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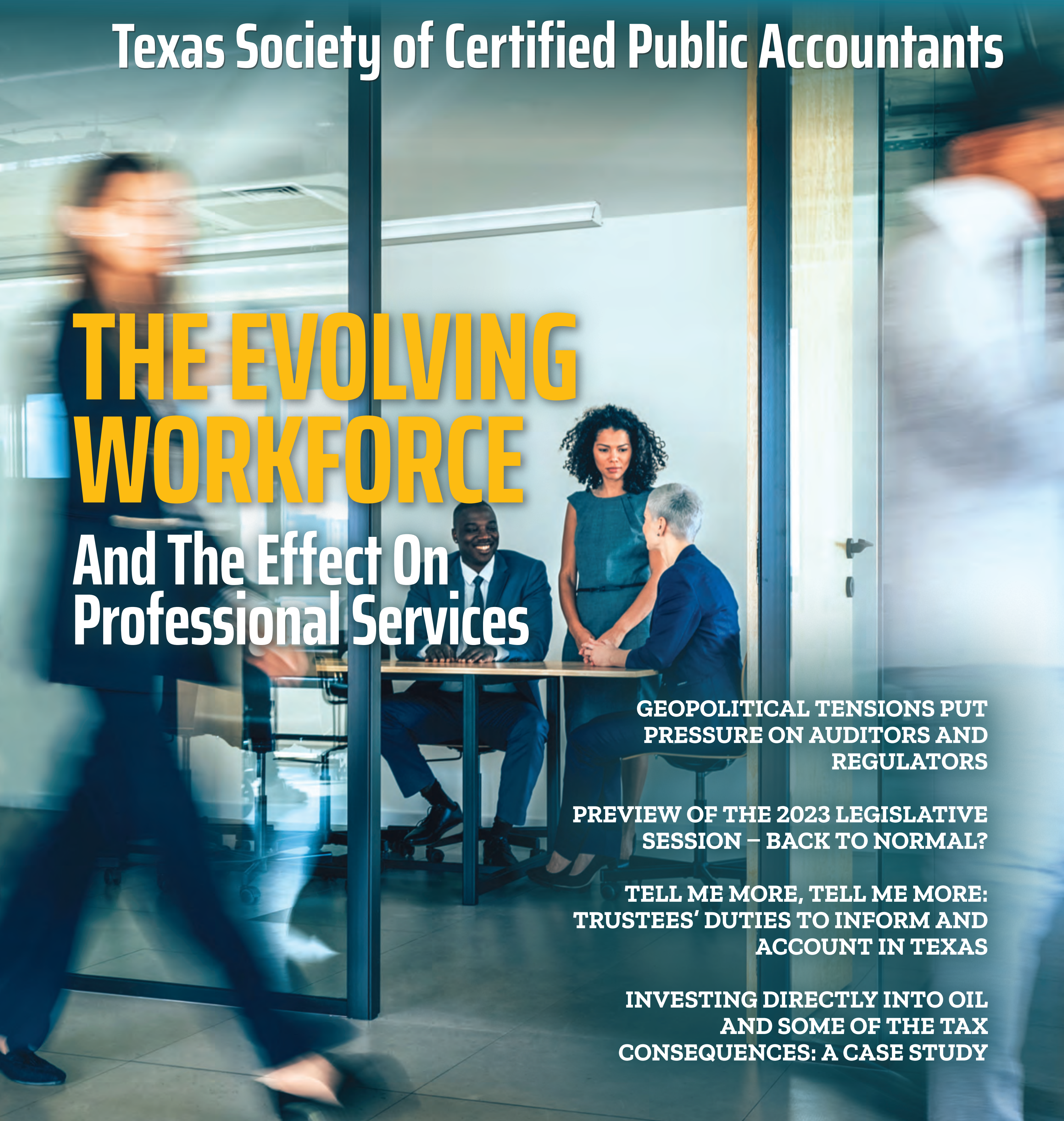
Texas Society of Certified Public Accountants



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OUTLOOK FOR 2023

By TXCPA President and CEO Jodi Ann Ray, CAE

Share Your Thoughts

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

Happy New Year! As the pace of change continues to accelerate, the days, weeks, months and years seem to pass more quickly. We hope you had a healthy and prosperous 2022 and we look forward to helping you achieve even more success in 2023!

In this issue of *Today's CPA*, you can read about the evolving workforce and the effect on professional services, how geopolitical tensions are putting pressure on auditors and regulators, and the 88th session of the Texas Legislature.

The CPA pipeline is our top priority this legislative session. One way to help the pipeline legislatively is to allow students and candidates to begin taking the CPA Exam after completing 120 hours, rather than the current requirement of finishing 150 semester hours before testing. As of this writing, Senate Bill 159 and House Bill 797 are bills TXCPA is supporting to allow CPA Exam testing after 120 semester hours.

TXCPA is here to support you and connect you to the resources you need. We encourage you to reach out if we can help you in any way. Thank you for trusting TXCPA to be your professional community and best wishes as you venture into the new year!

From left to right (top): Charlotte M. Jungen, CPA, CFP® • Diana Castro, CPA, CFP® • Chris A. Matlock, CPA, CFA • Wade D. Egmon, CPA, CFP® • Joni Eggleston, CPA
Middle front: Lisa A. Francia, CPA • Steven R. Goodman, CPA, CFP®

Geopolitical Tensions Put Pressure on Auditors and Regulators as Companies Grapple with the Effects of Sanctions and National Sovereignty

By Don Carpenter, MSAcc/CPA

On February 24, 2022, Russian President Vladimir Putin invaded Ukraine in a move that had been anticipated for several weeks. And the ripples of this aggression were quickly felt throughout the world, with energy prices surging and food shortages worsening.

The destruction of the Ukrainian infrastructure has been massive. This force has been met with drastic economic countermeasures against Russia by Western countries on an unprecedented scale. But this is just one of several stress points putting strain on global relationships and highlighting just how interconnected we are.

Also capturing headlines for much of last summer were the simmering tensions between the People's Republic of China and the U.S. over global expansion, fair trade and human rights. These tensions escalated with Speaker Nancy Pelosi's visit to Taiwan in August, which caused the Chinese government to cease talks with the U.S. on both economic and military topics. Although these issues seem far away from the world of financial reporting, they present thorny issues for regulators who are responsible for the integrity of the system.

