such data, thus allowing each company to tailor its adjustments to its own circumstances. Some companies have become rather aggressive in making these discretionary adjustments, excluding charges that are often a part of doing business, such as legal costs, acquisition expenses and the cost of stock-based compensation. Thus, it is often harder to compare one company's results to another's or even one company's results to its own over time.

The incidence of usage of non-GAAP data is growing. In 2015, about 10 percent of the major securities filings in the United States used the term "adjusted EBITDA" (earnings before interest, taxes, depreciation and amortization) in these filings. This compares with only about 2.5 percent of the filings in 2005. Moreover, most of the adjustments to GAAP-based income were positive, painting a rosier picture than GAAP painted.

On a yearly basis, S&P 500 companies reported pro-forma earnings of about 0.4 percent more per share in 2015 than 2014. However, under GAAP, S&P 500 earnings actually fell by 12.7 percent, the sharpest decline since the financial crisis of 2008. In addition, GAAP earnings were 25 percent lower than pro forma figures – the widest gap since 2008 when public companies took a record amount of charges[2]. Tech, energy and health care companies have taken the lead, but the overall list of companies engaged in non-GAAP reporting is quite diverse.

Enter the SEC

In 2003, immediately after the passage of the Sarbanes-Oxley Act, the Securities and Exchange Commission (SEC) issued Regulation G, which requires public companies that disclose or release non-GAAP financial measures to include, in the same disclosure or release, a presentation of the most directly comparable GAAP financial measure, as well as a reconciliation of the disclosed non-GAAP financial measure to the most directly comparable GAAP measure. Over time, however, companies have become more aggressive in interpretation of these rules, often more prominently disclosing the (more favorable) non-GAAP measure than the GAAP measure. Therefore, the SEC has announced that it is stepping up its scrutiny of companies' usage of non-GAAP measures, targeting firms that inflate sales and that employ customized metrics that stray too far from GAAP[3]. It is hoped that this measure will help reign in companies that have employed more aggressive tactics in recent years.

Questions to Ask When Using a Non-GAAP Measure

Following are some good questions to ask that serve as guidance going forward when a company considers the use of non-GAAP measures[4]:

1. Is the measure misleading or prohibited?
2. Is the measure presented with the most directly comparable GAAP and with no greater prominence?
3. Is the measure appropriately defined and described, and clearly labeled as non-GAAP?
4. Does the reconciliation between the GAAP and non-GAAP measure clearly label and describe the nature of each adjustment, and is each adjustment appropriate?
5. Is there transparent and company-specific disclosure of the substantive reason(s) why management believes that the measure is useful for investors and the purpose for which management uses the measure?
6. Is the measure consistently prepared from period to period and is it comparable to that of the company's peers?
7. Is the measure balanced with respect to treatment of nonrecurring gains, as well as nonrecurring losses?
8. Does the measure appropriately focus on material adjustments and not include immaterial adjustments that would not seem to be a focus of management?
9. Do the disclosure controls and procedures address non-GAAP measures?
10. Is the audit committee involved in the oversight of the preparation and use of non-GAAP measures? ■

Footnotes

1. Economics.about.com
2. Justin Lahart, "S&P 500 Earnings: Far Worse than Advertised," *The Wall Street Journal*, Feb. 24, 2016.
3. Dave Michaels, "SEC Cracks Down on Novel Earnings Measures that Boost Profits," *The Wall Street* Journal, April 28, 2016.
4. Lisa Mitrovich and Christine Davie, "Questions to Ask When Using a Non-GAAP Measure." *CFO Journal*, April 22, 2016

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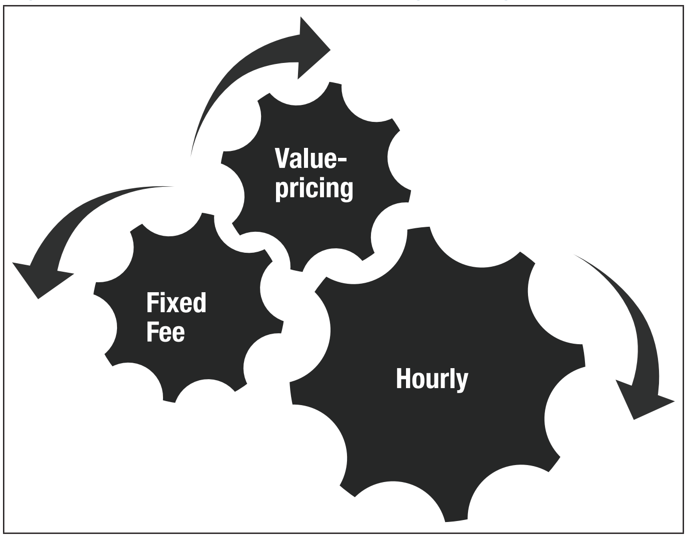
Is Viewable Billing Software Right for Accountants?

By Paul Goodchild, Ph.D., CPA, and Jo Lynne Koehn, Ph.D., CPA

Attorneys on the leading edge of innovative practice management are starting to utilize viewable billing software (VBS) in their practices. VBS allows attorneys to provide clients with real-time access to time entries and billing information. (Apperio, LeGuard, and Mitratech[1] are examples of companies providing VBS to attorneys and their clients.) Could this pioneering practice by attorneys be adapted by accounting firms to enhance their billing practices? Currently, the practice of billing in accounting lags behind the available technology. The use of VBS represents an available technology for CPAs to improve service and communication with clients.

It seems plausible that CPAs could emulate the savviness of their professional counterparts and utilize a viewable-billing interface with clients. After all, accountants value transparency and open communication with clients. This article considers whether viewable billing is a practice that can offer benefits to firms and clients. The discussion includes the practice advantages, as well as disadvantages, that may arise with the adoption of this technology.

Figure 1. VBS is Adaptable to Billing Arrangements



Enhancing Billing Transparency

Despite technological improvements in auditing, tax and consulting services, the actual practice of billing has not changed much in years. The professionals we spoke with report their firms have continued to use the same periodic paper-billing process for more than a decade. While some firms deliver electronic statements to clients, many CPAs feel comfortable with the outdated paper-billing practice and may be reluctant to change it without sufficient benefit for the firm.

VBS offers innovation in billing beyond electronic delivery of statements, including the nature of the work performed on a real-time basis. The engagement letter outlines pricing and billing expectations and paper bills are typically issued with little detail. Once a bill is received, the client reviews it and may request additional clarification before the bill is paid. Where this process breaks down, and can result in delays, is when the bill is different from expectations, because of value billing or value-added services. Given the trend in pricing of accounting services toward value-based pricing, there is a lack of transparency in the current billing practice.

VBS has the potential to become an accounting "best practice," as it offers superior transparency in client communication versus paper or electronic bills. Investment in VBS demonstrates that the firm is a leading-edge provider of services and is willing to invest in technology to improve the quality of service (see Figure 1).

VBS dashboards show job progress, keep clients updated and help to avoid billing surprises. Therefore, it can improve a client's understanding of the scope of work performed and reinforce the benefits of value-added services, by highlighting them in the dashboard. This can create greater collaboration on future engagements, saving the firm time and, ultimately, eliminate fee disputes.

Christine Johnston, a partner at Marsh & Company, P.A^2., in a discussion regarding billing practice, expressed the desire to continuously improve transparency between the firm and its clients. While many clients have a background in public accounting, there remains a gap between what public accountants do and what their clients understand they do to complete audit, tax or consulting services. VBS provides the client with real-time billing updates and information regarding the service that generated the bill. This information could be as detailed as actual time sheets by area or a summary of the activity by service, and is adaptable to the firm's pricing strategy. The firm controls the descriptions of work performed and billing detail, and can tailor that information based on the client, and the complexity and scope of work being performed.

Improving Client Satisfaction

After the price negotiation, billing is a potential source of tension between a firm and its clients. Traditional billing practices do not support the high level of transparency desired by clients. VBS allows accounting firms to improve transparency, customizing dashboards to deliver information to their clients complementing the firm's pricing strategy. The dashboard allows the firm to communicate with the client without a call or meeting, which is important when accounting firms are offering different tiers of value-based services. The improved transparency means that clients are able to easily understand the nature of the work and the need for the service being performed. This transparency could be especially valuable when the engagement pricing is based on hourly services or the firm provides additional services beyond those anticipated in the engagement letter. Clients generally monitor hourly services more carefully and require periodic updates before approving work to be performed.

The transparency created by VBS is likely to increase client satisfaction, as it can reduce tension in the traditional billing practice. By providing tailored dashboards to specific clients, firms can justify the cost of VBS through the benefits of improved client satisfaction. Improving client satisfaction can assist the firm in maintaining and increasing profitable future engagements.

Practice Management Benefits

Improving client satisfaction is not the only advantage of VBS. Additional benefits include reduced collection time, decreased time spent discussing disputed bills, reduced write-offs, established accountability for staff and greater controls over internal engagement

continued on next page

Exhibit 1

Advantages of Viewable Billing Software	Disadvantages of Viewable Billing Software
Communicates that the firm values transparency.	Requires an initial capital investment, as well as ongoing monitoring and maintenance costs.
Documents engagement progress helping to avoid billing disputes.	Deployment and maintenance requires increased administrative time and a culture change.
Demonstrates a willingness to invest in technology to improve client satisfaction.	Any increase in administrative duty is likely to be perceived as busy work.
Is adaptable to type of pricing arrangement, fixed fee, value-pricing or hourly billing.	Requires management to increase the level of scrutiny of billing detail on forensic and litigation engagements to avoid informing the opposing litigant.
Establishes accountability for staff time tracking and reporting, and safeguards against undesirable billing practices.	Additional billing detail may result in client attempts to manage the engagement, which may cause delays in completing engagements.
Improves the client's understanding of the scope of work, which creates opportunities to collaborate and improve engagement efficiency.	Clients may increase pricing scrutiny of billing detail, which may result in "push-back" or nonpayment of fees broken out by task.
Allows clients to budget for needed accounting services, which may result in additional accounting service opportunities.	Improved billing transparency may result in communication across clients, which may result in losing clients if the client perceives they are being treated unfairly.

reporting. One of the keys to a firm's success relies on being able to properly price engagements, for the reasons noted above; VBS could allow accounting firms to improve operations and profitability.

VBS provides a strong complement to value-based pricing and is adaptive to traditional audit, tax and consulting services. Audit and tax services are typically provided on a fixed fee schedule, with an option for additional, "value-added" services. These value-added services are often necessary to complete the engagement; examples include tax depreciation schedules, asset valuation services and internal control assessments. As these value-added services arise, even though they may have been agreed upon in the engagement letter, they can cause confusion in the way they are communicated to the client and cause payment delays or rejection of the bill. The flexibility of VBS allows firms to communicate in real time, the value-added services, which reduces confusion and prevents calls for those services.

The turnaround for payment receipt or rejection of bills can affect the efficiency of the billing cycle. Billing inquiries can cause a payment delay of several days, weeks or longer while the questions are resolved and in some extreme instances, result in write-offs. Time spent on billing disputes is an inefficient use of time for the firm and client. Shorter collection times, reduced dispute resolution and fewer write-offs mean better profit margins. VBS provides an opportunity for preemptive transparency, allowing managers to focus on the efficiency of the engagement and client satisfaction.

VBS also offers opportunities to improve internal controls over engagement reporting. Accounting professionals hold themselves to high standards, but the current practice of time tracking and reporting is subject to errors and misreporting. During our interviews, several accounting professionals expressed the desire to improve the accuracy of time tracking and reporting. Firms that commit to VBS signal to employees that the accuracy of time tracking and reporting is important, subject to review and transparent to the client. In addition, the layers of scrutiny within VBS act as a control to prevent billing problems, such as block billing, time padding and vague entries to time reports. Improvements in the accuracy of time tracking and reporting allow firms to better understand and control costs and thus improve profitability, a feature that should be attractive to all firms.

Disadvantages of VBS

The increased transparency and internal controls required by VBS do present some disadvantages. The deployment and maintenance of VBS requires increased administrative time and a culture change in the firm. Firms must make a commitment to creating and operating a well-functioning, reliable reporting system and dashboard, which requires a capital investment, training, and regular maintenance and upgrades. In addition, VBS may result in increased client scrutiny of engagement team actions, "push-back" in cases where the client does not understand the billing detail, and opens the firm's pricing practices to questions in cases where clients communicate with other clients.

The accounting profession has been slow to adapt to new technology in billing, because the traditional practice has been working reasonably well for many years. Advances in technology often require an investment in hardware and/or software. (Viewabill previously advertised VBS on a sliding scale starting at $1,250 per month and internal administration, which could offset short-term cost savings.) Implementing new technologies requiring accurate employee time reporting into a system that increases internal control and supports transparency is likely to represent a culture change for many firms.

CPAs are under considerable pressure to be productive and adding administrative tasks, as well as increased scrutiny of time reporting, may not be well received. Don Wengler, a forensic accounting consultant with 20-plus years of public accounting experience noted, "Under traditional billing, the professional responsible for managing the client relationship would review the invoice and approve the amount billed, and decide on the appropriate level of detail to provide." VBS requires continuous review of time and description of services performed before being viewable by the client. Wengler suggested: "Firms would want to set policies for mandatory managerial review of VBS entries. The policy would need to specify review preferences and frequencies, which could vary greatly between firms and engagement types. For example, for an audit engagement, the firm would not want to provide a roadmap of the audit process. Further, in a forensic engagement, the firm would provide less detailed information to avoid informing/benefitting the opposing litigant." VBS adds levels of scrutiny, which employees may view as "busy" administrative duties.

In discussing the potential disadvantages of increasing transparency of VBS with accounting professionals, several suggested, "increased transparency could cause an increase in scrutiny of engagement team activities." Many clients of accounting firms have been public accountants; however, their understanding of the complexity of services may not be up to date with current practice standards. Thus, providing additional detail to clients utilizing VBS without the proper communication could result in clients attempting to manage the actions of the engagement team. If the questioning takes place during an engagement, it could cause delays in completing the engagement. If the questioning takes place after an engagement, it could cause delays in completing other engagements.

In addition to increased engagement scrutiny, increasing transparency can result in increased pricing scrutiny. Performing the same service for different clients does not mean the two engagements require the same work. Engagement pricing varies due to differences in risk, complexity, timing and negotiating ability. If clients communicate with other clients, VBS opens firms up to increased "push-back" on pricing. If increased transparency causes clients to perceive they are being treated unfairly, VBS may not result in collaborative costs savings on future engagements and could result in losing clients.

Adopting VBS means that CPAs must be willing to invest time, employee capital and resources toward improving the firm. The introduction of a new time-reporting technology may cause employees to feel they are being micromanaged. The implementation of VBS should include consideration of the behavioral response, and training that highlights the benefits of improving transparency and internal control for future success.

Responding to Client Demand

In many respects, society has become real time, and consumers are demanding increased access and transparency to every aspect of business. VBS is helping law firms respond to this demand for transparency by providing clients with real-time access to billing. This article considers whether CPAs would be well served to move in this direction. Advantages of VBS center on the potential for improved transparency, client satisfaction and practice management benefits. Advantages are counter-balanced by implementation and maintenance costs, required shifts in firm culture and the possible need for increased client communications in response to questions over expanded billing disclosures.

Accounting firms must carefully weigh the advantages and disadvantages (see Exhibit 1) before deciding whether to implement a new technology. Professionals we interviewed agree that maintaining a positive relationship with clients is essential and addressing billing challenges could reduce sources of contention in that relationship. Ultimately, CPAs have no choice but to pay attention to emerging-technology trends that impact practice management and carefully consider the consequences before rejecting or embracing a change from the status quo. ■

Footnotes

1. Mitratech acquired Viewabill March 9, 2016.
2. Since the time of the interview with C. Johnston, Marsh & Company, P.A. has joined MarksNelson LLC.

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2015-2016 Outstanding Chapter Awards

By Rhonda Ledbetter | TSCPA Chapter Relations Representative

To inspire chapters in their continuing effort to better serve members, TSCPA bestows Outstanding Chapter Awards to the small and medium-sized chapters. Selection is made by a group of past presidents from chapters of all sizes, who understand the work involved in successfully leading volunteers. Following is information about the chapters honored for the 2015-2016 year.

Help Make Your Chapter Award-Winning

Members are the key to – and the reason for – chapter success. Contact your local president or executive director and find out how you can get involved in making yours an award-winning chapter! You can get contact information through the TSCPA website at tscpa.org.

Outstanding Small Chapter: Southeast Texas

President: Julia Hayes, CPA

A new media campaign, designed to promote "The Value of A CPA," was placed in the area business journal. Five offbeat ads were developed; each one included the URL to a special page in the chapter website further explaining CPAs' value.

An area of growth was an increase of almost $3,000 in the money raised for accounting scholarships. The money came almost entirely from fundraising events, which were planned and run by volunteers.

The chapter adopted a high school accounting class, encouraging students from their area to get an accounting degree and become CPAs.

As a new project, an online CPA-PAC challenge was conducted. Results were a significant increase in chapter members contributing to the CPA-PAC: 41 members made donations in the 12-month period, a 52 percent increase over the same period the previous year. There was also a 24 percent increase in total CPA-PAC contributions received. The efforts led to the chapter exceeding its CPA-PAC fundraising goal for 2015 by more than 7 percent.

The Membership Committee maintained strength in numbers by an increase in the member count of more than 6 percent.

Nine of the chapter's leaders attended a Beaumont City Council meeting to receive a proclamation, read by the mayor, recognizing the CPA profession on its 100th-year anniversary.

Outstanding Medium-Sized Chapter: Corpus Christi

President: Jeff Smith, CPA

The chapter organized a group of more than 20 CPAs and university accounting students to participate in Adopt-A-Beach. There was a similar-sized cohort staffing a water table at the Beach to Bay relay marathon. CPA volunteer t-shirts were created and distributed to all volunteers who participated in chapter community service events, increasing image enhancement.

The third annual Counting on Santa program was held. Firms, companies and students collected toys and money. More than $10,500 in monetary donations was raised and three times the amount of toys was collected compared to the previous year (approximately $4,000 in value). The program garnered coverage in the newspaper and on two TV stations.

Members hosted college student field trips to a public accounting firm in the autumn and a nonprofit organization in the spring. Total field trip attendance was 45 students. This is more than double the number of students who participated in the outings during the previous year.

Personal letters and cards were sent by volunteer leaders to bring back and keep members or to let the families of deceased members know that their service to the profession was appreciated.

At a mixer for accounting faculty and students, chapter board members learned what students truly want from the chapter. ■

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TSCPA has partnered with **Pearl Insurance** to offer the TSCPA Member Insurance Program. The program offers a variety of personal and professional insurance plans, including the TSCPA Private Health Care Exchange.
Go to http://tscpainsure.org/.

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A Face Like Mine

UHD Professor Creates Unique Outreach Program for Underserved Students

By Anne McDonald Davis

Dr. Alicia Yancy is proud of her accounting classes at the University of Houston-Downtown (UHD). At the diverse campus, 45 percent of the student population is Latino and 25 percent African American. For the numbers who hail from inner-city neighborhoods in Texas' immense gulf coast city, education is often the gateway to financial security and a better world, sometimes for entire families.

Yancy recalls: "There's a young man, Kareem, and we were talking about the difference that being an accountant has made for his life and the lives of others in his family. He was waiting tables and a gentleman began coming in, a retired CPA, who encouraged Kareem to pursue a career in accounting. Five years later, Kareem was making over $100,000 a year! His wife also got an accounting degree and is a school principal. They now have the resources to help their siblings pursue training and higher education."

One detail about Kareem's experience that stuck in Yancy's mind was that when he met UHD accounting professor Dr. George Gamble, he was the first black CPA the young man had ever encountered.

Dr. Alicia Yancy and the Men of Color in Accounting Group

"My female students would ask for help, but the male students just wouldn't," she laments. "No matter how often I suggested they come to office hours or encouraged them to ask questions in class ... no. So I decided to try something different."

Yancy began calling successful black men she knew in the Houston business and accounting community – the senior director of security for Waste Management, a retired FBI accountant, a tax manager at Deloitte, the manager for the Houston Inroads office and other black male faculty in accounting education like Dr. Gamble (coincidentally Yancy's own mentor).

She asserts: "I wanted these young men to see people who looked like them, who walked and talked like them – men who had come up with some of the same experiences and challenges they were facing. I intentionally called the organization Men of Color in Accounting (MOCA), because the plan is to include all UHD minority, underserved male accounting students."

It worked. "The students were incredibly receptive," Yancy enthuses. "The day of our initial meeting – April 25, 2015 – every single young man invited was there and was there early. We were set to begin at 9, and my students were there at 8:30. They were so eager to be engaged ... I just think that's awesome."

Yancy had intended to simply get her students together with men who could serve as mentors and bow out. She laughs remembering that plan, but has no regrets about the time she has spent growing the initiative.

She reports: "Interestingly, a little more than a year later, students who were really not planning to declare accounting as a major now are. They tell me, 'I'm changing my major. I'm really focusing on school now so that I can focus on my grades and have a career opportunity in accounting.' It's been validation that something like this was needed. And it reminds me that we can't look for immediate results; we must never give up too soon."

Yancy is adamant about the importance of soft skills training to MOCA participants, especially after what she saw at that first meeting. She had passed out note cards, one yellow and one blue, and asked that the students write an academic question on one and on the other, any question at all about anything at all.

"The question that struck me the most was: 'Is it really true that you have to look or act or dress or speak a certain way in corporate America?' Every one of these young men were over the age of 21 and yet they clearly didn't know the answer was 'Yes,'" she remarks ruefully.

In the year-plus since, MOCA activities have ranged from etiquette dinners to attending the student conference for the National Association of Black Accountants (NABA) to resume preparation.

Yancy recounts: "One MOCA participant is a military veteran who, just three weeks after the NABA conference, had a job offer from a Big Four accounting firm. Guess what? This young man had top security clearance in his military career and he hadn't even put that on his resume, didn't think it was pertinent! There's just so much these students need to learn about how to present themselves and all they have to offer."

More success stories are already pouring in from the program: MOCA students being offered internships in public accounting, students now determined to get the hours to sit for the CPA exam and more than one full-time job offer. Yancy hopes MOCA will inspire other institutions, educators and CPA societies to build similar diversity initiatives.

She muses: "Going forward, I think what I need to do is continue my involvement but create a structure to enlist even more commitment from others. MOCA won't work as a one-person show. There's a need and my plan is to continue to encourage young men of color to pursue careers in accounting and finance. I know what a difference it's made for me and this is my way of paying it forward." ■

Anne McDonald Davis, ABC is a freelance reporter, writer and editor based in Dallas, Texas.

Sunset in Texas

By Bob Owen, CPA | TSCPA Managing Director, Governmental Affairs

The Texas Sunset Advisory Commission (SAC) was established by the state Legislature in an attempt to be sure that state agencies did not outlive their usefulness and stayed efficient and economical. The law requires SAC to review most state agencies every 12 years, recommend whether or not the agency should continue to exist and suggest operational improvements.

The supposed teeth in it is that legislation authorizing the state agency must be repassed every 12 years or the agency goes out of existence; something that rarely happens.

According to the SAC website https://www.sunset.texas.gov, this is how it works.

The Process

Sunset works by setting a date on which an agency is abolished unless the Legislature passes a bill to continue it. Sunset staff evaluates the agency and issues recommendations for positive change. The Commission considers the recommendations, hears public testimony and decides on a package of changes to bring to the full Legislature.

The People

The Commission has five senators, five representatives and two members of the public, appointed by the lieutenant governor and the speaker of the House. The Sunset staff is composed of evaluation and administrative professionals who support the Commission by performing agency reviews and assisting in the legislative process.

The Impact

Since 1977, changes enacted through Sunset reviews have abolished 37 agencies, consolidated another 46 and saved nearly $980 million, returning $23 for every $1 spent on Sunset. The Legislature typically passes about 80 percent of the Sunset Commission's recommendations, which have positively affected every area of state government through nearly 500 reviews.

It all sounds good and for the most part, it is. When SAC recommends continuation of an agency, it helps the Legislature draft the agency renewal bill, commonly referred to as the Sunset bill. The Sunset bill includes SAC's recommendations for additional requirements to ensure the agency is holding true to its mission and operating in an efficient manner. SAC staff has developed certain legislative and agency standards that it believes should apply to almost all state departments and those standards are included in almost all Sunset legislation. Sometimes, SAC will recommend agency consolidations rather than renewal or elimination.

The SAC process has bogged down in a number of major agency reviews over the last several sessions. The upcoming session will be the third session in a row that SAC has reviewed the Railroad Commission of Texas (which regulates the Texas oil and gas industry and has absolutely nothing to do with railroads). In the previous two sessions, the Railroad Commission Sunset bill was opposed by the publicly elected railroad commissioners and many amendments were offered by legislators, some at the behest of oil and gas industry participants, and the legislation failed to pass, but that didn't mean the Railroad Commission went out of business. Instead, legislation was passed renewing the commission for two years and making it subject to SAC review for the following session. See Figure 1 for the *Texas Tribune's* summary of some of the SAC staff findings about the RRC.

Some of the controversy seems silly. SAC has repeatedly suggested that the Railroad Commission name be changed to the Texas Energy

Resource Commission to better reflect the responsibilities of the department. This change has been successfully opposed by the commissioners and some legislators, evidently in favor of nostalgic tradition or a preference for continued public confusion.

The Railroad Commission is not the only agency to fail the Sunset review process. Legislators and public watchdogs are complaining about the process. Rep. Larry Phillips (R-Sherman) offered legislation in 2015 to force a review of SAC to see if it should go out of business. The legislation found little support, but Phillips says he will offer it again in 2017.

Speaker of the House, Rep. Joe Straus (R-San Antonio) has also been critical of the Sunset process. As reported in the *Texas Tribune*, Straus believes part of the problem is that there are numerous amendments offered to the Sunset bills by legislators, often at the behest of lobbyists working for industries regulated by an agency. "It makes a mockery of the whole Sunset process, and it makes me question whether or not it still serves a useful purpose," Straus said.

In past sessions, Sunset bills were passed more or less amendment proof, with the legislation's sponsor and the legislative leadership discouraging amendments. Indeed, when TSCPA has wanted to make changes to the Accountancy Act, SAC staff members have encouraged us to seek those changes in the session preceding the Texas State Board of Public Accountancy Sunset review session. According to the *Texas Tribune*, Straus "would like to restrict the lobby runs on Sunset bills." Straus said: "From my observation, when a Railroad Commission Sunset bill doesn't pass, it's certainly a lobby victory. I don't think it's a member problem – I think it's a lobby thing. A lot of people get hired in the lobby to work these things, especially when it involves an agency like the Railroad Commission or TDI [the Texas Department of Insurance] or TxDOT or some of those others."

Lobbyists and legislators try to attach bills that have otherwise failed to Sunset legislation in hopes that the Sunset momentum will help their legislation. "The end result is that the Sunset bills, they fall apart, they crumble," said Straus.

Straus wants to see changes within SAC and to the Sunset legislative process. He recently appointed Rep. Larry Gonzales (R-Round Rock) as the new SAC chairman, undoubtedly with a set of marching orders.

There are major agencies undergoing SAC review for the 2017 session, including the Railroad Commission (for the third session in a row), Texas Department of Transportation, Texas Employee Retirement System Board of Trustees, Texas Medical Board and the Texas Board of Nursing.

Only after the 2017 session will we be able to tell if the process has improved; or maybe Rep. Phillips' bill will pass and the SAC will be subject to the Sunset process in the future. Regardless of all the claims or concerns, it's really up to the legislators – they get to decide what passes and what fails.

The Texas Public Accountancy Act and Board are scheduled for Sunset review in 2019.

Bob Owen, CPA is TSCPA's managing director of governmental affairs. Contact him at bowen@tscpa.net.

Figure 1. SAC Staff Findings on the Railroad Commission of Texas

The *Texas Tribune* reports Sunset Advisory Commission staff findings about the Railroad Commission of Texas include:

- The agency's "outdated name misleads the public and continues to impede the agency's efforts to be more transparent," and renaming it the "Texas Energy Resources Commission" would more aptly describe what the agency does.
- The agency struggles to provide reliable data showing that it's properly policing oil and gas drillers and "what information is available suggests that the commission's actions have little deterrent effect." The panel called for several changes to improve enforcement and monitoring.
- The agency fails to track its performance in natural gas utility ratemaking and that process is "clouded" by concerns that its in-house judges lack independence. Lawmakers should transfer oversight to the state Public Utility Commission, which has more resources and expertise in ratemaking matters.
- "Insufficient" bonding requirements have left the agency with less funding to plug abandoned wells, the cost of which has doubled since 1990. The panel recommended overhauling bonding requirements, making them more closely correspond to risks.
- "Neither the federal government nor the Railroad Commission enforces damage prevention rules for interstate pipelines," and the Legislature should give the agency authority to do so.

TSCPA Annual Meeting of Members

By Rhonda Ledbetter, TSCPA Chapter Relations Representative

TSCPA members, families and colleagues gathered in Galveston, Texas, for the 2016 Annual Meeting of Members and Board of Directors Meeting. The event served as the grand finale for the year celebrating the Society's 100th anniversary.

Cory Joiner, CPA-Panhandle, and Larry Edgerton, CPA-Permian Basin

Year in Review

Immediate Past Chairman **Allyson Baumeister**, CPA-Fort Worth, shared the exciting things that have happened with the accounting profession and TSCPA. 2015-16 was a year of celebration, pride and reflection – a year to remember. 2015 marked the 100th anniversary of TSCPA and the CPA profession in Texas and the celebration culminated at the Annual Meeting in Galveston.

The Peer Review program that TSCPA administers for the Texas State Board of Public Accountancy (TSBPA) coordinates more than 1,000 reviews per year. Volunteers and staff worked with AICPA's Peer Review Board in finalizing new peer review standards that go into effect Jan. 1, 2017. TSCPA's Professional Standards Committee has responded to exposure drafts, and the Federal Tax Policy Committee has issued regulatory letters and legislative letters.

In the governmental affairs arena, TSCPA has resolved firm ownership issues with TSBPA. A letter was written to the Department of Labor concerning new overtime rules. State Taxation Committee members continue to submit analyses of – and edits to – tax rules proposed by the state comptroller.

The CPE Foundation offered programs in a variety of topics in multiple formats, including live seminars and conferences, webcasts/webinars, on-demand and onsite. Blended-learning programs were incorporated into the schedule. There were partnerships with three large chapters. TSCPA joined 17 other state societies in sending a comment letter in response to the Statement on the Standards for CPE Programs that AICPA and NASBA re-released.

Membership recruitment and retention projects are generating strength in numbers. Baumeister reported that new member CPAs and reinstatements are higher than last year at the same time. Chapters are members' home base and are key partners in recruiting and engaging them.

The media relations program has reached a new level of activity, using the 100th anniversary as a hook. There were a total of 781 articles written about TSCPA this year and the advertising equivalency is almost $16 million.

Members of AICPA and the Chartered Institute of Management Accountants (CIMA) voted in favor of the proposal to create a new association to represent the entire profession while preserving the respective membership bodies. The Association of International Certified Professional Accountants, which is the same name as the existing joint venture and referred to as simply "the Association," will launch in 2017. At that time, AICPA members will have automatic dual membership in the Institute and Association for no additional dues. AICPA will continue to exist and maintain its steadfast commitment to its core constituency: the CPA. Refer to the July/August issue of this publication, and to the TSCPA website, for more details.

For details about a wealth of projects in these and other areas, please refer to the Year in Review article in the May/June issue of *Today's CPA*.

Current Year

Chairman **Kathryn Kapka**, CPA-East Texas, discussed what's in store for the service year that has just begun. The Strategic Plan is still relevant and the five objectives – Professional Competency, Career Success, Advocacy, Culture and Community, and Organizational Excellence – will continue to drive the direction of TSCPA initiatives.

New this year are some programs and plans that focus on the culture and community objective. Under this objective, one of the directives is to enhance the relationships with students and the colleges and universities in Texas. Kapka plans to work with the Relations with Educational Institutions Committee, the Accounting Education Foundation and the chapters. An objective is to develop a boot camp pilot program aimed at college students to teach them the soft skills they will need once they graduate, as well as give them the chance to meet and network with CPAs in their areas. The program will be piloted this autumn; the guidelines for future boot camps will be shared with all 20 chapters.