Since the start of the Ukrainian invasion, several hundred international businesses have mothballed their operations in Russia or pulled out completely. This has led to material financial losses that are potentially subject to considerable judgement. It is difficult to assess future cash flows under the circumstances for purposes of impairment testing and going-concern issues. Further, the question of whether non-Russian owners retain legal title to assets after the pullout remain murky at best.

Making matters worse, the pullout was not limited to consumer-facing businesses. Advisory and financial firms with branches in Russia have also come under directives to sever ties in the country. The Big Four and other global firms have cut or are in the process of cutting ties with their Russian affiliates. The major accounting firms are a group of national firms bound by agreements under one common brand.

With the imposition of sanctions, the international network began severing their relationship with their Russian affiliates. This separation introduces inefficiencies and risks with regard to auditing clients' Russian businesses. If the U.S.-based audit firm relies on the work of the now-independent Russian affiliate, the U.S. auditor must apply higher standards to the work performed in Russia since it will be relying on the work of an independent party.

Sanctions by the U.S. and its allies also require that auditors no longer provide service to businesses or individuals in Russia. To avoid a violation of these sanctions, U.S. audit firms are requesting representations from their clients that they have no significant ties with Russian nationals or companies. In what some are calling "overkill," these representations may even include a request that the client verify that no Russian national or resident owns 5% or more of the company's shares.

However, there are limits to the sanctions. Firms are allowed to audit the U.S. subsidiaries of Russian companies or branches of Russian businesses located in the U.S. But given the potential impact on a firm's reputation, most firms appear to be erring on the side of caution when it comes to continuing any ties to Russian commerce.

The difficulties reach into Ukraine, as well. Since the dissolution of the U.S.S.R. in 1991, trade between the former Soviet republics on the one hand and Western nations on the other has mushroomed. Ukraine has been at the forefront of this, given its location and vast resources. U.S. companies in pharmaceuticals, energy, financial services and chemicals have investments in the country. Other entities may have no direct investment but rely on Ukrainian exports as a critical part of the supply chain. As a result of the war, U.S. audit firms may have difficulty relying on local Ukrainian audit firms or members of their international network to complete even basic attest functions given the destruction of property, records and systems.

Moving further east, the Public Company Accounting Oversight Board (PCAOB), which is responsible for reviewing the quality of audits of public companies, has confronted another set of issues regarding Chinese companies listed on U.S. exchanges. Well over 200 Chinese companies are traded on U.S. markets via the American Depository Receipt system. The audits of these companies' financial results are prepared by Chinese firms. However, the audits are subject to review by U.S. firms under the standards set by PCAOB.

The Chinese authorities have been reluctant to release the audit workpapers, citing concerns over national security. PCAOB has reiterated to U.S. firms that it will not accept any restrictions on access to the Chinese firms' work. As tensions increased, several prominent Chinese firms indicated that they were prepared to delist from U.S. exchanges. In an 11th hour move, PCAOB and the China Securities Regulatory Commission announced an agreement to allow inspection of local audits on-site of firms selected unilaterally by PCAOB.

Auditors confronted with any of these circumstances must consider their impact on the quality of the audit since they represent a scope limitation. Any limitation in the Russian-Ukrainian conflict may not be insurmountable if it is deemed immaterial.

However, in the case of the Chinese restrictions, lack of access to the audit workpapers would by its nature be material. Any scope limitation that is material will likely require a qualified opinion even though the circumstances are beyond the control of the client.

It is unclear how the Securities and Exchange Commission (SEC) will react to a qualified opinion caused by war. But in the case of the Chinese refusal to provide documentation, delisting of the companies is a distinct possibility if the recent agreement proves unsatisfactory.

It should be emphasized that companies and their auditors should not overlook global issues when considering the impact on the financial reporting obligations they undertake.

About the Author: Don Carpenter is clinical professor of accounting at Baylor University. Contact him at Don_Carpenter@baylor.edu.

Preview of the 2023 Legislative Session – Back to Normal?

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

Editor's Note: This article was written in December 2022 in advance of the January 10, 2023 start of session. Go to the TXCPA website for important updates throughout the 2023 legislative session.

The 2021 legislative session was one for the history books – a session dominated by the pandemic, redistricting, power grid reform and plenty of controversial issues from voting rights to abortion. The 2023 legislative session is also shaping up to be significant for a whole different reason – the unprecedented budget surplus of $25-30 billion in addition to a Rainy Day Fund balance estimated to be about $14 billion at the start of 2023.

An old adage could not be truer than in 2023 – legislators prefer a session where there's a budget deficit or no extra money because it's easier to say "no" than when there's a surplus where legislators must choose what programs to fund or increase funding. The session will begin with the Republicans firmly in control of state government again. Governor Greg Abbott, Lt. Governor Dan Patrick and Comptroller Glenn Hegar were all comfortably reelected in 2022. Speaker Dade Phelan will likely retain his speakership position after the Republican Caucus backed him for another bid for House Speaker. The Speaker vote will occur on January 10.

The only question for the Speaker and Republican Caucus is whether they'll maintain the tradition of having members of the opposing party chair some House committees. A House Rules debate might occur on this question. In the Senate, Patrick maintains his Republican majority – increasing to 19 – for the session.

The biggest issue the legislature will likely address is property tax reform. All three state leaders have been talking about property tax reform for years, but with a very large budget surplus available, the momentum for significant property tax reform is gaining strength. There is significant debate as to how much of the surplus should be devoted to property tax reform – Patrick has talked about using half of the surplus to buy down property taxes while Abbott has called for using more of it.

The legislature will initially have $12.5 billion in general revenue available for new spending – a constitutional provision based on population growth and income growth. Any additional money to be used for property tax reform or other spending will likely require the legislature to vote to bust the constitutional spending cap.

Additionally, property tax reform will require some debate about how to achieve the reduction. Will it include reductions for commercial property owners or just homeowners? Will it be a one-time reduction or permanent? How will school districts and local governments be affected when they rely primarily on local property taxes? Interesting debates and horse trading will be centerstage in 2023.

Also front and center will be power grid reform. Patrick wants to do more on power grid reform – increase generating capacity and more power plant weatherization. The Public Utility Commission may come under more scrutiny as proposals are presented.