Kapka outlined TSCPA's next steps as part of the AICPA/CIMA Initiative. The true launch is not until 2017, but preparations are being made now while there is plenty of time to plan, develop and implement. The TSCPA Board of Directors has already approved a new membership category for non-CPA CGMAs. The process of becoming a non-CPA CGMA is not an automatic, easy route. Tests must be taken before the designation is obtained, so the qualifications of the new members will be solid.

Task forces have been formed to evaluate Continuing Professional Education (CPE) activities and to take a comprehensive look at the TSCPA *Bylaws*.

TSCPA Chairman Kathy Kapka, CPA-East Texas, and her husband Robert Kapka

Before the 2017 session, the Legislative Advisory Committee will meet to consider potential initiatives. Regional coordinators will be recruiting key persons, especially for the newly elected legislators.

The Young CPAs and Emerging Professionals Committee voted to expand the CPA day of service to a month and selected November. They are working with chapters to coordinate and publicize the activities; please contact your chapter to see how you can be involved.

Read more about these and other exciting ideas and student initiatives at tscpa.org and in the Chairman's and Executive Director's Message in this magazine.

FASB/PCC

During his presentation, FASB Assistant Director **Jeffrey Mechanick**, CPA, discussed: the evolution of FASB's technical agenda over the past decade; the recent activities and current agenda of FASB and the PCC; and the upcoming public consultation about FASB's future agenda.

He noted key internal developments, such as the codification of U.S. GAAP, completion of various major joint projects with the International Accounting Standards Board, creation of the Private Company Council (PCC) and the Not-for-Profit Advisory Committee (NAC), integration of investor liaisons and a team devoted to Extensible Business Reporting Language (xBRL) into FASB's staff, and the launch of initiatives on GAAP simplification and making disclosures more effective. These have all led to an agenda with a more balanced focus on all of the sectors that rely on FASB's standards – public companies, private companies, nonprofit organizations and employee benefit plans.

Mechanick then reviewed recent activities of FASB and the PCC. These included FASB's issuance of some follow-up implementation guidance concerning the standard issued in 2014 on revenue recognition, and issuance of final standards on leases and credit losses. He discussed the standard issued by FASB that extended the ability of private companies to adopt certain PCC standards (such as on

continued on next page

TSCPA Executive Director/CEO John Sharbaugh, CAE; Donna Wesling, CPA-Austin; Steve Wesling, Austin; and Stephen King, CPA-Houston

goodwill and common control leasing arrangements) for the first time without having to justify their preferability, and he mentioned the PCC's current project on applying Variable Interest Entity (VIE) guidance to entities under common control.

He ended his presentation by alerting the audience to an upcoming invitation to comment that FASB will be releasing to solicit public input on some potential projects to serve as the cornerstone for the agenda for the next several years. He encouraged TSCPA and audience members to weigh in to help ensure that FASB's agenda continues to be responsive to their needs.

AICPA

American Institute of CPAs Vice Chair **Kimberly Ellison-Taylor**, CPA, discussed issues and initiatives the Institute is dealing with at the national level.

She began by exhorting CPAs to be inspirational and aspirational, and to become even more inclusive. She talked about her own challenging background and explained that planting seeds of encouragement at the elementary school level enables children to see the opportunity for a career in accounting.

There are macro trends to be watched:

- International shifts – cause individuals' financial resources to be affected through changes to the value of retirement investments, such as 401(k)s.
- Economics – emerging nations and their impact must be noticed.
- Specialization – becoming necessary, due to increasing regulation.
- Learning – students want flexibility in how they learn, which affects CPE.
- Technology – is pervasive and CPAs need to leverage it.
- Talent – with four generations in the workforce, employers must think about succession planning.
- Competition – CPAs must continually perform SWOT analysis and can't rest on their laurels.

Legislative and regulatory issues are monitored by an eagle-eyed team of volunteers and staff that stays current for members and advocates on their behalf. A policy issue being addressed is the Equal Employment Opportunity Commission's proposal to collect data about employees' pay on the Employer Information Report (EEO-1) for employers with 100 or more employees, starting in 2017. Another is the Department of Labor's action amending the requirements for overtime pay, which would dramatically increase the salary exemption thresholds for CPA firms and other businesses.

The Center for Plain English Accounting is a national resource center for firms provided by AICPA's Private Companies Practice Section. Some of its services are: written responses to written technical inquiries, monthly how-to accounting and auditing reports, webcasts, alerts and content for firm newsletters.

For quality and consistency in SEC financial reporting, the marketplace looks to AICPA for solutions. Two new credentials it will provide in the area of fair value measurement are for Entity and Intangible Valuations, and Complex Financial Instruments.

AICPA launched the #CPAPOWERED campaign, with the theme CPA Secrets to a Better Business. The goal is to reach small-company owners and demonstrate the expert advice a CPA can bring to their business. There is a Small Business Marketing Toolkit offering CPAs the resources to help them educate this market segment about their services and the ways CPAs can act as a trusted adviser.

Looking even farther into the future, AICPA is working to ensure the next generation of the profession by building a CPA pipeline. Components include a state society pilot, high school honors course, academic-in-residence, campus champion program, continuous engagement and supportive environments, involvement with community colleges, and outreach to firms. Also, the CPA Exam will soon see significant changes. There will be increased assessment of higher-order analysis and evaluation skills, to ensure that the accountants of tomorrow have what it takes to stay ahead of increasing marketplace demands. (Editor's Note: Please see the article "The Only Constant is Change: Upcoming Changes to the Uniform CPA Exam" in this *Today's CPA* magazine for more information.)

Texas Demographics

Texas State Demographer **Lloyd Potter**, Ph.D., shared information about Texas population characteristics and trends. Since 1950, the population number has moved upward in a curvilinear direction.

Growth is focused in a triangle encompassing the Austin/San Antonio, Dallas/Fort Worth and Houston counties, which are among the most rapidly growing in the country. The population in the suburban counties surrounding them is also growing quickly. Jobs are probably the primary factor causing the growth.

There was also a significant increase in counties that were thriving during the oil and gas boom, although that has subsided. However, in general Texas still has more jobs being created than people to fill them. Many of those jobs require skilled labor, not necessarily a four-year college degree. Because workers' education is usually directly related to their income level, that can impact the economics in their area.

Potter outlined the percentage of net population change attributed to a natural increase and that caused by domestic migration. The latter in Texas during the first decade of this century was less than in the 1990s and a lot less than the 1970s, but still significant at 43 percent. The importance of measuring this ratio is that growth resulting from migration puts instant pressure on the infrastructure, as compared to a natural increase, which allows for more gradual adjustment, and resources must be allocated accordingly. Texas has a large number of domestic migrants compared to other states, reflecting the continued availability of jobs. In 2013-14, its domestic migration inflow was approximately twice that of its international net migration from other countries.

He then presented charts showing Texas' estimated population growth 2010-2050, based upon three scenarios. The most aggressive of the three plots a truly astonishing rise. There is also an encouraging projected jump in the number of individuals ages 18 to 64, important to keep the workforce strong.

In closing, he reviewed the trends indicated:

- Growth will be significant, fast and uneven.
- Hispanic population will soar and is driving growth.
- Migration patterns are dynamic.
- An educated labor force is a challenge.

Accounting Education Foundation

The President of the Accounting Education Foundation (AEF) Board of Trustees, **Fred Timmons**, CPA-San Antonio, presented an update on the work of the Foundation to provide financial assistance to students and the educators who are preparing them for a career in accounting.

Some of the AEF's projects included underwriting the Accounting Education Conference, an event where educators in the field of accounting network and obtain relevant CPE; making a contribution to the AICPA Minority Scholarships, which were given to eight students in Texas; and awarding $2,500 scholarships to 50 qualified accounting students.

To help fund its work, the AEF held a silent auction during the Annual Meeting. The event netted almost $9,000. The Million Dollar Plus campaign is in progress, with the goal to raise $1,000,000 for accounting scholarships in Texas.

CPA-PAC

Brad Brown, CPA-Southeast Texas, chair of TSCPA's CPA-PAC, talked about the upcoming 85th Texas Legislature, which will convene in January and address issues affecting businesses and taxpayers. There will be many new legislators with whom relationships will be developed. He pointed out that CPAs have powerful influence that should be put to work. Brown encouraged members to meet with their legislators well before the session and to contribute to their campaigns. He also encouraged those who have a personal relationship with a state lawmaker to contact the TSCPA Governmental Affairs staff and become a key person.

Business Matters

The 2015-2016 financial report was presented. 2016-2017 Treasurer **Jesse Dominguez**, CPA-Austin, presented the new fiscal year budgets, which were approved.

Business conducted for other TSCPA entities included:

- Election of directors of the Accountancy Museum of the Texas Society of CPAs, Inc.
- The annual meeting of the TSCPA CPE Foundation, led by **Dora Jean Dyson**, CPA-Central Texas.
- The annual meeting of the Peer Assistance Foundation, conducted by **Marjorie Nance**, CPA-Dallas.

Awards, Speakers' Presentations and Future Site

Figure 2 describes the achievements of award recipients recognized during the kick-off luncheon. Please see the Chapters column in this issue for information about the Outstanding Chapter Awards, which were presented at the meeting.

You can view speakers' PowerPoint presentations through the TSCPA website, at tscpa.org.

The Midyear Board of Directors Meeting will be held in Austin Jan. 31-Feb. 1, 2017. Colorado Springs is the site for the 2017 Annual Meeting of Members and Board of Directors Meeting, June 31-July 1. ■

Nita Clyde, CPA-Dallas, and AICPA Vice Chair Kimberly Ellison-Taylor, CPA

2016 Chapter Challenge Golf Tournament

The golfers were:

Austin Chapter – Steve Joiner, Matt Malcom, Justin Malcom, Jesse Dominguez

Central Texas Chapter – Alton Thiele

Dallas Chapter – John Eads

East Texas Chapter – Robert Kapka, Rodney Overman, Royce Read

Houston Chapter – Mark Lee, Stephen Parker, Mike Spartalis

San Antonio Chapter – Fred Timmons, Jack Belcher, Jim Oliver, Chuck Clark, Joyce Fox

Southeast Texas Chapter – Josh LeBlanc

TSCPA staff – John and Carolyn Sharbaugh, Jerry Cross

John Sharbaugh and Stephen Parker both shot 83.

Steve Joiner won the Closest To The Pin contest.

TSCPA 2015-16 Award Recipients

Blaise Bender, CPA-San Antonio, and **Donna Wesling**, CPA-Austin, were recognized for Meritorious Service to the Accounting Profession in Texas. This award is regarded as the highest honor bestowed by TSCPA, given for leadership and service.

Bender has been a Texas CPA and TSCPA member since 1992. He has served on several Society committees, on the Board of Directors and as San Antonio Chapter president (2006-2007). During his time as a tenured associate professor of accounting and law, Bender educated hundreds of accounting and business majors. He has also educated thousands of CPAs across the state on individual and business tax issues.

Wesling received her Texas CPA license in 1976 and joined TSCPA the same year. In her 40 years of service to the Society and the profession, she has served on more than 30 committees, on the Board of Directors, as a member of the Executive Board for eight years, as Austin Chapter president (1984-1985), and as chairman of TSCPA (2011-2012). Additionally, she has served on a variety of AICPA committees and on the AICPA Council.

John Otto, CPA-Southeast Texas, was given the Distinguished Public Service award. Otto has served in the Texas House of Representatives since 2005 and has received several accolades during his service. Known for his deep understanding of budget and tax issues, Rep. Otto was the first CPA to chair the House Appropriations Committee in more than 25 years. In addition to his civic service, he is a businessman and community leader, also giving his time to various organizations in his community.

Mary Alice Tidwell, CPA-Permian Basin, was elected as an Honorary Fellow. Tidwell has been a Texas CPA and TSCPA member for 50 years. She was the 171st woman to receive a Texas CPA license and today, at 92 years old, she is still a partner in a local CPA firm in Midland. She served on TSCPA committees and as an officer in the Permian Basin Chapter in the early 1970s, and remains connected to her chapter and its members today. Tidwell has given her time and talents to various community organizations over the past several decades and has inspired many young people to pursue a CPA license.

Ryan Bartholomee, CPA-Permian Basin, was named Young CPA of the Year. In 2008, Bartholomee became a CPA and member of TSCPA. Before reaching the age of 30, he became CFO for an oil and gas exploration and production company. In the past eight years, he has served on six TSCPA committees, as a member of the Board of Directors and on the Executive Board. Bartholomee also served as president of the Permian Basin Chapter (2013-2014). Beyond service to TSCPA and his chapter, he gives time to his church and community.

Dora Jean Dyson, CPA-Central Texas, and **Bill Schneider**, CPA-Dallas, were co-recipients of the award for Outstanding Committee Chair.

Dyson has served on the CPE Advisory Board since 2008, including the most recent two years as their chair. She has helped lead this group through valuable discussions about CPE in an ever-changing environment while also providing a forum for chapters to share their CPE successes and challenges.

Schneider has served on the Business & Industry Issues Committee since 2010 and was the chair for the past two years. In addition to providing ideas for serving TSCPA's B&I members, he authors a weekly blog for the Society. With input from the committee under his leadership, TSCPA has been able to increase recruitment and retention of B&I members.

John Sharbaugh, CAE, was elected as an Honorary Member. He has served as TSCPA's CEO and executive director since 2000. Prior to TSCPA, he worked for AICPA, the North Carolina Association of CPAs and the Florida Institute of CPAs. Sharbaugh has spent the majority of his professional life dedicated to advancing the accounting profession. Beyond service to the CPA profession, he has given his time and talents to the association profession with leadership roles in the American Society of Association Executives and the Texas Society of Association Executives. Sharbaugh has well positioned our organization for future success.

Executive Board 2016-2017

Kathryn Kapka, CPA-East Texas
Chairman

Jim Oliver, CPA-San Antonio
Chairman-elect

Jesse Dominguez, CPA-Austin
Treasurer

Jerry Spence, CPA-Corpus Christi
Treasurer-elect

Janelle Jones, CPA-Houston
Secretary

Ryan Bartholomee, CPA-Permian Basin

Edie Cogdell, CPA-San Antonio

Randy Crews, CPA-Rio Grande Valley

Tom DeGeorgio, CPA-Houston

Jason Freeman, CPA-Dallas

Terri Hornberger, CPA-Dallas

Cory Joiner, CPA-Panhandle

Toni McBee Joyner, CPA-Brazos Valley

Royce Read, CPA-East Texas

Allyson Baumeister, CPA-Fort Worth
Immediate Past Chairman

John Sharbaugh, CAE
Executive Director/CEO

Special Recognition Awards

The Special Recognition Award is presented by the immediate past chairman to honor TSCPA members who have performed an extraordinary service to the Society in a given year.

Ken Horwitz, CPA-Dallas

Chuck Lieser, CPA-Fort Worth

The El Paso Chapter

The Fort Worth Chapter

Outstanding Chapter Awards

The following awards were presented to chapters for their work serving members.

Small Chapter – **Southeast Texas**
Medium-sized Chapter – **Corpus Christi**

TSCPA Invited to Speak at National Taxpayer Advocate's Public Forum in August

National Taxpayer Advocate **Nina E. Olson** and U.S. Rep. **Lloyd Doggett** (D-Texas) held a public forum in San Antonio on Aug. 30, 2016, to discuss what taxpayers want and need from the IRS to comply with their tax obligations. As of press time, TSCPA's Chairman-elect **Jim Oliver**, CPA-San Antonio, and TSCPA members **Jim Smith**, CPA-Dallas and **Jaime Vasquez**, JD, CPA-San Antonio, were invited to serve on a panel discussion during the forum. Oliver and Smith provided testimony on behalf of TSCPA, its Federal Tax Policy Committee and the San Antonio Chapter. They offered commentary on the IRS "future state" plan and whether it adequately addresses taxpayer needs.

Olson conducted the hearing in collaboration with Rep. Doggett, who represents Texas' 35th congressional district in the U.S. House of Representatives. Members of the public were also invited to attend and had an opportunity to speak.