TXCPA's Legislative Priorities

TXCPA will also have a very proactive agenda in 2023. Already, Senator Charles Perry and Rep. Angie Chen Button have filed SB 159 and HB 797, respectively, which will allow CPA candidates the flexibility to begin testing for the CPA Exam at 120 hours – placing Texas in line with 43 other states. TXCPA is working diligently on addressing the pipeline issue and this legislation is one step in the process.

TXCPA will also be looking at other legislation to improve the operations of the Texas State Board of Public Accountancy around the 5th year scholarship program, gubernatorial appointments and flexibility in achieving the additional 30 hours needed for certification.

Finally, it would not be a normal Texas legislative session without a number of controversial issues the legislature will debate – everything from abortion, transgender rights, election reform, critical race theory, university tenure, environmental-social-governance issues, and much more.

Many of these issues have taken a turn lately in that they may affect how businesses operate and affect the business-friendly reputation of the state. There are members of both parties and businesses, associations, professional societies and many others that are beginning to meet and talk about how to maintain the state's business-friendly climate and also limit legislative involvement in business operations and decisions.

TXCPA will be highly visible at the Capitol in 2023. We will be reporting back regularly on what's going on at the Capitol and, in particular, how our legislation is progressing during the session. We look forward to seeing you in Austin for TXCPA Advocacy Day on January 24, 2023, as we head to the Capitol to talk to members about our issues.

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


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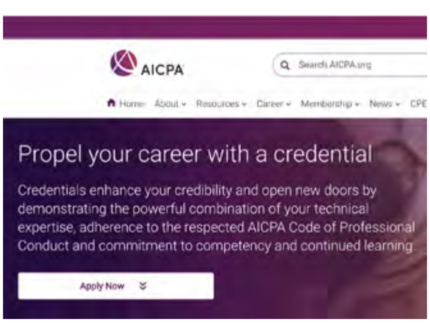

TXCPA's Advocacy Day and Midyear Board of Directors and Members Meeting

TXCPA members are invited to attend the Society's Advocacy Day and Midyear Board of Directors and Members Meeting on Tuesday and Wednesday, January 24-25, 2023, at the Sheraton Austin Hotel at the Capitol.

We're excited to be back in person for the 2023 Advocacy Day program! We have an interesting and informative program scheduled for the morning of January 24, including elected officials invited to speak, Scott Braddock of the *Quorum Report*, a federal issues update and discussion of the TXCPA legislative agenda. Legislative visits will occur in the afternoon of January 24.

On Wednesday, the results of the leadership elections for 2023-24 will be shared and two important proposals will be presented by the Membership Task Force and the Governance Committee for vote by the Board.

Get the meeting details
Register now
Book your room now

Post Full-time, Part-time and Internship Positions for Free on TXCPA's Career Center in January

Do you need to hire talent for the new year? Looking to find a new job? The TXCPA Career Center is your best choice to meet your hiring and professional goals!

Employers posting jobs to the TXCPA Career Center can use code **NEWYEAR23** for a complimentary 30-day job posting during the month of January. An employer does not need to be a TXCPA member to take advantage of this offer. In addition, internship postings are always free in the Career Center. Click here to sign up as an employer.

Members seeking jobs can post their resume, sign up for job alerts, get career advice and more. You also always have free access to post a Job Seeker Profile. Simply use your TXCPA log in credentials to get started.

Tax Season Resources for Members

Take advantage of all the outstanding resources of your TXCPA membership to make sure you're prepared for this year's tax season! The online, members-only TXCPA Exchange is a great place to ask questions, get advice, provide feedback and expand your professional network. You can log in and join the Tax Issues community to participate in the conversation and discuss your tax questions.

Updates on current tax topics are also available on the Federal Tax Policy Blog. The blog provides important information and valuable commentary from the TXCPA Federal Tax Policy Committee.

TXCPA also has your CPE needs covered. Go to the online catalog and search on tax to find all the live and online options available. We're your connection to the education and up-to-date information you need during this busy time of the year.

Accountants Confidential Assistance Network

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

TXCPA Month of Service Highlights

December was TXCPA's Month of Service! During this dedicated month of service, TXCPA and our chapters gave back with financial literacy education and community service outreach, helping our fellow Texans learn more about the many ways CPAs care about the communities where they live and work.

TXCPA and our chapters were busy volunteering for organizations in their communities, setting up and contributing to food drives, collecting toys for children in underserved communities, and more! Many member and chapter photos can be found by searching the social media hashtag #TXCPAservice.

TXCPA's Inaugural CPA Week Was a Huge Success!

From November 7-18, member volunteers visited schools and shared their career stories with students during TXCPA's inaugural CPA Week. TXCPA, AICPA and more than 37 other state CPA societies collaborated with CPAs, educators and students across the country to raise awareness of accounting career opportunities.

We thank the 67 members who provided 51 career presentations throughout Texas and reached more than 1,335 students of all ages.

Watch for the next CPA Week opportunity coming this spring. Volunteers are also needed for classroom visits all year long. Click here to submit a volunteer interest form. Every CPA has a story to tell. Yours can help make a difference and fuel the CPA pipeline!

TXCPA Thanks Our 2022-2023
Faculty and Student Ambassadors

We are grateful for these faculty members and students who are willing and committed to serve as TXCPA Ambassadors in 2022-2023! With their support, TXCPA's presence is strengthened on college and university campuses across the state. Do you see a school missing from this list? Help us find ambassadors and make more vital connections by sending your suggestions to Emily Stupnik at estupnik@tx.cpa.

Austin
Faculty: Larry Stephens, CPA, Austin Community College District
Faculty: Jay Thibodeaux, CPA, Austin Community College District
Faculty: Denise White, Austin Community College District
Faculty: Kristy McDermott, CPA, Austin Community College–Northridge Campus
Faculty: Kathy Moffitt, CPA, Texas State University
Faculty: Elizabeth Ponder, CPA, Texas State University
Student: Elisabeth Roach, Texas State University
Faculty: Derrick Bonyuet-Lee, CPA, University of Texas at Austin

Brazos Valley
Faculty: Tara Blasor, CPA, Texas A&M University

Central Texas
Student: Sarah Boesche, Tarleton State University–Waco
Faculty: Tiffany DeLuze, University of Mary Hardin-Baylor

Corpus Christi
Faculty: Ginger DeLatte, CPA, Texas A&M University–Corpus Christi
Faculty: Anne-Marie Lelkes, CPA, Texas A&M University–Kingsville
Student: Martin De Los Santos, Texas A&M University–Kingsville

Dallas
Faculty: Dr. Shannon Cornelison-Brown, CPA, Austin College
Faculty: Melanie Hanna, CPA, Collin College
Faculty: Paulette Miller, CPA, Collin County Community College
Faculty: Kimberly Bates, CPA, Dallas Baptist University
Faculty: Dr. Bobby Thomas, CPA, Dallas College
Student: John Varghese, Dallas College
Faculty: Stephanie Swaim, CPA, Dallas College–North Lake Campus
Faculty: Megan Burke, CPA, Texas Woman's University
Faculty: Robert Walsh, CPA, University of Dallas
Faculty: Madhuri Bandla, CPA, University of North Texas
Student: Kischa Crain, University of North Texas at Dallas
Faculty: Mary Beth Goodrich, CPA, University of Texas at Dallas
Student: Sanghee Eum, University of Texas at Dallas

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Faculty: Veronda Willis, CPA, University of Texas at Tyler
Student: John Sawyer, University of Texas at Tyler

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Faculty: Amir Moeini, University of Houston–Downtown
Faculty: Ramon Fernandez, CPA, University of St. Thomas

Panhandle
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Student: Jenna Downs, West Texas A&M University

Permian Basin
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Student: Connor McKeehan, University of Texas Permian Basin

Rio Grande Valley
Faculty: Linda Acevedo, University of Texas Rio Grande Valley
Student: Anacette Cantu, University of Texas Rio Grande Valley

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Student: Steven Blancas, St. Mary's University
Faculty: Dennis Elam, CPA, Texas A&M University–San Antonio
Student: Maribel Calderon, Texas A&M University–San Antonio
Student: Maryann Cumpian, Texas A&M University–San Antonio
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Faculty: Sunita White, CPA, Trinity University
Student: Edgar Miranda, Trinity University
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Student: Judi Yi, University of Texas at San Antonio
Faculty: April Poe, CPA, University of the Incarnate Word

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Faculty: Dr. Susan Anders, CPA, Midwestern State University

THE EVOLVING WORKFORCE
and the Effect on Professional Services

By M. Ray Perryman

Job openings in many parts of the United States (including Texas) have been far exceeding unemployment. While potentially beneficial for those looking for work (assuming they have the skills), the shortages are presenting notable challenges. Businesses unable to fill positions are often forced to respond by reducing operating hours or even closing locations, and the economy is functioning at less-than-optimal efficiency.

For perspective, prior to COVID-19, the number of job openings across Texas had never topped 623,000 and were generally well below that level. In February 2020, just before the pandemic, there were 534,000 openings. With the ensuing disruptions, openings dropped to as low as 302,000 (April 2020) before beginning to rise.

By the end of 2020, they were back in pre-pandemic ranges. As the Texas economy continued to gain momentum through 2021, the number of open positions started trending toward 900,000 or even higher. In June (the latest data as I am writing this article), they stood at 988,000. This record escalation comes despite quite rapid hiring in recent months. Texas regained all the jobs lost during the shutdown in only 19 months (15 months or less in some urban centers), compared with 27 months for the nation as a whole.

The pace of expansion and number of openings may moderate given challenges such as inflation, higher interest rates and greater uncertainty on many fronts. In fact, it would be difficult to find enough bodies to fill positions at the recent rate over an extended period. Nonetheless shortages are most assuredly going to persist.

Many factors are contributing to the current labor shortages. Simple demographic reality is one major culprit. Texas is reflecting national trends, with the retirement of the baby boomers coinciding with decisions by younger people to start working later.

The so-called "Great Resignation," where millions of Americans purportedly left the workforce, is also contributing modestly – although far less than many headlines imply. In fact, the workforce participation rate in the working-age population is only slightly below pre-pandemic levels. Much of this current problem would exist even if COVID-19 had never happened.

The bottom line is that we have seen these labor shortages coming for a long time, although the pandemic accelerated things moderately. The underlying demographic patterns are the driving force and they are not changing anytime soon. Strong economic expansion in Texas is obviously also raising labor demand.

Demographic Patterns

Born after World War II between about 1946 and 1964, the baby boom generation of an estimated 73 million is second in size only to the millennials, born from 1982 to 2000. The oldest boomers are now in their mid-70s and by 2030, all boomers will be 65 or older. As the baby boom generation continues to leave the workforce, they will be missed.

Birth rates across the nation have also slowed and the U.S. population is hardly changing. In fact, the U.S. population under 18 was about one million lower in the 2020 Census than just 10 years prior.

Texas is better situated than most of the country given our younger population, opportunities relative to other states and higher birth rates. Fortunately, Texas is also seeing more growth in younger age ranges than many parts of the country, which is helping the situation. The under 18 age group actually increased by more than 400,000 in Texas even as it shrank nationwide.

The Census Bureau's population estimates by state for the period from July 2020 to July 2021 further illustrate this point. While the total U.S. population scarcely changed, there were seismic regional shifts. The Northeast lost nearly 366,000 residents and the Midwest lost almost 94,000. The South increased by over 816,000 and the West gained 34,000. The Texas population grew far more than any other state, up over 310,000 for the year.

People are moving to Texas and the other states gaining population in large numbers. Reasons for the movements are many and varied, but there are some common themes.

Destination states generally have higher economic growth rates and, hence, greater opportunities. States gaining population also typically have lower tax rates. The Tax Foundation estimates that the effective state and local tax rate in New York (the highest) is 14.1%, which translates to almost $10,000 per person.

Other population-losing states are also high, with California ranking 8th ($7,529 per person) and Illinois 10th at $6,450. Texas is 47th at 8.0% (just $4,143 per person). Florida is 43rd and Arizona is 45th.

Tax burdens clearly affect household budgets and are particularly problematic with the pandemic still causing financial stress and inflation rising. There is, of course, a point at which taxes are insufficient to support adequate investments in infrastructure, education, health and safety, and other public priorities essential to maintaining quality of life and prosperity over time. Texas faces long-term challenges in this regard.