In the National Taxpayer Advocate's *2015 Annual Report to Congress*, Olson expressed concerns about the future state plan, saying that it may leave critical taxpayer needs and preferences unmet. She recommended the IRS solicit comments from taxpayers and tax professionals regarding the plan. TSCPA's Federal Tax Policy Committee conveyed similar concerns in a letter this past March to the Secretary of the Treasury Jacob Lew and IRS Commissioner John Koskinen.

More information about the public forum and the testimony provided by Oliver and Smith will be included in the November/December issue of *Today's CPA*.

TSCPA: Acting on Your Behalf

TSCPA's annual member recruitment campaign is currently underway. Encourage your non-member colleagues to join the professional organization that is working to protect the license you worked so hard to attain. Send them to the website at tscpa.org and tell them to click on the link "Join TSCPA." The online mobile-friendly application makes it even easier to join!

CPAs who have never been members of TSCPA can join with the introductory dues rate of $119 for state and chapter dues through May 31, 2017. If you have any questions about the member recruitment campaign, please contact Melinda Bentley at mbentley@tscpa.net; phone 800-428-0272, ext. 279 or 972-687-8579 in Dallas.

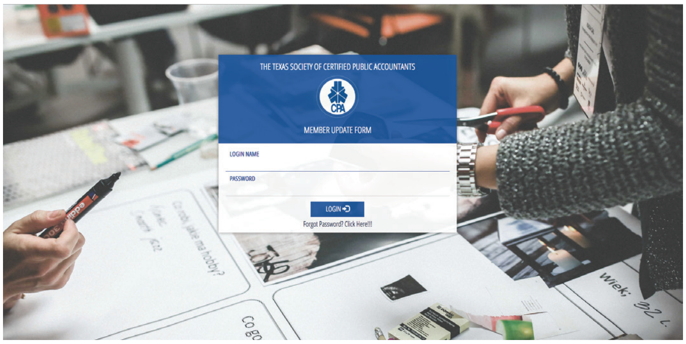
Statewide CPA Month of Service is in November

TSCPA and the Young CPAs and Emerging Professionals Committee for TSCPA are hosting the statewide CPA Month of Service in November. This month of volunteer service represents the CPA profession's ongoing commitment to serving the communities where its professionals live and work. It's an opportunity for you to help those in your community by participating in a volunteer activity of your choice. You can register as an individual, get a group together in your firm or company, or volunteer with your TSCPA chapter. Check out what your chapter has planned in your area or choose a community organization to help and contact them to make arrangements to volunteer.

Members who register with us by Monday, Oct. 31, 2016, will be entered in a drawing to win a $50 AMEX gift card. You can register on the website at https://secure.tscpa.org/cpa_day/cpaday.asp.

Sign up today to be a part of this year's event. We're looking forward to seeing how CPAs give back to their communities! Don't forget to use the hashtag #TXCPAService to share your photos and videos on social media.

For more information about the CPA Month of Service, please contact TSCPA's Catherine Raffetto at craffetto@tscpa.net or 800-428-0272, ext. 216 (972-687-8516 in Dallas).



Update Your TSCPA Member Profile

TSCPA members can update their information using an online form. Now is a great time to check your member profile and be sure we have all of the most accurate contact information on record and your interest areas that help us best serve you. To access the form, go to http://tscpamemberupdate.tscpa.net. Your login information will be the same username and password as your member login on TSCPA.org. If you do not remember your password, you can use the retrieval link provided on that page or call our member service team to have a temporary password set. You can reach us Monday through Friday between 8 a.m. and 5 p.m. CST by calling 800-428-0272 and selecting option 1.

Succession Planning Resource Available for Members

TSCPA offers members resources that are focused on firm management and practice management issues. It was developed in partnership with the Succession Institute LLC. Members can access free material and content on succession planning. There are also CPE self-study course offerings available at a discounted rate for those who would like to receive CPE credit. To learn more and utilize this members-only resource, please go to the CPE section of the TSCPA website at tscpa.org, scroll down and select Practice Management under Tools and Information.

TSCPA Seeks Faculty and Student Campus Reps for 2016-2017

TSCPA is looking for students and faculty members to represent the Society on campuses across the state. In exchange for serving as a campus rep, students will receive free membership for the year, recognition in relevant TSCPA communications and more. Faculty reps will receive complimentary registration to the Accounting Education Conference in October, which includes 14 hours of CPE.

If you or someone you know is interested in becoming TSCPA's link to your college or university, please download the form to begin the application process. The form is available on the website at tscpa.org. Go to the Students section of the site and then to TSCPA Membership and "TSCPA Campus/Faculty Rep Program." You can also contact TSCPA's Catherine Raffetto at craffetto@tscpa.net or 800-428-0272, ext. 216 (972-687-8516 in Dallas) for more information.

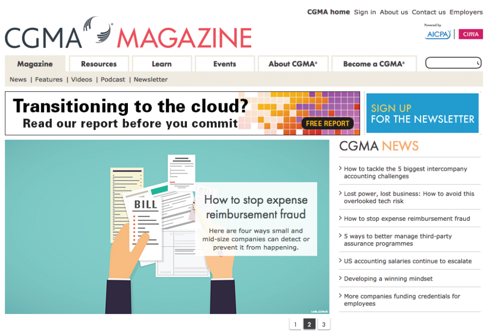
Volunteers Needed: Accountants Confidential Assistance Network

ACAN ACCOUNTANTS CONFIDENTIAL ASSISTANCE NETWORK

The Accountants Confidential Assistance Network (ACAN) program befriends a number of CPA candidates around the state as part of the ACAN peer assistance program. ACAN supports Texas CPAs, CPA candidates and/or accounting students who are addressing alcohol, chemical dependency and/or mental health issues.

Can you help? Please contact Craig Nauta at 800-428-0272, ext. 238; 972-687-8538 in Dallas; or at cnauta@tscpa.net.

You'll find more information about the program on TSCPA's website at tscpa.org. Under the Resource Center tab, scroll down and click on Accountants Confidential Assistance Network.



CGMA MAGAZINE

HARVARD ManageMentor
Inspiring Individuals, Enabling Organizations

CGMA Designation Provides a Number of Benefits

CGMA Chartered Global Management Accountant®

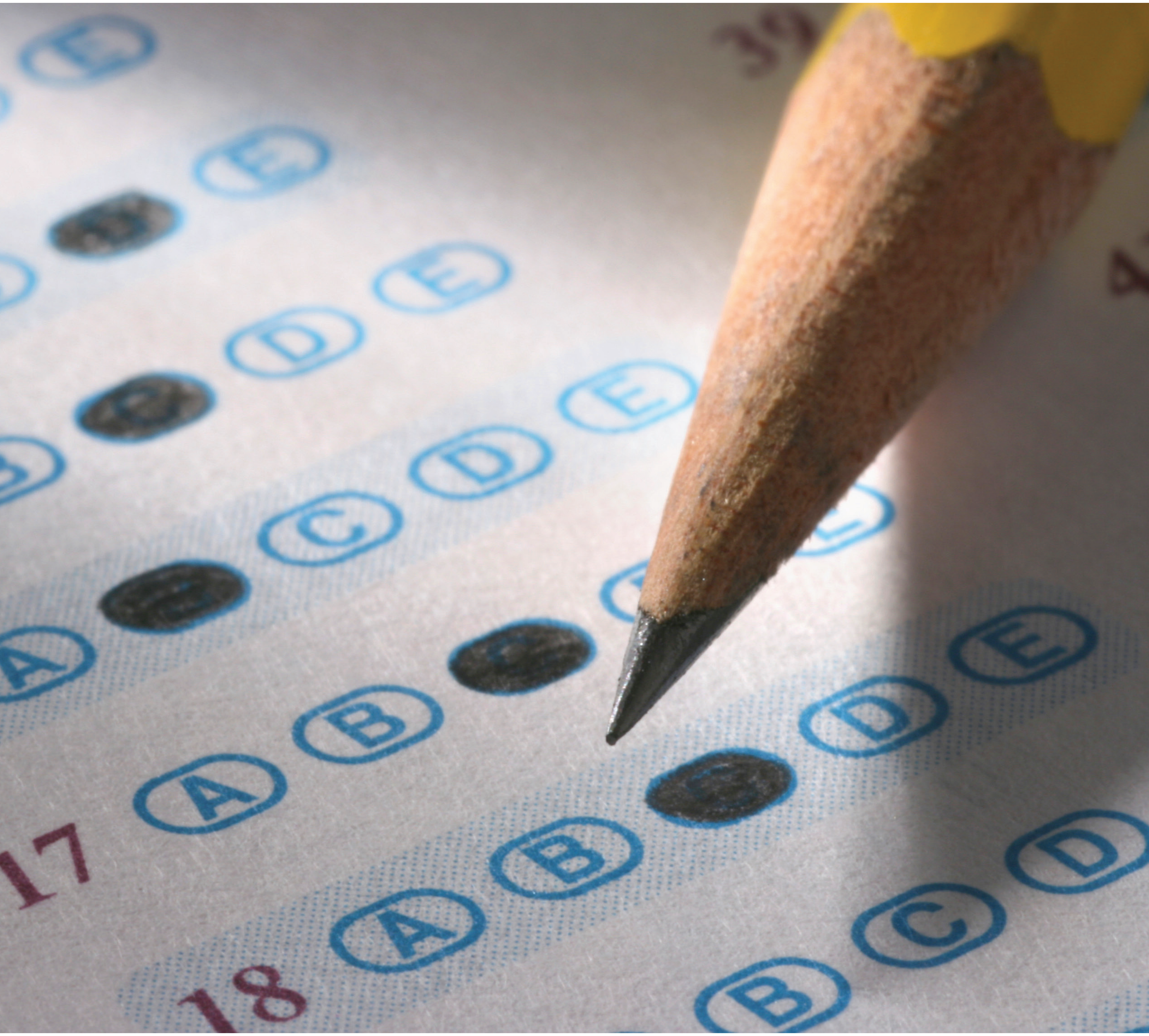
The Chartered Global Management Accountant (CGMA) designation was created by AICPA and the Chartered Institute of Management Accountants (CIMA) to recognize U.S. CPAs and CIMA members who work in management accounting roles. The CGMA is a respected complement to your CPA license. It elevates the profession of management accounting around the world. Designation holders can stay connected to the pulse of the profession and become a knowledge leader in their organizations.

The CGMA designation is backed by a number of benefits, including:

- CGMA magazine,
- CGMA newsletter,
- Community/global network,
- Harvard ManageMentor,
- Tools and reports,
- Products, such as online professional development courses, webinars, digital publications and conferences.

To learn more about CGMA benefits, requirements and what the designation can do for your career, visit their website at cgma.org.

The Only Constant is Change: Upcoming Changes to the Uniform CPA Exam



By Kelsey R. Brasel, Ph.D., CPA; Renee Flasher, Ph.D., CIA, CMA, CPA, CFE; and Sharon Huang, Ph.D.

The Uniform CPA Exam has continually experienced change in its history (see Exhibit 1). The most significant format change in recent history was the computerization of the exam in 2004. Six years later, in 2011, the American Institute of Certified Public Accountants (AICPA) implemented enhanced computer-based testing and incorporated International Financial Reporting Standards (IFRS) content.

Most recently, AICPA has announced another set of significant changes that will alter the current form of the Uniform CPA Exam, effective April 1, 2017. This article summarizes the significant changes outlined in AICPA's *Practice Analysis Final Report: Maintaining Relevance of the Uniform CPA Examination* (2016).

The New Uniform CPA Exam Changes

In its April 4, 2016, report, AICPA detailed significant changes for the exam. Beginning in 2014, AICPA conducted a practice analysis to identify the knowledge and skillsets required of newly licensed CPAs. Based on this research, AICPA concluded that the current exam had not kept pace with the continually changing expectations and demands of newly licensed CPAs.

To address this concern, AICPA is making changes to the exam to provide a better measure of the skills necessary for a new CPA. Among the significant changes, the new exam will increase the assessment of higher-order cognitive skills and increase the use of task-based simulations with a corresponding reduction in multiple-choice questions to 50 percent of the exam. However, the overall structure of four sections will remain and include: Auditing and Attestation (AUD), Business Environment and Concepts (BEC), Financial Account and Reporting (FAR) and Regulation (REG).

One of the more significant changes to the current version of the exam is an increased emphasis on higher-order skills (see Exhibit 2). Historically, the CPA exam focused on lower-level skills, such as remembering and understanding, and application. The upcoming version of the exam will not only test these skills, but it will also test higher-order cognitive skills, including analysis and evaluation. For example, a remembering and understanding task would include "understanding the purpose and application of sampling techniques in an audit engagement." Application tasks are a bit more difficult; for example, the candidate should "use sampling techniques to extrapolate the characteristics of a population from a sample of items tested." An example of analysis skill test objective would require the candidate to "determine the suitability of substantial analytical procedures to provide evidence to support an identified assertion." The highest-order skill, evaluation, would require candidates to "evaluate the significance of the differences of recorded amounts from expected values when performing analytical procedures in an audit engagement."

Currently, the exam focuses 50-60 percent of the questions on remembering and understanding and 40-50 percent of questions on application (with the exception of BEC, which focuses a majority of its questions on remembering and understanding). Under the new exam, FAR,

continued on next page

Exhibit 1
Previous Major Revisions of the CPA Exam
Adapted from Frasier, Baugh and Williams (2016)

Date	Description/Revision of the CPA Exam
Pre-1994	19.5 hours, pencil/paper, four parts are: Auditing, Law, Acc. Theory, Acc. Practice (2 parts, 4.5 hours each); given twice per year in May and Nov.
1994	15.5 hours, use of calculator, pencil/paper, four parts are: 1. Business Law and Professional Responsibilities (LPR). 2. Auditing (AUDIT). 3. Accounting and Reporting (Tax, Managerial, Gov't, Not-for-profit) (ARE). 4. Financial Acc. and Reporting – Business Enterprises (FARE).
2004	Computerized Exam; 14 hours; revised four parts are: 1. Auditing and Attestation (AUD). 2. Business Environment and Concepts (BEC) – covers business structures, economic concepts, financial management, information technology and planning and measurement. 3. Financial Accounting and Reporting (FAR). 4. Regulation (REG) – covers ethics and professional responsibility, business law and federal taxation.
2011	Enhanced computer-based testing, 14 hours, testing IFRS (International Financial Reporting Standards), research codification and international auditing standards.

BEC and REG will focus on remembering, application and analysis, while AUD will also focus on evaluation (as depicted in Exhibit 2). For example, the AUD exam will be composed of 5-15 percent on evaluation, 15-25 percent on analysis, 30-40 percent on application, and 30-40 percent on remembering and understanding. The increased testing of higher-order cognitive skills is a significant change to the current CPA exam.

Exhibit 2

Types of Skills Tested on the New CPA Exam

Adapted from AICPA (2016)

		Percentage of Questions			
Skill Level	**Question Type**	**AUD**	**FAR**	**REG**	**BEC**
Evaluation	TBS	5 – 15%	--	--	--
Analysis	TBS	15 – 25%	25 – 35%	25 – 35%	20 – 30%
Application	MCQ, TBS, WC	30 – 40%	50 – 60%	35 – 45%	50 – 60%
Remembering and Understanding	MCQ	30 – 40%	10 – 20%	25 – 35%	15 – 25%

TBS = Task-Based Simulations, MCQ = Multiple Choice Questions, WC = Written Communication

To test higher-order skills, the mix of multiple-choice questions (MCQ) and task-based simulations (TBS) will change under the new exam (see Exhibit 3). Specifically, the weighting of MCQ for AUD, FAR and REG will decrease from 60 percent to 50 percent of the exam. The weighting of TBS for AUD, FAR and REG will increase from 40 percent to 50 percent of the exam. For the first time, BEC will include TBS that will compose 35 percent of the exam. Writing Comprehension tested in BEC will remain weighted at 15 percent; however, grammar and punctuation will be tested under the new exam in addition to content. The remaining content of BEC will be 50 percent MCQ, which represents a significant decrease from the current weighting of 85 percent.

New types of TBS will be implemented in the new CPA exam: document review simulations (DRS), enhanced simulations and integrative simulations. First, DRS will present a realistic document for the candidate to complete, for example, a summary worksheet and supporting source documents. Candidates will be required to select appropriate edits to highlighted words or sections of the document based on the supporting documentation. Second, enhanced simulations provide an increased amount of background information and require candidates to determine whether the information is relevant to the question. Finally, integrative simulations include content from multiple sections of the exam and require the candidate to integrate knowledge from more than one exam section to answer questions.