The Great Resignation that Really Wasn't

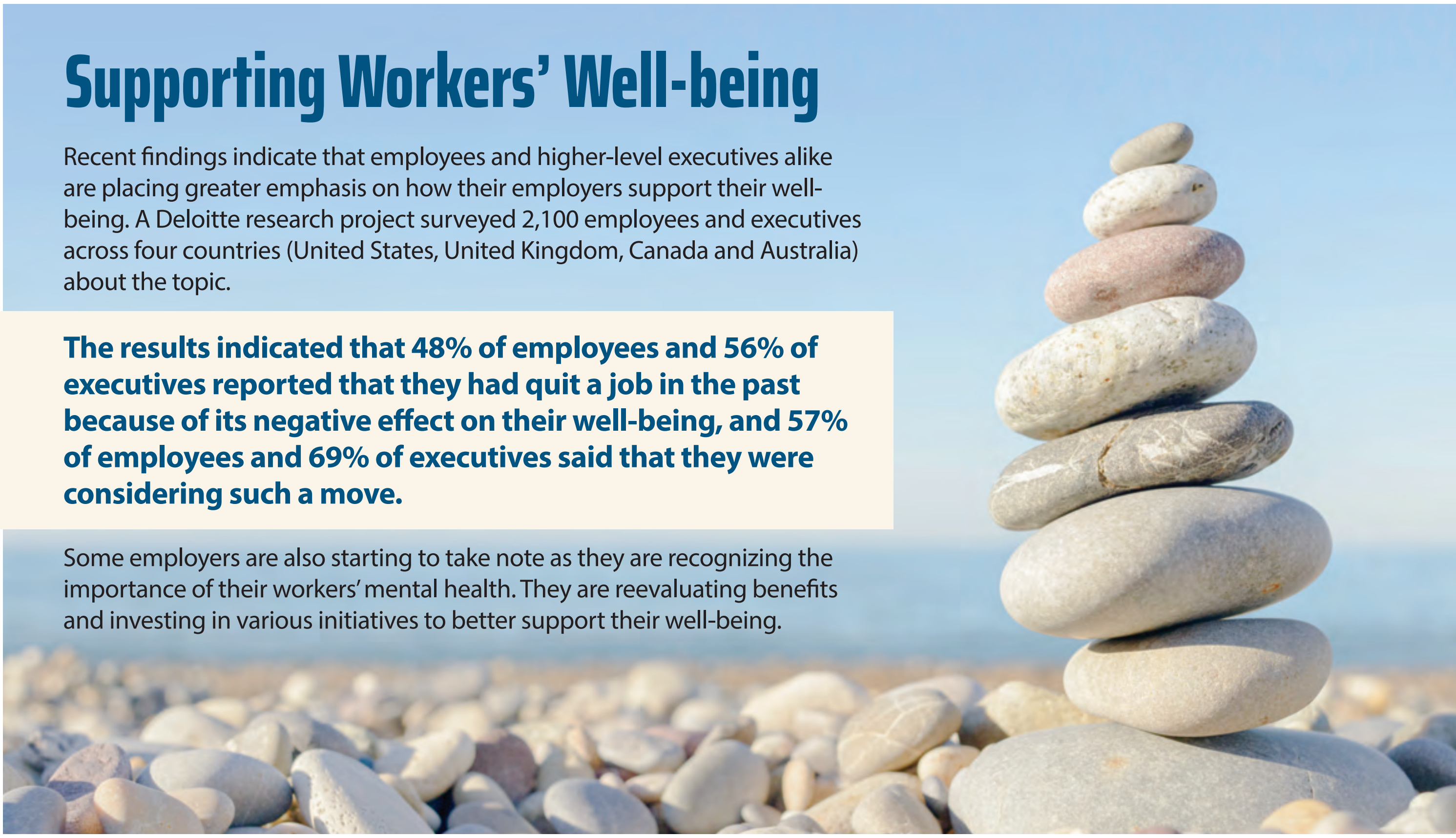
Among the most discussed patterns in recent years is that of large numbers of individuals in the U.S. who have chosen to leave the workforce entirely. The phrase "Great Resignation" has been used to describe what seems on the surface to be an unusually high number of people leaving their jobs, which began with the pandemic.

It goes without saying that the toll the pandemic has had on the health and well-being of our country's workforce has been profound and there is no doubt that it has been a contributor to the behavioral changes. Individuals who are experiencing burnout or stress are more likely to quit a job and look for one that is a better fit for their personal needs and lifestyle, and with more businesses that are offering flexible and remote work arrangements, this can be accomplished more easily.

Related CPE: For CPE on workforce planning, go to the Education area of the TXCPA website and search online learning.

In reality, someone who quits one job to move to another is not "resigning" from the workforce. Economists have historically regarded a high "quit rate" as a sign of strength in business activity as workers perceive greater opportunities.

It's easy to attribute this workplace exodus solely to pandemic-related conditions, but many factors are involved. How we work has been evolving for years and although some practices like remote working have been fairly common, they are now a new normal as an increasing percentage of current jobs have some work-from-home component. This element has given workers more negotiating power; when an onsite office presence is not a requirement, people can more easily and quickly leave one job and find another. This



Supporting Workers' Well-being

Recent findings indicate that employees and higher-level executives alike are placing greater emphasis on how their employers support their well-being. A Deloitte research project surveyed 2,100 employees and executives across four countries (United States, United Kingdom, Canada and Australia) about the topic.

The results indicated that 48% of employees and 56% of executives reported that they had quit a job in the past because of its negative effect on their well-being, and 57% of employees and 69% of executives said that they were considering such a move.

Some employers are also starting to take note as they are recognizing the importance of their workers' mental health. They are reevaluating benefits and investing in various initiatives to better support their well-being.

is especially true among white collar employees in the information, finance and insurance, and professional and business services sectors where hybrid work is more prevalent.

Money also remains a major consideration for today's workforce. As businesses are having to compete for qualified workers, it is expected that they will do so in large measure by increasing pay and those that don't follow suit risk losing their most valued employees.

The high level of the "quit rate" is indicative of the tendency to change jobs more frequently and, thus, the challenge employers face in retaining workers. Typically, when individuals quit, they do so to change jobs, although some decide to not return to the workforce. Perhaps what we're really seeing is a "Great Reshuffling" as the effects of the pandemic understandably cause many to reassess how and where they want to work, but relatively few are putting themselves out to pasture.

No industry is being left untouched by recent events, but some are being hit harder than others. Quit rates (the number of quits during the entire month as a percent of total employment) have been especially high in the leisure and hospitality sector. The professional and business services sector has also struggled with above average quit rates.

As worker shortages become more acute for professional and business services, rising wages will be complemented by added benefits.

According to a recent Pew Research Center survey, among the population who voluntarily left their job in 2021, 63% attributed their exit to low pay. Companies are also looking to expand their payroll budgets as a result and many are planning on annual raises beyond the traditional inflation bump for 2023.

Ultimately, the shifts that began with long-term demographic patterns and were intensified by the pandemic look to have staying power and that fact will present challenges to businesses both big and small. They must find the answers to what it takes to turn their employees into "keepers" rather than "quitters." From better pay to more flexibility and advancement opportunities, the majority of those who quit during this period found themselves improved employment circumstances and most found the overall process of switching jobs relatively easy.

Moving forward in today's evolving economy, employers will have to strategize and take a creative approach to attract and retain the skilled workforce they need.

Future Jobs

Looking ahead, The Perryman Group's projections call for long-term growth in the U.S. and Texas economies (though short-term cycles are inevitable). While the economy is currently slowing by some measures, I am not expecting a deep or lengthy recession. The Federal Reserve is taking action to slow inflation, which will almost certainly lead to negative fallout for the pace of expansion, but underlying fundamental characteristics remain strong.

The nature of the economy will continue to evolve. Business activity will become increasingly services oriented, an inevitable outcome given the sophisticated nature of the industrial base. A shift toward services is a pattern common to every highly developed economy.

At the most basic level, private-sector industries fall into two major categories – goods-producing and services-producing. Goods-producing sectors include manufacturing, construction, agriculture and mining (which encompasses oil and gas extraction). Services-producing is everything else.

Services comprised approximately 63% of employment 20 years ago and almost 55% of real gross product (RGP) in Texas. In 2021, we estimate that it had grown to 69% of employment and about 60% of RGP. Our projections indicate that 20 years from now, it will be nearly 73% of employment and still about 60% of RGP.

The services sector includes a diverse set of industries. Health care is included, as is the entire wholesale and retail trade segment. Education, transportation, amusements and recreation, hospitality, restaurants and financial services are also significant components.

Professional and business services involve fields such as, among others, accounting and law firms, engineering and consulting companies, and advertising agencies.

Some of the fastest growth at the state level has been experienced in transportation and warehousing, where employment is up almost 62% over the past 20 years. Several categories of financial services have also expanded by 60% or more, including insurance carriers. Professional and business services, education, waste management and remediation, ambulatory health care, and social assistance have also seen strong gains.

The professional, scientific and technical services segment may include workers in the legal, architecture or computer services fields to name a few. Other categories include the management of companies and enterprises sector and the administrative and support and waste management and remediation services sector.

These categories are expected to continue to generate large numbers of jobs. The flip side of that fact is that there will be ongoing demand for workers and little long-term relief from shortages.

TXCPA's Pipeline Strategy

TXCPA's pipeline strategy was created to assist in growing the profession and expanding the CPA pipeline. The purpose of the pipeline strategy is to effect change and increase the number of individuals becoming licensed CPAs by expanding our outreach to:

- **Elementary and middle school students,**
- **High school students,**
- **College students,**
- **CPA candidates,**
- **Firms and companies that hire or have the potential to hire candidates and CPAs, and**
- **Legislative and regulatory bodies that can impact advancement of the CPA pipeline.**

We also have a strong commitment to partnering with the many other organizations that are also involved in pipeline initiatives at the state and national levels. To learn more about the pipeline strategy, click here. TXCPA, our 20 local chapters, and our member volunteers are working to provide student outreach and support accounting career education. All members can become involved in this outreach. Contact TXCPA or your local chapter for more information.

Strategies for Dealing with Worker Shortages

Greater use of technology is part of the solution. Capital investments in labor-saving equipment, time-saving software and other mechanisms for multiplying worker productivity can help.

Artificial intelligence and machine learning will pay off for some types of businesses. However, over the long sweep of history, technological advances have increased – not decreased – the demand for workers (although the nature of the jobs has radically changed).

Clearly, there are also individuals on the sidelines who could potentially be enticed to work. With the right opportunity, some of those folks could likely be coaxed back to the workforce.

As shortages become more acute, rising wages will be complemented by added benefits. Childcare, parent care, flexible hours, and remote or hybrid options will be increasingly offered by forward-looking firms and companies.

Some potential employees would look favorably on incentives such as tuition grants and other support for additional education, advancement opportunities, and a greater sense of being valued and appreciated. For some, realistic ways to work reduced numbers of hours could be attractive.

Ensuring that potential workers have access to methods to enhance their employability is also worth exploring, whether it takes the form of literacy initiatives, English language classes or basic skills of other kinds. Investment in public education is also imperative.

Sensible immigration reform for individuals of all skill levels is essential, simply because Texas and the U.S. both need the workers. This issue is clearly controversial, but we simply do not have enough people. Texas must also be a welcoming state and avoid discriminatory social policies that discourage knowledge workers and must assure that the growing pool of young people who can be a catalyst to future prosperity receives high-quality educational opportunities and outcomes.

The solution to worker shortages is "all of the above" – and then some.

Opportunities and Challenges for Professional and Business Services

Over time, jobs will continue to be created at a more rapid pace in services-producing industries. The composition of occupations will certainly change as the economy evolves and technology alters the character and skills requirements of every job, but the overall pattern is well established.

Professional and business services will be a key source of opportunities for individuals and firms in the U.S. and Texas for decades to come.

As an outcome of this strong performance, as well as the overall trends, labor shortages will continue to be a challenge. It will be an "employee's market" for the foreseeable future. Firms and companies will need to respond with compensation, benefits, and other enticements to hire and keep quality workers.

It will also be more relevant than ever to be mindful of the work-life balance, stress levels and other culture-related characteristics that can lead employees to go elsewhere. Skilled workers in many different sectors, including professional and business services, are the currency of our economic future.