The New Uniform CPA Exam Administration and Support Changes

The length of REG and BEC will be increased from three hours to four hours in length to mirror the current length of AUD and FAR. Therefore, the total length of the exam has been increased from 14 to 16 hours. Additionally, a 15-minute break will be offered to candidates in addition to the allotted testing time. Optional breaks after each section of the exam will be available; however, the breaks reduce the allotted testing time. Due to the increase in testing time, AICPA notes exam fees will increase, but the extent of the increase has not been disclosed.

Blueprints detailing the topics and skill level tested on the new exam are available in the *Practice Analysis Final Report: Maintaining Relevance of the Uniform CPA Examination* (2016). The blueprints replace the current Content Specification Outlines and Skill Specification Outlines. Blueprints do reflect some minor changes in categorization of content; for example, nonprofit accounting is no longer separately tested as a section of FAR. However, there is strong overlap between the existing content specification outlines and the test blueprints.

The National Association of State Boards of Accountancy (NASBA) estimates scores for the first window of the new exam (Q2 2017) will be released 10 weeks after the close of the testing window. After scoring is better calibrated, subsequent windows will release scores 10 days after the close of the testing window. In addition, the testing window has been expanded by 10 days per quarter starting June 2016. As of now, the continuation of the expanded testing window is uncertain. If allowed in the long term, candidates have an extra 40 days per year to schedule their testing dates.

Changes Are Significant

Significant changes have been adopted by AICPA that will alter the current form of the Uniform CPA Exam beginning on April 1, 2017. The most significant change will be the testing of higher-order skills (evaluation and analysis), in addition to application and remembering and understanding skills. Additionally, the new exam will increase the number of TBS for all four sections and increase the weighting of these questions.

Employers should encourage candidates currently taking the exam to pass all four sections prior to the changes going into

Exhibit 3

Question Counts and Score Weightings on the New CPA Exam

Adapted from AICPA (2016)

Section	MCQ		TBS		WC	
	Count	*Weighting*	*Count*	*Weighting*	*Count*	*Weighting*
AUD	72	50%	8 – 9	50%	--	--
FAR	66	50%	8 – 9	50%	--	--
REG	76	50%	8 – 9	50%	--	--
BEC	62	50%	4 – 5	35%	3	15%

TBS = Task-Based Simulations, MCQ = Multiple Choice Questions, WC = Written Communication effect on April 1, 2017. However, NASBA, boards of accountancy and AICPA have agreed that any combination of passed current format exam sections and passed new format exam sections will count toward licensure requirements (subject to the 18-month rule).

Also, the 2014 *NASBA Candidate Book* summarizes all the educational institutions reported by candidates sitting for the exam by state. Texas ranked high with the fourth most educational institutions in the nation, with greater than 60 different institutions referenced. Therefore, any student expecting to reach his/her 150-hour requirement to sit for the exam in Texas may see changes implemented within accounting courses as instructors begin to emphasize the types of problems and activities, in addition to content knowledge, aligning with the new exam format.

For more information about the new exam format, visit AICPA's website (www.aicpa.org/becomeacpa/cpaexam/nextexam/). It remains to be seen if candidates have success in demonstrating these new skills with the new format. AICPA's hope is that candidates, educational institutions and the employers within Texas see the benefits of this new format sooner rather than later. ■

References:

American Institute of Certified Public Accountants (AICPA). 2016. *Practice Analysis Final Report: Maintaining the Relevance of the Uniform CPA Examination.* April 4, 2016. Retrieved from http://www.aicpa.org/BecomeACPA/CPAExam/nextexam/DownloadableDocuments/2016-practice-analysis-final-report.pdf

Frasier, C. E., E. F. Baugh, Jr., and J. R. Williams. 2016. "Time for Change: The CPA Exam." *Tennessee CPA Journal* 11/12:16-17.

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Ethical Behavior

Among Texas CPAs – After the Mandatory College Ethics Course Requirement

Figure 1a. **Disciplinary Actions per 1,000 CPAs Aggregate**

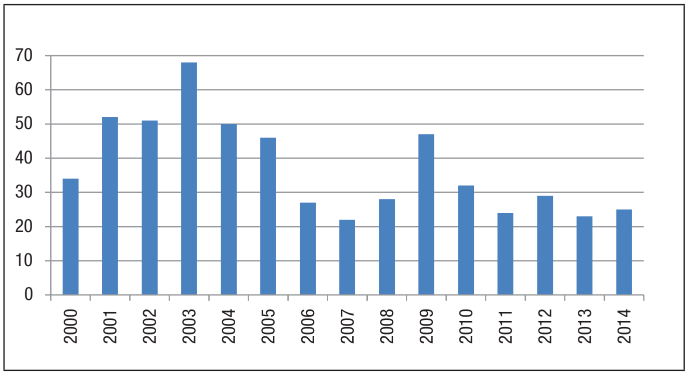


Figure 1b. **Disciplinary Actions per 1,000 CPAs by Type**

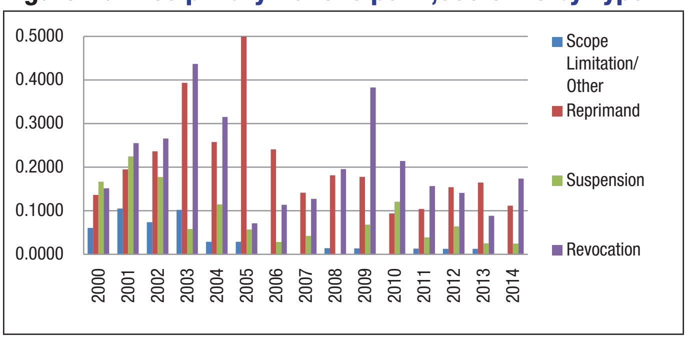


Figure 2a. **Scope Limitations/Other as % of Total Disciplinary Actions**

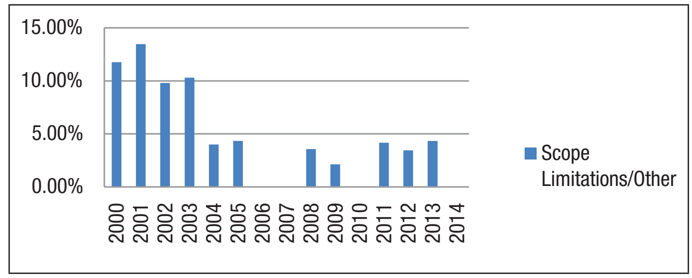


Figure 2b. **Reprimands as % of Total Disciplinary Actions**

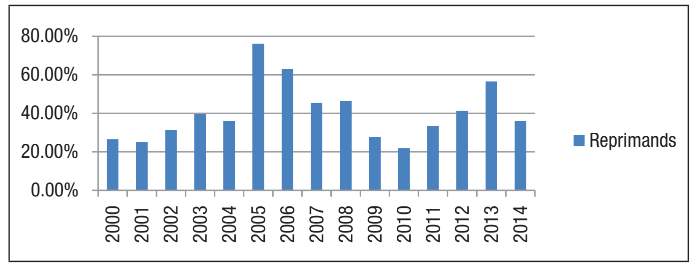


Figure 2c. **Suspensions as % of Total Disciplinary Actions**

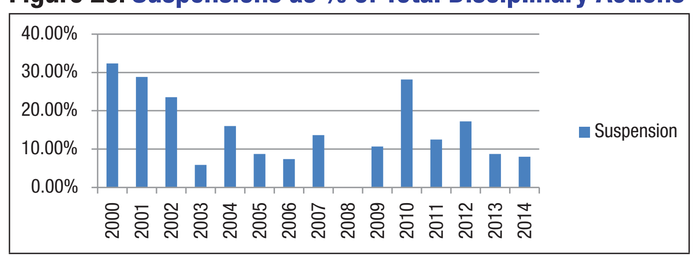
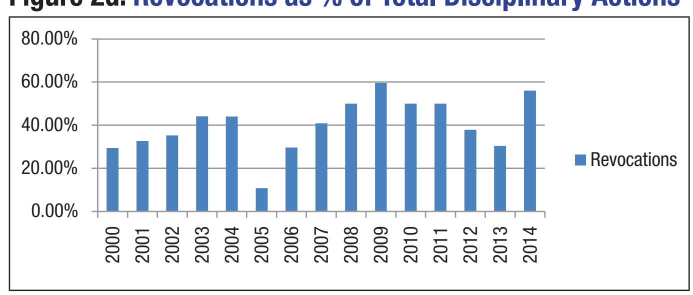


Figure 2d. **Revocations as % of Total Disciplinary Actions**



By Kathy F. Otero, CMA

In 2005, the Texas State Board of Public Accountancy began requiring the completion of a Board-approved three-semester-hour ethics class for all Texas CPA exam candidates. This change was in conjunction with the requirement for licensed CPAs in Texas to complete a Board-approved four-hour ethics course biannually. These new mandates were, in large part, a reaction to the devastating accounting scandals that surfaced in the early 2000s.

Hurtt and Thomas (Hurtt & Thomas, 2011) surveyed public accountants in Texas who were licensed between 2005 and 2010 and asked them about their perceptions of the impact of the required three-hour university ethics course requirement. They found respondents generally agreed that the course improved their ethical reasoning abilities. Respondents were somewhat less positive about the impact of the biennial ethics course required for licensed CPAs. Hurtt and Thomas also found that the number of reported ethics violations declined significantly between 2005 and 2010, which they interpreted as evidence of the success of mandatory ethics education.

Although ethical behavior among CPAs in Texas has generally improved, there are no studies exploring changes in the composition of disciplinary actions imposed or in specific types of ethical violations. This study takes a step towards filling this gap in the literature.

Analysis and Results

A total of 563 disciplinary action cases from 2000 through 2014 were taken from archived copies of the Texas State Board Report. Information was categorized by disciplinary actions and code violations.

Disciplinary Actions in the Texas CPA Population

Figures 1a and 1b show disciplinary actions per 1,000 CPAs from 2000 to 2014 in Texas. Figure 1a presents aggregate disciplinary actions. Figure 1b breaks down disciplinary actions by type: scope limitations/other, reprimands, suspensions and revocations.

Total disciplinary actions were on a downward trend prior to the implementation of the ethics course requirement and continued to decline through 2007. The numbers have crept up since the lowest level in 2007, although the levels remain well below the pre-2005 levels for both the 2006-2010 and 2011-2014 periods. The decreases are significant[1].

continued on next page

Table 1
Summary of Average Changes in Disciplinary Action Types as a Percent of Total Disciplinary Actions

Disciplinary Action Type	Direction of Average Change between 2000-2004 and 2006-2010	Direction of Average Change between 2006-2010 and 2011-2014
Scope Limitation/Other	Decrease*	Increase
Reprimands	Increase*	Increase
Suspensions	Decrease	Decrease
Revocations	Increase*	Decrease

Table 2
Occupations Code Violation Categories

Code Violation	Texas Occupations Code # and Section	Description of Violation
1	901.502 §1	Fraud/deceit in obtaining license
2	901.502 §2	Fraud/negligence in practice of public accounting
3	901.502 §5	Unauthorized practice violations
4	901.502 §6	Board rule violations
5	901.502 §10A	Felony convictions
6	901.502 §10B	Other convictions with an element of fraud or deceit
7	901.502 §8	Loss of right to practice in another state
8	901.502 §9	Loss of right to practice before a government agency
9	901.502 §3,4	License related violations
10	901.502 §11	Conduct unbecoming
11	901.502 §7,12	Violations of firm related rules

While the decline in the overall number of disciplinary actions is positive, the aggregate numbers fail to provide a complete picture of disciplinary action behaviors. To extend the understanding of these changes, it is helpful to compare how the composition of disciplinary actions has changed.

Annual Disciplinary Actions as a Percentage of Total Disciplinary Actions

To evaluate the changes in the annual composition of overall disciplinary actions, disciplinary actions are scaled as a percentage of total annual disciplinary actions for each study year. The results, by year, appear in Figures 2a through 2d.

To analyze general trends, the annual values presented in figures 2a – 2d were grouped into three timeframes: 2000-2004, 2006-2010 and 2011-2014. Scope limitations/other averaged around 10 percent of total disciplinary actions from 2000-2004; the value dropped to 1 percent between 2006-2010 and remained low at 3 percent between 2011-2014. Reprimands averaged 32 percent of disciplinary actions between 2000-2004 and have continued a generally upward trend for subsequent time periods – to 39 percent from 2006-2010 and 42 percent from 2011-2014. Suspensions averaged roughly 20 percent of all disciplinary

Figure 3a. Felony Convictions as % of Total Violations

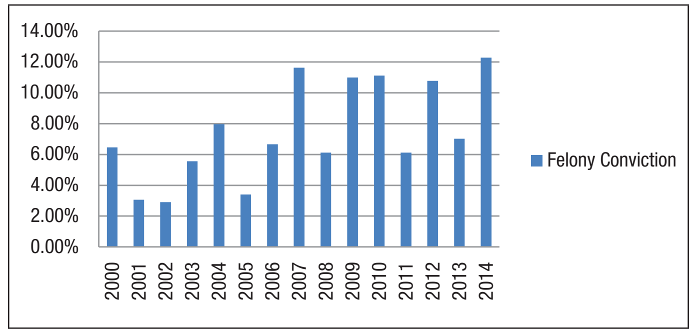


Figure 3b. Board Rule Violations as % of Total Violations

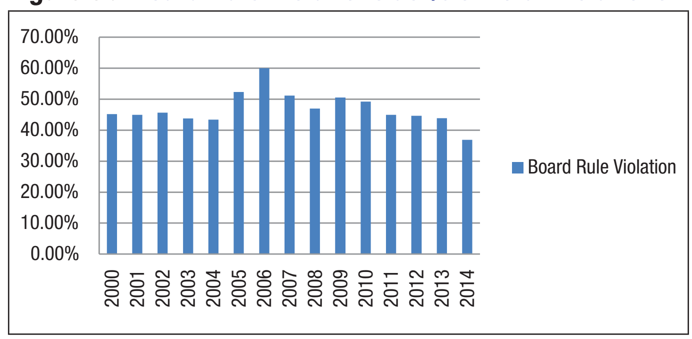


Figure 3c. Conduct Unbecoming as % of Total Violations

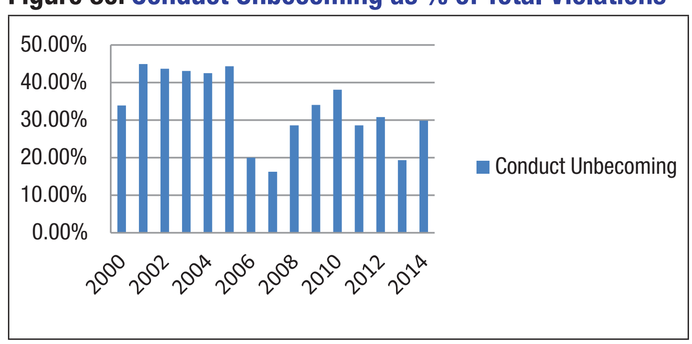


Figure 3d. All Other Violations as % of Total Violations

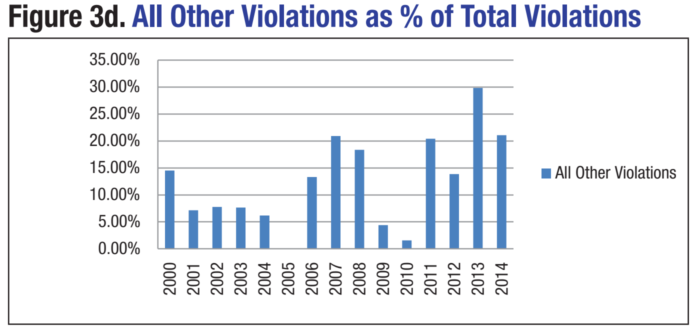


Table 3

Summary of Average Changes in Code Violation Types as a Percent of Total Code Violations

Code Violation Category	Direction of Average Change between 2000-2004 and 2006-2010	Direction of Average Change between 2006-2010 and 2011-2014
Board Rule Violations	Increase*	Decrease
Felony Convictions	Increase*	Decrease
Conduct Unbecoming	Decrease	Decrease
All Other Violations	Increase	Increase*

actions between 2000-2004, although the trend during this time was generally declining. Between 2006 and 2014, suspensions declined to and remained at roughly 12 percent of disciplinary actions. Revocations averaged 38 percent of disciplinary actions between 2000-2004. They trended upwards quickly after a sharp decline in 2005, averaging 48 percent of disciplinary actions between 2006-2010 and dropped slightly to 44 percent between 2011-2014. In summary, scope limitations and suspensions were, on average, lower after 2005 than before 2005, while reprimands and revocations were generally higher after 2005.