About the Author: Dr. M. Ray Perryman is President and Chief Executive Officer of The Perryman Group (www.perrymangroup.com/), which has served the economic analysis needs of more than 3,000 clients over the past four decades.

Tell Me More, Tell Me More:

Trustees' Duties to Inform and Account in Texas

By Christian S. Kelso

Most lawyers in Texas understand that trustees have a duty to share certain trust information with trust beneficiaries. This duty to inform comes from common law and has been largely codified in state law. The duty to provide formal accountings is a distinct subpart of the duty to inform. This article addresses the trustee's duty to both inform and account in Texas.

The nature and extent of the duty to inform is not well defined in the Texas Trust Code (TTC or the Trust Code)[i] and there is little case law on point. There is slightly more guidance with regard to the duty to account, although many questions remain.

Some assistance may be found in the Uniform Trust Code (UTC), both Restatements,[ii] and the Uniform Probate Code (UPC),[iii] although caution is advised when relying on these nonbinding sources that have not been formally adopted in Texas and have, in certain instances, been expressly rejected.

The Law in Texas

When considering a client's fiduciary duty as trustee, most practitioners turn to the Trust Code first. However, the thoughtful practitioner will notice that the common law duty to inform predates the Trust Code and is broader than the statutory duty to account. Also, the Trust Code directs trustees to "perform all of the duties imposed on [them] by the common law,"[iv] so an examination that is limited to the Trust Code will generally be incomplete.

Under the common law, "[t]rustees and executors owe beneficiaries 'a fiduciary duty to full disclosure of all material facts known to them that might affect [the beneficiaries'] rights.'"[v]

As is made clear below, this duty is somewhat broader than the codified duty to account. The common law also recognized that the duty to inform could not be eliminated by a settlor[vi] but it has never been particularly instructive as to how this duty might be diminished.

Ancillary to a trustee's other duties is the common law duty to keep records. Without accurate records, a trustee cannot inform a beneficiary.

Books and records are also necessary for general trust management. Without them, a trustee cannot properly file tax returns, determine income and conduct other necessary business. The records a trustee must keep are assets of the trust, so it only stands to reason that a beneficiary should have reasonable access to them. Trustees should remember that the duty to keep records is separate from the duty to inform and may be grounds for a separate cause of action.

Statutory Framework

The accounting rules in the Trust Code are found primarily in three sections. The first, TTC § 111.0035, sets out trustee duties that may not be waived. It makes clear the extent to which a trustee's duty to account may not be limited. Note that the statute addresses both accounting demands as well as the common law duty to inform. This underscores the notion that the common law duty to inform is somehow different from the statutory duty to account.

The next section, TTC § 113.151, addresses accounting demands. This section is strangely worded and organized. It begins by stating that a beneficiary may demand an accounting, but it never directs a trustee to respond to that accounting. Instead, the section permits a court to order the accounting if it is not timely produced. Similarly, it permits an interested person to file suit to compel an accounting without even making a demand. Although not explicit, the implication of this section is that accountings will generally be produced on demand.

Note that TTC § 113.151 also implements some limitations on accountings. Under Subsection (a), demands appear to be limited in scope to the time period between the demand and the last accounting, if any, that the trustee provided. The statute also provides that, generally, a trustee is not obliged to account to beneficiaries more than once every 12 months. Interestingly, however, these limitations are not included in Subsection (b).

Finally, TTC § 113.152 sets out the required elements of a proper accounting. This section is somewhat more straightforward than § 113.151, but it still presents some questions. What is the difference between being "listed or inventoried?" Must a trustee include a *de minimis* initial contribution, such as a photocopied $10 bill in an accounting? What "other transactions regarding the trust property" must be included under Paragraph (2)? What constitutes an "adequate description" of trust assets under Paragraph (3)? Unfortunately, we lack answers to these questions.

Who is Entitled to an Accounting?

A broad array of people is generally entitled to trust information. Trust Code § 113.152 makes provisions for both beneficiaries and interested persons. TTC § 111.004(2) defines a beneficiary as "a person for whose benefit property is held in trust, regardless of the nature of the interest." TTC § 111.004(6) defines interest to mean "any interest, whether legal or equitable or both, present or future, vested or contingent, defeasible or indefeasible."

TTC § 111.004(7) defines *interested person* to mean "a trustee, beneficiary, or any other person having an interest in or a claim against the trust or any person who is affected by the administration of the trust."

On the other hand, the non-waivable provisions of TTC § 111.0035 relate only to so-called "first-tier beneficiaries." Under TTC § 111.0035(b)(4), first-tier beneficiaries include those who (i) are entitled or permitted to receive

Related CPE: For CPE on estate and trust accounting, go to the Education area of the TXCPA website and search online learning.

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distributions from the trust or (ii) would receive a distribution from the trust if the trust terminated at the time of the demand.

TTC § 111.0035(c) is similar, but slightly different. It adds a requirement that first-tier beneficiaries be at least 25 years old. Also, when it qualifies beneficiaries who "would receive a distribution from the trust if the trust were terminated," it leaves out the words "at the time of the demand." This language is included in TTC § 111.0035(b)(4). The consequence of these differences is unclear.

By restricting the non-waivable provisions to first-tier beneficiaries of irrevocable trusts, settlors are presumably permitted to limit the duties to account and inform with regard to other beneficiaries and revocable trusts. This could prevent frivolous pestering by contingent remainder beneficiaries and the need to expend significant trust assets replying to their demands.

Consider, for example, the typical married couple with a run-of-the-mill revocable living trust where the husband and wife are grantors, co-trustees and primary beneficiaries. Does it really make sense to allow this couple's children, grandchildren and further descendants to demand an accounting of trust assets even though they will only take, if at all, under the trust terms after both of the parents have died? These people would not be able to demand an accounting of the settlors' non-trust assets, so denying them this privilege regarding assets held in a revocable trust seems rational.

But case law makes rules confusing in this area. In *Mayfield v. Peek*,[vii] a contingent beneficiary of a revocable trust was determined to have standing to bring an action against a trustee for breach of fiduciary duty. At trial, the court held that the beneficiary lacked standing because her interest was not vested. But on appeal, the court noted that the Trust Code allows a court to "intervene in the administration of a trust to the extent that the court's jurisdiction is invoked by an interested person."[viii]

As described above, an interested person includes a beneficiary, regardless of whether his/her interest is "present or future, vested or contingent, defeasible or indefeasible." Thus, the *Mayfield* court allowed the beneficiary to continue with her claim even though her interest was subject to defeasement by revocation of the trust. While *Mayfield* did not involve an

accounting demand, its logic would seem to apply to accountings.