These changes are summarized in Table 1. Statistically significant changes are marked with an asterisk. These results indicate that between the 2000-2004 and the 2006-2010 periods, changes in scope limitations decreased significantly, while reprimands and revocations increased significantly. Average values between 2006-2010 and 2011-2014 did not change significantly.

Although there are annual fluctuations in all disciplinary actions, revocations remain at generally higher levels after 2005. However, whether there is cause for concern depends largely on the reason for the increases. If the relative increase in revocations is due to the imposition of harsher penalties in general, this seems less troubling than the alternative explanation of more infractions considered sufficiently serious to warrant license revocation. To examine this issue further, changes in code violations are examined.

Code Violations

State code violations are classified into 11 descriptive categories based on the Texas Occupations Code and summarized in Table 2.

Each individual case often involved more than one code[2] violation. During the timeframe of this study, the incidences of violations in seven categories were relatively low and were grouped together in a single category[3]. The authors scaled the annual code violations as a percentage of total code violations for each category from 2000 through 2014.

Consistent with the analysis of disciplinary actions, the annual values were grouped into three time periods: 2000-2004, 2006-2010 and 2011-2014. Between 2000-2004, felony convictions averaged 5.2 percent of all code violations. This percentage increased to approximately 10 percent during 2006-2010 and declined slightly to 9 percent during 2011-2014. Conduct unbecoming averaged 42 percent of all code violations between 2000-2004. The average declined after 2005, falling to 29 percent between 2006-2010 and 27 percent between 2011-2014. Board rule violations averaged 44 percent of all code violations between 2000-2004. The average increased to 51 percent between 2006-2010 and declined to 43 percent between 2011-2014, bringing them close to the pre-2005 level. The remaining group, Other, increased steadily, from a low of 8 percent between 2000-2004 to a high of 21 percent between 2011-2014. The overall average increase in this group is attributable primarily to an increase in firm rule violations (from 1 percent of code violations in 2000-2004 to 8 percent in 2011-2014) and violations that were either not violations of code section 901.502 or were not identified by code section in the newsletter (from 1 percent in 2000-2004 to 7.5 percent in 2011-2014).

These changes are summarized in Table 3. Statistically significant changes are marked with an asterisk. These results indicate that average changes between the 2000-2004 period and the 2006-2010 period are significant, while average changes between 2006-2010 and 2011-2014 are generally not significant. The only category that had a significant change between 2006-2010 and 2011-2014 is other violations.

The significant and persistent increase in the percentage of code violations involving felony convictions after 2005 suggests that although there has been a decrease in disciplinary actions among Texas CPAs, a larger percentage of the remaining violations are more serious now than before 2005. The Board has considerable latitude with respect to the imposition of appropriate disciplinary actions (§901.501 of the Public Accountancy Act, TAC 22, 519.b §519.24), but the relative increase in felony convictions suggests the Board may not be imposing harsher penalties to set an example; the infractions may simply be more serious between 2006 and 2014.

Discussion

The good news is that far fewer CPAs in Texas have been subject to disciplinary actions since 2005, which suggests that ethics training has been effective for most CPAs. However, a greater percentage of remaining violations appear to involve criminal elements. While this study did not specifically analyze the nature of each felony conviction, the relative increase in felony convictions reflects poorly on the profession. One explanation for this may be that some CPAs will not adhere to professional codes of conduct regardless of the amount of required ethics training. Another explanation may be that there are other pressures influencing the ethical behavior of CPAs.

Coercion theory (Colvin, Cullen, & Ven, 2002) offers one such explanation for accountant misconduct. Coercion is defined as a social force causing individuals to act out of perceived or real fear or anxiety. Coercion occurs at two levels: an impersonal macro level (such as market pressure) and a personal micro level (such as pressure or intimidation from superiors).

Donegan and Ganon (2008) analyzed numerous SEC complaints and found that a common thread between a number of high-visibility accounting frauds involving publicly traded companies was the pressure to "meet and beat market expectations" (p. 8). Coercion theory asserts that high-level managers, under pressure to show improved company performance, convince lower level employees to act unethically through

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"WHILE THE NUMBER OF DISCIPLINARY ACTIONS AND CODE VIOLATIONS HAS DECLINED SINCE THE IMPLEMENTATION OF THE COLLEGE-LEVEL ETHICS COURSE, THE COMPOSITION OF THE TYPE OF VIOLATION COMMITTED HAS CHANGED FOR THE WORSE."

a combination of intimidation, appeals to company loyalty and threats to employees' livelihoods. The situation at WorldCom provides an example of coercion theory in action. During the time leading up to the failure of WorldCom, CEO Bernard Ebbers, CFO Scott Sullivan and Controller David Myers realized the company was in serious financial trouble and was not going to meet analyst expectations. Their response was to pressure Director of Accounting Buford Yates and mid-level accounting managers Betty Vinson and Troy Normand into manipulating the company's financial records to hide the problems (Brooks, 2010). Although both Vinson and Normand allegedly balked at the requests, eventually both agreed to the fraudulent manipulations (Pulliam, 2003). Vinson later testified that she feared she would lose her job if she failed to acquiesce to upper management's instructions (McClam, 2005).

Donegan and Ganon express skepticism regarding the ability of ethics programs to deter macro-level coercive forces, such as analyst expectations. Data collected for this study indirectly support Donegan and Ganon's concern about ethics training versus macro-level forces. In 2009, the year after the beginning of the most recent U.S. economic downturn, total disciplinary actions per 1,000 CPAs spiked to their highest levels since the mandatory changes in ethics education. Revocations made up nearly 60 percent of disciplinary actions, an increase of 10 percent from the previous year.

A Closer Look

This article takes a more in-depth look at the composition of disciplinary actions and the specific categories of ethical violations before and after the 2005 requirement to complete an approved college-level ethics course prior to sitting for the CPA exam. The analysis revealed that while the number of disciplinary actions and code violations has declined since the implementation of the college-level ethics course, the composition of the type of violation committed has changed for the worse. Felony convictions comprised a greater percentage of total violations after 2005. Coercion theory, a social force that causes individuals to act out of perceived or real fear or anxiety (Donegan & Ganon, 2008; Colvin, Cullen, & Ven, 2002), was offered as a possible explanation for these results.

Although ethics education cannot eliminate unethical behavior on the part of CPAs, it appears to be a contributory factor in reducing unethical CPA behavior in Texas. However, to develop a better understanding of how to minimize future ethical issues, additional research should examine both the nature and scope of violations and the CPAs who commit them.

Footnotes

1. Data observations were split into three groups: 2000-2004, 2006-2010 and 2011-2014. Group differences were analyzed using both ANOVA and Kruskal Wallis, and were found to be significant at the $p<.01$ level.
2. The dataset contained a total of 255 adjudicated cases and 516 separate violations between 2000 and 2004; 46 cases and 88 violations in 2005; 156 cases and 288 violations between 2006 and 2010.
3. Fraud/deceit obtaining license, fraud/negligence in practice, unauthorized practice violations, convictions with an element of fraud or deceit, loss of practice rights in other states, loss of practice rights before governmental agencies and license related violations.

Kathy F. Otero, CMA formerly of El Paso, Texas, now in Kirksville, Missouri – is an assistant professor of accounting at Truman State University. She was previously with the University of Texas at El Paso, where she taught cost/managerial accounting and ethics for accountants. She may be contacted at kotero@truman.edu.

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TSCPA's 2016

RISING STARS

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

Through the Rising Stars Program, TSCPA recognizes CPA members 40 years old and younger who have demonstrated innovative leadership qualities and active involvement in TSCPA, the accounting profession and/or their communities. After receiving 48 nominations, a task force made up of TSCPA Executive Board members selected 14 up-and-comers for 2016. We now introduce you to the members, in alphabetical order, who are the Rising Stars honorees.

Ryan Bartholomee, CPA-Permian Basin, CGMA
Chief Financial Officer; Shenandoah Petroleum Corporation; Midland

Ryan Bartholomee is the chief financial officer for Shenandoah Petroleum Corp., an independently owned and operated oil and gas exploration and production company in Midland. Bartholomee has served on TSCPA's Permian Basin Chapter's Board of Directors since 2009. He held the offices of vice president and president-elect before serving as president for the 2013-2014 year. His involvement at the state level includes serving on TSCPA's Executive Board, the CPE Advisory Board and as a director-at-large. He was also coordinating officer to the Young CPAs and Emerging Professionals Committee and was a member of the Federal Tax Policy Committee and Strategic Planning Committee. In the community, Bartholomee is active with his church in numerous capacities. He is described as an individual who has contributed much to TSCPA, the accounting profession and his community.

Aaron Borden, CPA-Dallas
Associate Tax Attorney; Meadows, Collier, Reed, Cousins, Crouch & Ungerman, LLP; Dallas

As an associate tax attorney at his firm, Aaron Borden represents clients in disputes with the IRS, Department of Justice and the Texas comptroller. His participation with TSCPA includes serving as a valuable and contributing member of the Editorial Board for *Today's CPA* magazine. At the Dallas Chapter level, he has served on the Membership Committee, Public Affairs Committee and Nominations Committee. Borden is an author who has published several articles in professional journals, including *Today's CPA*. He is also an active speaker, delivering presentations on employer penalties associated with the *Patient Protection and Affordable Care Act*. In the community, he is involved with the Dallas Chapter of the Coastal Conservation Association and Habitat for Humanity. With his impressive academic credentials and leadership skills, Borden has a promising career ahead of him.

Bryce Bowley, CPA-South Plains, CFE
Audit Senior Manager; Robinson Burdette Martin & Seright, LLP; Lubbock

Bryce Bowley is an audit senior manager at Robinson Burdette Martin & Seright, LLP. In this position, he manages financial statement audits from the planning stages to final report. He has taken the lead on various initiatives at his firm, including implementation of a paperless audit process. He was elected to serve on the Board of Directors for the South Plains Chapter of TSCPA, as well as for Parenting Cottage, a local nonprofit agency. He is also a graduate of Leadership Lubbock and a recipient of the Lubbock Young Professionals 20 Under 40 Award. This yearly award is given to business professionals under 40 who have demonstrated leadership in their careers and actively participated in the community. He is a CPA who has committed himself to becoming very active locally and to serving his clients in the best manner possible.

Jason Cables, CPA-Dallas, CFF, CFE, CGMA
Associate Director; Navigant; Dallas

As an associate director in Navigant's Forensic Accounting and Claims Consulting practice, Jason Cables has extensive experience calculating business interruption and property damage claims on behalf of corporate policy holders impacted by catastrophic events. Additionally, Cables assists companies in the evaluation of business interruption values at risk, which aids in insurance purchasing decisions. Among other awards, he has been recognized within Navigant for excellent client service and was selected as a Top 40 Under 40 by the National Association of Certified Valuators and Analysts (NACVA). Cables prides himself on giving back to his community. Each year, he helps to plan and participates in the DFW Tour de Cure, a cycling event that raised over $700,000 in 2015 to educate the public and find a cure for diabetes. In his work and volunteer endeavors, he has shown a strong commitment to his clients and the community.

Toni Ciggs, CPA-Fort Worth
Tax Manager; Tom B. Johnson CPA, PC; Arlington

In her position as tax manager, Toni Ciggs is responsible for tax preparation, compilations and reviews, research and tax planning. She has served on TSCPA's Diversity and Inclusiveness Committee, the Fort Worth Chapter's Communications Committee, and is a graduate of TSCPA's Leadership Development Institute and the Fort Worth Chapter's Leadership Development Program. She also serves as a board member for The Women's Center of Tarrant County. In 2008, she co-founded Diamonds of Distinction, a nonprofit organization formed to bring together women who are dedicated to supporting, empowering, motivating and uplifting the lives of individuals while making a powerful impact on society through community involvement, mentoring, adolescent scholarships and social activities. She began the Sparkle Mentorship Program, which is geared toward mentoring teenage girls ages 12-18 and provides scholarships to assist them financially with college tuition. Her strong work ethic has helped build an organization that makes a real difference in today's world.

Tatiana Markov, CPA-Fort Worth
Managing Director; Recruiting Edge, LLC; Fort Worth

Tatiana Markov founded Recruiting Edge, LLC in 2013 after having practiced public accounting for a number of years. Recruiting Edge is a specialized boutique staffing firm focused exclusively on accounting and finance professionals in cities all over Texas. As managing director, she is involved with business development, marketing, accounting, information technology, and developing and maintaining client relationships. Since its founding, the business has grown from concept to profitable company with year-over-year growth. In the community, Markov counsels veterans and assists them with their transition out of the Army. Her mentorship efforts enable the veterans to properly translate the skill sets they have and gain employment in corporate America. She is described as a CPA who is well connected in the community and serves as a bright light for young professionals.

Ashlee Martin, CPA-Austin
Associate; Bott & Douthitt PLLC; Round Rock

In her position with Bott & Douthitt PLLC, Ashlee Martin manages the accounting and financial statement preparation for numerous governmental entities, with a specialization in municipal utility districts in and around central Texas. Martin began her career in the assurance and advisory sector of Deloitte. Recently, she brought her talent and knowledge of the governmental sector to Bott & Douthitt PLCC. Throughout her career, Martin has been involved with several community organizations, including the American Cancer Society, Texas Hearing and Service Dogs and the Executive Women's Golf Association. She is also involved with her alma mater, Southwestern University, where she serves on various committees for the university. She is a graduate of TSCPA's Austin Chapter's Leadership Academy and currently assists on the task force to develop the Leadership Academy program. As evidenced by her work and volunteer endeavors, Martin has shown her commitment to the accounting profession and her community.

Imelda Moreno, CPA-El Paso
Tax Manager; Strickler & Prieto, LLP; El Paso

Imelda Moreno is a manager of the tax department at her firm's office, established in 1995, which is a leading accounting and consulting firm in the El Paso, Texas/Juarez, Mexico region. She is a mentor to young professionals within her firm and local universities. She has served on TSCPA's El Paso Chapter's Board of Directors and is the chapter's 2016-2017 president-elect. Her involvement in the community includes being a member of the Junior League and the Hispanic Chamber's Empire Builders, as well as a board member for the Salvation Army and Junior Achievement of El Paso. With Junior Achievement, she is passionate about ensuring that every child in America has a fundamental understanding of the free enterprise system. She considers teaching the importance of financial literacy to be especially rewarding.

Kate Rhoden, CPA-Austin
Senior Audit Manager; Brown, Graham & Company, P.C.; Austin

Kate Rhoden is a senior manager at Brown, Graham & Company, P.C. in Austin. In her role at BGC, Rhoden specializes in the low income housing tax credit industry and public housing authorities, overseeing audits and reviews for various clients within these industries. She also provides consulting assistance to small business clients, and develops and mentors new staff members. She is a graduate of TSCPA's Austin Chapter's Leadership Academy and is heavily involved with chapter activities. Rhoden has led the community involvement area and projects for the chapter, and has served on the chapter's Oversight Council and Executive Board. In addition, Rhoden chairs the Austin Community College Accounting Advisory Board, providing guidance on college accounting programs and supporting students who are on the path to becoming CPAs. She is regarded as an excellent role model, a champion for students and as someone who exemplifies the best of the profession.

Norman Robbins III, CPA-Fort Worth
Manager; Mark M. Jones & Associates, P.C.; Fort Worth

In his position at Mark M. Jones & Associates, P.C., Norm Robbins provides consulting, tax planning and tax preparation services for individuals, partnerships, corporations, estates and trusts. He's also involved with litigation support, and he conducts audits, reviews and compilations for small to medium-sized businesses. He is the chair of TSCPA's Young CPAs and Emerging Professionals Committee and a graduate of the Leadership Development Institute. He is also active with TSCPA's Fort Worth Chapter. He received the chapter's Young CPA of the Year award for 2015-2016 and is a graduate of the Leadership Development Program. He has served the chapter as treasurer and member of the Executive Committee, Board of Directors and Nominating Committee. In addition, he participates with the Downtown Fort Worth Rotary, the Chamber of Commerce and Vision Fort Worth. He is thought of as a CPA who has established a history of giving back, with a bright future as a TSCPA volunteer.

Ruben Rodriguez Jr., CPA-Houston
International Tax Professional; RSM US, LLP; Houston

Ruben Rodriguez is an international tax professional at RSM US, LLP in Houston, where his duties include tax planning and compliance for foreign individuals, partnerships and corporations. He has a focus on understanding the needs of his clients and how the firm can impact them and their businesses. Rodriguez has served on TSCPA's Houston Chapter's Relations with Taxing Authorities Committee and Young Professionals Committee. He also serves as treasurer and member of the Association of Latino Professionals For America (ALPFA). He has participated extensively with local and national committees within his firm, as well as with the International Tax Forum-Houston and the Asociacion de Empresarios Mexicanos. Due to his community involvement, dedication to his profession and commitment to mentoring others, he is considered a CPA who is deserving of recognition.

Ryan Scharar, CPA-Fort Worth

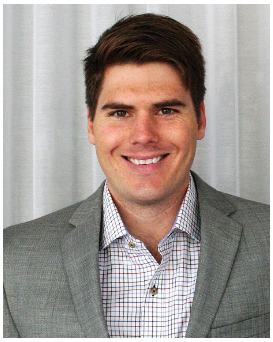
Attorney – CPA; Scharar Law Firm, PC; Fort Worth

Ryan Scharar started his own separate practices in law and accounting in 2014. After obtaining his MBA from Baylor University, Scharar worked at PricewaterhouseCoopers and went on to receive his law degree from Michigan State University in 2009. Currently, he advises corporate and individual clients on a variety of business law, taxation, nonprofit and estate planning matters. He is a graduate of TSCPA's Fort Worth Chapter's Leadership Development Program and serves as chair of the chapter's Tax Institute Planning Committee. He is a statewide director for the Texas Young Lawyers Association. Scharar frequently travels to Malawi, a small country in southern Africa, where he serves as an alternate director on a publicly traded African insurance-banking group holding company. In Malawi, he helped organize and sponsor a presentation to approximately 100 accounting students attending the University of Malawi-College of Accountancy. Scharar is also a member of the American Academy of Attorney-Certified Public Accountants.

Mark Selking Jr., CPA-Fort Worth

Tax Manager; Whitley Penn, LLP; Fort Worth

As a tax manager, Mark Selking works with a broad range of clients, focusing on private clients primarily in the health care, nonprofit, real estate and professional services industries. He is a resource and mentor for 25-30 younger employees within the tax department. As a TSCPA member, Selking has worked on committees with the Fort Worth Chapter. He is a graduate of the chapter's Leadership Development Program and has served as chairman of the UP Group, the chapter's under 40 professionals group. For TSCPA, he has served on several committees, including the Young CPAs and Emerging Professionals Committee. Selking was also a recent graduate of the Leadership Fort Worth Leading Edge Class of 2016. His community involvement includes positions with the Rotary Club of Western Fort Worth and serving the YMCA as the campaign chairman for the YMCA's Annual Campaign. He is described as a CPA who represents the future of leaders within the accounting world.



Sean Skellenger, CPA-Austin

Independent Contractor; Realtor – Urbanspace Real Estate; Senior Analyst – VMG Health; Austin

Sean Skellenger is an independent contractor in Austin. In his position as Realtor at Urbanspace Real Estate, he advises individuals and investors on how to diversify their portfolios with real estate based on their risk/reward situation, tax objectives and cash flow needs. As senior analyst at VMG Health, he provides financial statement analysis, consulting services and valuation assistance to health care entities. He is active with TSCPA's Austin Chapter. He has been chair of community involvement for the chapter and co-chair of the Leaders Emerging in the Accounting Profession (LEAP) group. Through his leadership, the group has organized events to connect young professionals with TSCPA. The chapter and LEAP group are also dedicated to helping the homeless in Austin by volunteering at the Capital Area Food Drive of Texas. Skellenger has proven leadership skills and is passionate about involving younger/newer members in their professional organization. ■

CPE ARTICLE

Education Credits: Beyond the Basics

By Dana Bell, EA

Tax incentives for education may be the most overlooked and most abused items on an individual tax return. They are frequently criticized for their complexity, with each form of education credit or deduction having different rules. With some credits as easy targets for fraud, some practitioners are leery of education credit claims. Other problems with these incentives are not so obvious. Software support is limited and taxpayers are not always aware of the benefits or may have false notions about the requirements.

Curriculum: Tax

Level: Intermediate

Designed For: Tax practitioners

Objectives: Present tax law and Treasury regulations related to education credits; review and clarify American Opportunity Tax Credit (AOTC) taxpayer and student qualifications, expenses and payments; discuss recent tax updates; present lifetime learning credit as an alternative; demonstrate calculation of the optimum tax credit, how to coordinate Section 529 (QTP) benefits with the AOTC and how IRA distributions can exempt from the 10 percent early withdrawal penalty

Key Topics: American Opportunity Tax Credit; scholarship treatment; other educational benefits; education benefit coordination; and education tax updates

Prerequisites: Knowledge of individual tax return preparation

Advanced Preparation: Review IRC 25A and Treas. Reg. 1.25A

This article focuses on the American Opportunity Tax Credit (AOTC) with incidental mentions of the Lifetime Learning Credit (LLC) and other benefits. It then goes beyond the frequently published basic requirements with a look at Internal Revenue Service (IRS) regulations that enhance the credits.

The AOTC is an expansion of the Hope Credit, which was created by the Taxpayer Relief Act of 1997, along with the LLC. The credits are governed chiefly by IRC § 25A.

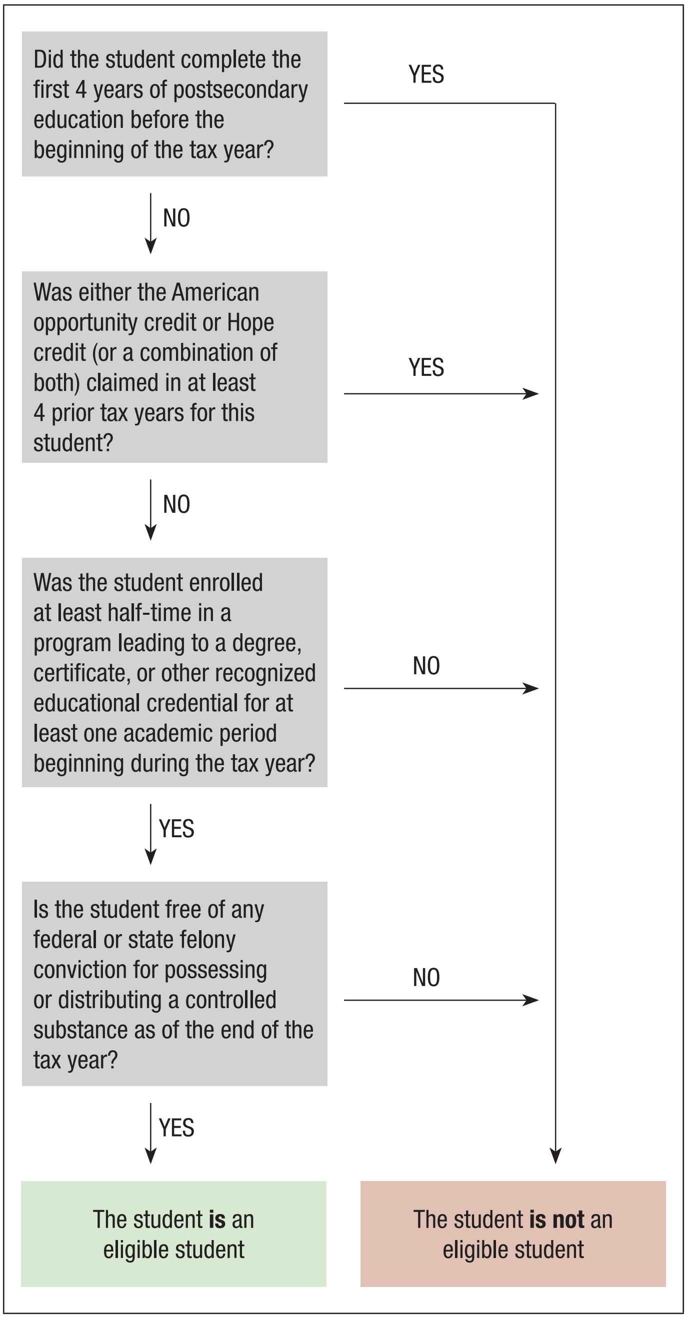
Taxpayer Qualifications

In general, taxpayers can receive a credit for qualifying educational expenses paid during a tax year. The credit is equal to 100 percent of the first $2,000, and 25 percent of the next $2,000, with 40 percent of the total credit refundable. It is phased out between $80,000 ($160,000 joint) and $90,000 MAGI ($180,000 joint). Also, the taxpayer must not file married filing separately.

The taxpayer must be claiming a dependency exemption for the student, which can be any dependent for whom the taxpayer is allowed to take a dependency exemption, including individuals who meet the test for dependency exemption as a qualifying relative.[1] So, it's possible to claim the credit for a student who is a parent, or for a person the taxpayer supports and who lives with him/her all year.

The taxpayer must not be claimed by someone else as a dependent. One of the quirks in this requirement is that dependency and the dependency exemption amount are separate issues.[2] Clarifying the exemption amount, Chief Counsel Advice in 2002 determined that a taxpayer who could have been claimed as a dependent could have a zero exemption amount and claim the credit if nobody claims the exemption.[3]

Figure 1. American Opportunity Tax Credit - Student Qualification Test



Student Qualifications

Generally, once dependency is determined, the rest of the qualifications relate to the student and the expenses used to claim the credit and include:

- Student must be pursuing an undergraduate degree or other recognized education credential;
- Student must be enrolled at least half time for at least one academic period beginning during the year;
- No felony drug conviction on student's record;
- Available for first four years of post secondary education;
- Cannot be claimed more than four tax years.

Qualifying Expenses

Expenses that can be used to claim the credits include costs of tuition and required fees, as well as required books and course materials. When available, the 1098-T can provide the amount of qualifying expenses for the AOTC. A 1098-T is not always provided.

Currently, books and other course materials have to be required, but they do not have to be purchased at the institution to qualify. If an institution or degree program requires the student to have a computer, it may also be considered a qualifying expense. Expenses unrelated to the educational program are not qualifying expenses.[4] Non-qualifying expenses include:

- Room and board;
- Insurance;
- Medical expenses (including student health fees);
- Transportation (including parking fees);
- Living expenses.

Qualifying Payments

In addition to having qualifying expenses, the taxpayer must have made payments for those expenses in the tax year. Payments for qualifying expenses include amounts paid by the student, the taxpayer or through student loans. Special rules apply to certain qualified installment agreements, which could affect the recognition of payments.[5]

Payments made by a third party may also qualify as paid by the taxpayer if paid directly to the institution. In that case, the taxpayer is treated as receiving the payment from the third party and, in turn, paying the qualified tuition and related expenses."[6] So if a grandparent pays the institution for part of the cost of attending college, the taxpayer can claim the credit using those amounts. Those payments (tuition only) are also exclusions from the gift tax and without regard to relationship.[7] Also considered paid by the taxpayer are amounts paid by certain scholarships that the student includes in income.

Generally, payments must be made in the year the term begins. Payments made for educational expenses for the first three months of the following year can also be considered as qualifying in the year paid. Qualifying expenses are limited to amounts for attendance at an eligible educational institution. The institution must be eligible to participate in Title IV programs, such as Pell grants and federally insured student loans.[8]

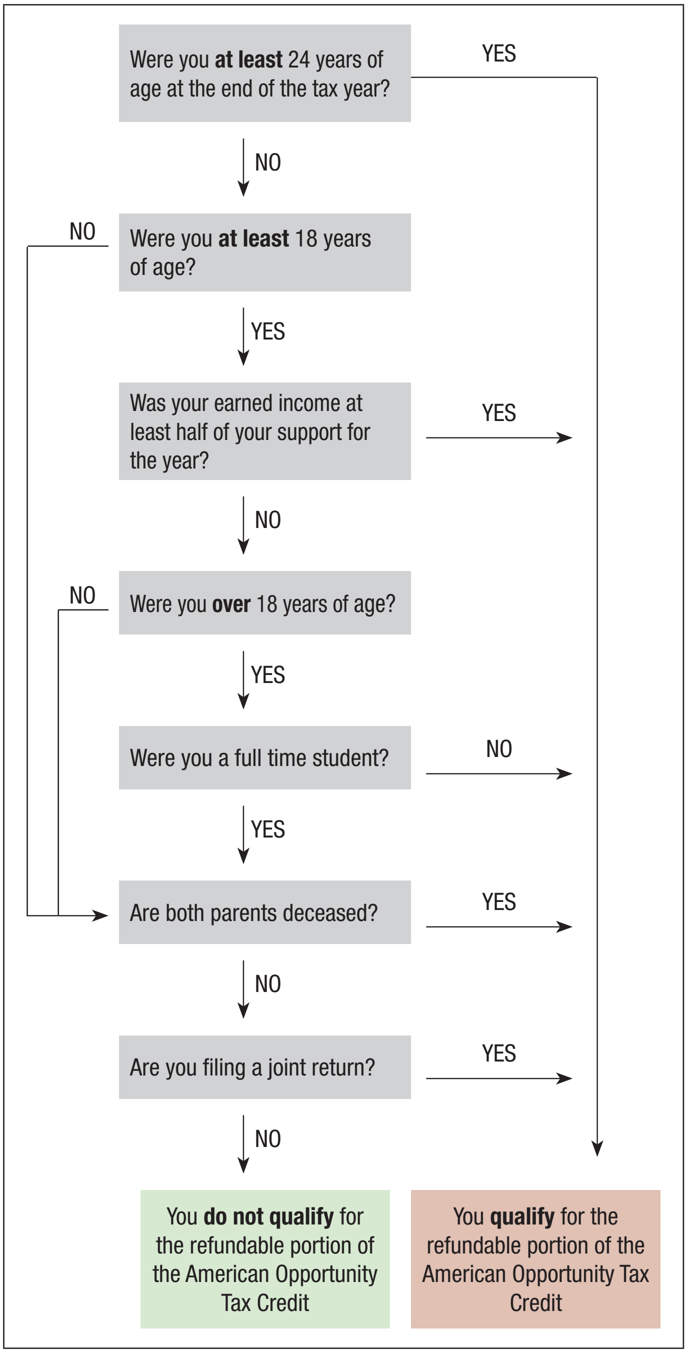
It is important to be familiar with all the nuances of 1098-T reporting and verify its accuracy. For example, although 1098-T may indicate graduate student status, the requirement is that the student has not earned a four-year degree, but that test is made based on the beginning of the tax year, not the end of the tax year. If a student graduated in May, all expenses for the year still qualify for the AOTC. In fact, prepaying for the first semester of graduate school in the next year is also an option.

Refundable Qualifications

Additional qualifications exist for the refundable portion of the credit. Students age 24 and over qualify for the refundable portion of the credit, as well as parents of children under the age of 24 if they claim the child as a dependent.

continued on next page

Figure 2. American Opportunity Tax Credit – Refundable Credit Test



Publication 970 lists those who **do not** qualify for the refundable credit, but it may be easier to reverse the logic to see which taxpayers do qualify. While many students under the age of 24 do not qualify for the refundable portion of the credit, it is important to review the regulations that apply to each case as there are several exceptions.

Filing a joint return or when both parents are deceased are two cases where a student under age 24 could qualify. Students who are age 18 and over may also qualify if they provide more than half of their support through earned income. Students over 18 and only attending half-time may qualify, as well.

The Refundable Credit Test flowchart (Figure 2) can help in evaluating whether the refundable qualifications are met. Publication 970 already has a flowchart to identify eligible students for the AOTC.

Lifetime Learning Credit

The LLC is not as generous as the AOTC, but it does not have as stringent student qualifications. While it must be for attendance at an eligible educational institution, it does not require the student to be seeking a degree credential. The expenses can be used to pay for expenses to simply help the student acquire or improve a job skill. The LLC does not require half-time attendance and isn't limited by a drug felony conviction.

Up to $10,000 of expenses can be considered in calculating the 20 percent credit for a maximum credit of $2,000, and the taxpayer can take the credit for an unlimited number of years. Qualifying expenses for the LLC include costs of tuition and required fees, as well as required books. Books do have to be required and purchased at the institution to be qualified expenses for the LLC.

Whether the taxpayer uses the LLC or decides to use a tuition deduction may depend on his/her income and marginal tax rate. The credit is phased out for modified MAGI between $52,000 ($104,000 joint) and $62,000 ($124,000 joint).

General Scholarship Treatment

For both the AOTC and LLC, scholarships are often treated as tax-free when applied to qualified expenses, in which case the qualified expenses for the credits are reduced by that amount. The tax code defines the term "qualified scholarship" as any amount used for qualifying expenses and refers to both scholarships and grants. [9]

Scholarships (or fellowships) that are paid for services rendered to the institution, such as teaching or research, are not qualified scholarships and should be reported to the taxpayer on a W-2 and included in income. There are some exceptions to this requirement. [10]

While scholarships generally offset expenses, the regulations do allow taxpayers to treat some scholarships differently to increase their qualifying expenses. Treas. Reg. § 1.25A-5 enhances/clarifies the options taxpayers have when claiming education credits and gives the procedure for calculating expenses for the credit.

Three Types of Scholarships

Although not defined as such in the code, scholarships can be defined as exclusive, taxable or elective based on the terms of the scholarship. Exclusive scholarships are those scholarships, by the terms of scholarship, that must be used exclusively to pay qualified expenses. The full amount of the scholarships must reduce the amount of qualified expenses and are tax-free up to the amount of those expenses.

A taxable scholarship is one that must be used exclusively for *other than* qualified expenses or is taxable for other reasons. Room and board is not a qualifying expense, so scholarships that cover only that is normally taxable. Scholarships in excess of qualifying expenses are also taxable.

The third type of scholarship is the elective scholarship. If any amount of a scholarship "may or must be used" for other than qualified expenses, the taxpayer can elect to treat it as tax-free and offset qualified expenses or include it in income. When treated as income, the amount

Figure 3. AOTC Qualifying Payments

Initial AOTC Qualifying Expenses (QE)					$8,000
Section 529 Qualifying Room and Board					$3,000
Source	**Total**	**Tax-free**	**Taxable**	**Partially Taxable**	**Adjustment to QE**
Section 529	$4,000	$3,000 Room & Board		$1,000	-
Pell grant	$5,000		$5,000		
Scholarship	$4,000	$4,000			($4,000)
Total			$5,000	$1,000	$4,000

of qualified expenses is not reduced and the taxpayer may qualify for a higher education credit.

Scholarships that are available for elective treatment include Pell grants. Most other federal aid, as well as Coverdell Educational Savings Accounts and Qualified Tuition Plans (Section 529), can also be effectively treated as elective scholarships.[11]

If a scholarship covers both specific qualified and non-qualified expenses such as tuition or room and board, the taxpayer can choose how to allocate the amounts, but may be limited by the amount of actual expenses. If the scholarship is $6,000 and room and board is $5,000, $5,000 is the most that can be applied to non-qualified expenses.

Measured Scholarships

There is no regulation that addresses scholarships that are measured by the amount of tuition, as opposed to *must be used for* tuition, but IRS rulings do support the elective nature of such scholarships. In 1999, the Louisiana Legislature went from a system that required a Tuition Opportunity Program for Students (TOPS) award to be used for tuition to a system that measures the amount of the award by the amount of tuition. That change in the wording was the defining characteristic that allowed scholarship inclusion in the Louisiana TOPS program. In the IRS private letter ruling (PLR) related to the TOPS program in Louisiana, it was determined that the TOPS awards could be used for either qualifying or non-qualifying expenses and the exclusion of the grant was determined by the tax reporting of the taxpayer.[12]

Following the ruling, the *Louisiana Law Review* published an article encouraging recipients of the TOPS grant to amend their returns to claim prior-year education credits.[13] The terms of the Texas Grant now contain similar wording and although PLRs cannot be used as precedent, the same reasoning can be used to consider that as elective in the same manner.

The focus of scholarship inclusion is often on the AOTC, but elective scholarships can be treated the same way in calculating the LLC. The LLC is not refundable, so the benefit is limited to the amount of tax owed. Scholarship inclusion will also incur an increase in tax at the taxpayer's tax bracket while only generating a 20 percent credit.

Scholarship Calculations

The IRS provides several examples of adjusting qualifying expenses using scholarship inclusion in Treas. Reg. § 1.25A-5 and Publication 970. For instance, in two examples in Publication 970, the taxpayer includes $4,000 of his Pell grant in income to claim that amount in qualifying expenses for AOTC.[14]

One of the problems with calculating education credits is that software doesn't handle the calculations when scholarship inclusion is involved or when coordinating benefits. Where only scholarships are considered, the AOTC worksheet (Figure 3) can calculate the maximum credit amount, by adjusting qualifying expenses to equal the maximum $4,000.

Coordinating With Other Benefits

Just as taxpayers can coordinate their credit with scholarships, they can coordinate with other educational benefits with different qualifications. For example, room and board is a qualifying expense for Section 529, but not for AOTC. By systematically considering each benefit and making adjustments to qualifying expenses, it is possible to determine the best claiming strategy. Consider the following example.

Taxpayer has AGI of $48,000 and is claiming AOTC for a dependent child. AOTC qualifying expenses (QE) were $8,000, and room and board was $3,000. He received $4,000 from a Section 529 account. The student also took a $5,000 student loan. After acceptance, he received a $5,000 Pell grant and a $4,000 scholarship that was required to be used for tuition, fees, and room and board. Because his scholarships and grants exceeded his qualifying expenses, he did not receive a 1098-T.

The first step is to allocate $3,000 of the Section 529 to cover room and board (tax-free). Next, the $4,000 scholarship can be allocated to tuition and fees, reducing QE to $4,000. Instead of using the Pell grant to offset the remaining expenses, the student can include that $5,000 in income and the taxpayer can claim AOTC on the remaining $4,000 of expenses paid. The taxable portion of the remaining $1,000 of Section 529 is also taxable to the beneficiary, pro-rated based on earnings.

The scholarship is not used for room and board, because it is not tax-free for that purpose. Section 529 was not used to cover part of the tuition, because it is only partially taxable. No penalty applies to the Section 529 distribution, because both the scholarships and qualified expenses were more than the distribution amount.[15]

IRAs for Education

IRA distributions can also be used for educational expenses without incurring a penalty and they do not have to be for education expenses when taken. If an IRA distribution was for home improvement and later in the tax year the taxpayer incurs education expenses, the amounts can be allocated to the education.

Unlike Section 529, amounts are taxable and the amount qualifying for penalty exclusion is reduced by other payments for qualified expenses. In the above example, if an IRA distribution was used instead of Section 529, the $1,000 would also be subject to the 10 percent penalty. With Roth IRAs, distributions up to the amount of contributions are tax-free.

Family Coordination

One of the quirks of education credits involves coordinating returns of the taxpayer and student. If the taxpayer claims an

continued on next page

Figure 4. American Opportunity Tax Credit Worksheet

1	Qualified Expenses	Enter the total amount of your qualified educational expenses.	
2	Total Scholarships	Enter the total amount of all scholarships and grants received for the tax year.	
3	Taxable Scholarships	Enter the amount of scholarships **required to be used for other than** qualified expenses.	
4		Subtract line 3 from line 2.	
5	Excess Scholarships	If line 4 is greater than line 1, subtract line 1 from line 4.	
6	Potential Tax-free Scholarships	Subtract line 5 from line 4.	
7	Exclusive Scholarships	Enter the amount of the scholarships that you are **required to use for** qualified educational expenses.	
8	Elective Scholarships	If line 6 is greater than line 7, subtract line 7 from line 6.	
9	Excess Expenses Paid by Taxpayer	If line 1 is greater than line 6, subtract line 6 from line 1. Otherwise, enter 0.	
10	Qualified Expenses for Tax Credit	Add line 8 and line 9 (maximum 4000). Enter this amount on **line 27 of Form 8863**.	
11	Elective Scholarships Includable in Income	If line 10 is greater than line 9, subtract line 9 from line 10. Otherwise, enter 0.	
12	Total Scholarships Included in Income	Add line 3, line 5 and line 11. This is the amount of taxable scholarships. Enter SCH and this amount on the dotted line to the left of line 7. Include this amount in the total on **line 7 of Form 1040.**	

education credit based on including scholarships in income, it is the student, not the taxpayer, who must include the scholarship in income. The paid expenses can be used by whoever claims the credit, but the scholarships are always the student's responsibility.

The challenge is that the student may be increasing his/her taxable income, while the parent is enjoying the credit. To avoid family conflict, it is possible to file Form 8888 to allocate part of the refund to the student by depositing an amount in his/her bank account that offsets the student's sacrifice.

One factor to consider when only the refundable credit is being claimed is the credit percentage. The refundable credit can be viewed as 40 percent of the first $2,000 and 10 percent (40 percent * 25 percent) of the next $2,000. This 10 percent is important when a student must include taxable scholarships in income and tax is owed on it. With the minimum tax rate at 10 percent, the credit from the second $2,000 is wiped out by the scholarships being taxed.

Education Tax Update

Education was addressed by Congress on two occasions during the last session. In June, the Trade Preferences Extension Act of 2015 added a provision that requires taxpayers to have a 1098-T payee statement to claim an education credit. The law is not effective until tax years beginning after enactment; i.e., the 2016 calendar tax year.

Then in December, with the passage of the Protecting Americans from Tax Hikes (PATH) Act of 2015, the AOTC was made permanent and due diligence requirements were added. That law also enhances Section 529 benefits with the most notable change being that expenses for computer equipment, software and Internet access are now tax-free if used primarily by the beneficiary. Since Coverdell rules refer to this code section, computers will be tax-free expenses for that, as well. Section 529 account rules were also changed to eliminate the distribution aggregation requirements and account owners can now avoid penalties due to tuition refunds by contributing the amount back to a 529 account within 60 days of the date of the refund.

Tax Planning

There are many incentives available to make education tax planning a complex area, but the benefits available allow prudent taxpayers to save on ever-increasing education expenses for themselves, children and grandchildren. An education saving and spending plan is almost as important as a retirement plan. In both cases, it is important to consider all of the options available and the consequences (or benefits) of distributions, credits, exclusions and deductions throughout the process.

Footnotes

1. IRC § 25A(f)(1)(A)(iii)
2. IRC § 151(d)(2) and Treas. Reg. § 1.25A-1(f)
3. PLR 200236001 <http://www.irs.gov/pub/irs-wd/0236001.pdf>
4. Treas. Reg. § 1.25A-2(d)(3)
5. Treas. Reg. § 1.25A-5(e)(4)
6. Treas. Reg. § 1.25A-5(b)(2)
7. Treas. Reg. § 25.2503-6(b)(1)(i)
8. 20 USC § 1088(b)
9. IRC § 117(b)(1)
10. IRC § 117(c) and (d)
11. IRC § 530(d)(2)(C)
12. PLR 200137006 <http://www.irs.gov/pub/irs-wd/0137006.pdf>
13. Kalinka, Susan. "TOPS Scholarship Recipients Who Failed to Claim the Education Tax Credits for 1998 Should Consider Filing Amended Returns." *Louisiana Law Review* 60.1 (1999): 281-91. <http://digitalcommons.law.lsu.edu/cgi/viewcontent.cgi?article=5806&context=lalrev>
14. https://www.irs.gov/publications/p970/ch02.html#en_US_2014_publink1000300227
15. IRC § 530(d)(4)(B)(iii) and (v)

Dana Bell, EA is author of the book *Education Tax Credits: And Other Educational Incentives*. He may be contacted at dbellea@tylerhosting.com.

By Dana Bell, EA

Education Credits: Beyond the Basics

1 What amount of the American Opportunity Tax Credit is refundable?

A. 20 percent
B. 25 percent
C. 40 percent
D. 100 percent

2 Which of the following are non-qualifying expenses for the American Opportunity Tax Credit?

A. Transportation
B. Tuition
C. Student activity fees
D. Books

3 What payments are not considered as qualifying for education credits?

A. Payments made by parents
B. Payments from student loans
C. Payments from tax-free scholarships
D. Third party payments to the institution

4 Currently, how many years can a taxpayer claim the American Opportunity Tax Credit?

A. Two years
B. Four years
C. Six years
D. Unlimited

5 What does not disqualify a student from taking the American Opportunity Tax Credit?

A. Student attended less than half-time
B. Student received a four-year degree before the end of the tax year
C. Taxpayer previously claimed the credit for four years
D. Student was convicted of a drug felony

6 Where are taxable scholarships included on the individual income tax return?

A. Form 1040, Line 7 as Wages
B. Form 1040, Line 7 with SCH notation
C. Form 1040, Line 21 as Other Income
D. Form 1098-T

7 When is the American Opportunity Tax Credit scheduled to end?

A. Tax year 2016
B. Tax year 2017
C. Tax year 2018
D. No expiration

8 What is the maximum refundable credit allowed for the Lifetime Learning Credit?

A. $800
B. $1,700
C. $2,000
D. None is refundable

9 Generally, tax-free scholarships reduce the amount of qualifying expenses.

A. True
B. False

10 Taxpayers may be able to include some scholarships or grants in income to increase the amount of education credits.

A. True
B. False

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Answers to last issue's self-study exam: **1. D 2. C 3. B 4. D 5. D 6. C 7. C 8. D 9. A 10. B**

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October 19, 2016	Proven Controls to Steer You Clear of Fraud	4	Houston
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Date	Course	CPE Credit	City
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$160,000 gross. Allen CPA firm. 90% derived from monthly bookkeeping and accounting services, year-round cash flow, quality client base. TXN1419

$400,000 gross. McKinney bookkeeping. Strong fee structure, cash flow over 60%, desirable DFW location, turn-key or portable locally. TXN1421

$633,000 gross. N. Dallas CPA firm. Accounting (43%), tax (64%), strong fee structure, cash flow near 50%, staff in place, capacity for growth. TXN1423

$1,315,000 gross. Coastal Bend area CPA firm. High profitability around 83% of gross! Staff and location available to buyer and seller looking to work for new owner after closing. TXS1146

$149,214 gross. East Texas CPA firm. Tax (69%), accounting (31%), quality client base and staff available to assist with smooth transition. TXS1161

$365,800 gross. Near Downtown Houston accounting firm. Tax (39%), Bkkpng (37%), Payroll (11%), Other (13%), flexible transition. TXS1174

$93,500 gross. Memorial area CPA firm. 2015 billings around $100K, great cash flow, owner flexible with transition, 99% of clients mail/fax/email work. TXS1175

$525,000 gross. W. Houston tax and acctng. Tax (65%), bkkping (25%), consulting (8%) payroll (2%), good staff in place, nice location. TXS1177-A

$1,171,000 gross. W. Houston tax and acctng. IRS svcs (93%), tax (6%), bkkping (1%), portable, can be purchased along with 1177A or as a stand-alone practice. TXS1177-B

$243,000 gross. Gulf Coast audit firm. 100% audit service for 29 entities, loyal client base, seller available to assist with transition. TXS1178

$67,000 gross. W. Houston tax firm. Mostly tax 97%, English/Spanish speaking staff available to assist with transition, could be run from home office. TXS1179

$226,000 gross. Orange Co. CPA firm. Tax 70%, bkkpng 20%, reviews/consult/payroll 10%, support staff in place and seller available to assist with transition. TXS1180

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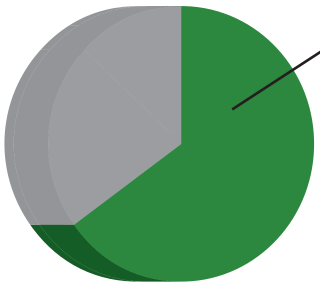

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