On the other hand, the court in *Berry v. Berry*,[ix] determined that a contingent beneficiary lacked standing to require an accounting, stating the claimant's "interest was no greater than that of an heir apparent or beneficiary of a person who is still alive."

At least one respected commentator has stated publicly that the case was incorrectly decided, noting that, "Unlike an heir apparent or beneficiary of a person who is still alive, a contingent beneficiary of a trust currently owns a contingent interest in the trust." It is worth noting that *Mayfield* involved alleged breaches by a trustee who was a child of the settlor and the settlor, who held the power to revoke the trust, may have lacked mental capacity at the time the alleged breaches occurred.

To minimize the potential for confusion on this issue, drafters may wish to include language in their revocable trusts expressly limiting the trustee's duty to inform or account to first-tier beneficiaries as provided in TTC §111.0035(b)(4) and (c). Such language could be particularly helpful where privacy is a major consideration.

The foregoing notwithstanding, it should go without saying that beneficiaries generally should not demand accountings from trustees of revocable trusts, especially where the people holding the right to revoke are competent. Such a demand is likely to raise the ire of powerholders and result in the demanding beneficiaries being cut out of their inheritances.

This same principle applies where a trust instrument grants someone a power to appoint property away from a beneficiary.

Release and Waiver

Another key question is whether a beneficiary (or other interested party) can waive their right to an accounting or release a trustee from their duty. This question evokes the policy considerations. How can a beneficiary release a trustee of a right to information without getting that information in the first place?

From a strictly academic perspective, this policy should clearly favor the position that waivers and releases of information and accounting rights should be unenforceable. However, from a practical perspective, the opposite is true. Trustees often desire waivers upon providing beneficiaries with accountings.

There is little guidance as to what constitutes a proper accounting under Texas law, so when trustees have, in good faith, attempted to provide proper accountings to beneficiaries, they want those beneficiaries to agree that the accountings are proper and waive any further demand for information for the period covered by the provided accounting.

The same holds true when a trust is wound up. Once all trust property is distributed, a trustee no longer has a "war chest" to expend in defense of frivolous claims of impropriety. Therefore, the trustee wants some assurances that such claims will not be brought up after the fact.

Facts very similar to these were present in the case of *Harrison v. Harrison Interests*.[x] In that case, the parties entered into an agreement to distribute property and disassociate themselves. Under the agreement, the fiduciaries were released and indemnified by the beneficiary. Despite the release and indemnity, the beneficiary later filed suit, arguing that the release was invalid. However, the court held in favor of the fiduciaries and upheld the release and indemnity.

Interestingly, the UTC allows parties to approve accountings (called "reports" in the UTC) in a non-judicial settlement agreement. The UTC also expressly allows beneficiaries to waive their accounting rights (albeit not irrevocably), but there is no analogous provision in the Trust Code.

Failure to Account

The Trust Code and the case history are rife with penalties for trustees who fail to account. TTC prescribes remedies for this failure directly in § 113.151 and breaches of trust generally in § 114.008. The Trust Code also addresses attorney's fees at § 114.064.

Failure to account can lead to some rather draconian consequences.

In *Corpus Christi Bank and Trust v. Roberts*,[xi] beneficiaries of a trust sued the trustee to account after the trust terminated by its provisions. The long-serving trustee had failed to keep good records. To make matters worse, the trustee and his accountant died shortly after the suit was filed, so the trustee's personal representative was substituted for him. In ruling against the trustee's estate, the court stated:

We sympathize with the executor's difficulty in making a full accounting because of the death of this non-professional trustee as well as the death of his accountant before either could give testimony in this case. Nevertheless, this difficulty does not discharge the Trustee's obligation to make a full accounting of all funds belonging to the trust estate.

According to another case, "The main purpose of forfeiture is not to compensate an injured principal... Rather, the central purpose...is to protect relationships of trust by discouraging agents' disloyalty." Furthermore, the "party seeking forfeiture need not prove damages as a result of the breach of fiduciary duty."

Benefits of Informing and Accounting

The primary benefit of providing trust information to beneficiaries is that it puts beneficiaries on notice with regard to the trustee's actions. In breach actions, the statute of limitations does not begin to run until a beneficiary learns the relevant facts for a cause of action. Thus, by providing information to beneficiaries, the trustee can begin running the statute of limitations, which is typically four years for breach of fiduciary duty claims.

The primary benefit of providing an accounting is that, under TTC § 113.151, a second accounting cannot generally be required until 12 months have passed. This prevents beneficiaries from pestering a trustee incessantly.

In either case, however, the benefit to the trustee cannot be realized until the duty is properly fulfilled. With regard to the duty to inform, this means all relevant information must have been passed on to the beneficiary. With regard to accountings, the requirements of TTC § 113.152 must have all been satisfactorily met.

The vagueness of the duties makes determining whether they have been properly fulfilled a likely topic of litigation.

'Informal' Accountings

Because they are so onerous and costly, many trustees wonder whether full-blown accountings are really necessary. When beneficiaries start asking questions, these trustees would like to produce only so much information as will make the beneficiaries go away. But while trustees are free to provide information whenever they please, there is no indication that an informal accounting will benefit the trustee unless it actually fulfills either the duty to inform or the duty to account.

Thus, informal accountings may be of some benefit to trustees, but that benefit will be limited, so the standard advice is to produce a full accounting when beneficiaries begin asking questions. At the very least, an accounting should obviate the need for another accounting for at least 12 months.

On the other hand, it is worth noting there is no guarantee that even a formal accounting will begin running the four-year statute of limitations on breach claims. Conceivably, an accounting could meet the requirements of TTC § 113.152 and still fail to provide enough information to fulfill the duty to inform.

This is why trustees should maintain good trust records for the duration of the trusts they oversee (and then some). This is also why accountings should not be limited to the items described in TTC § 113.152.

What Should an Accounting Really Look Like?

Notwithstanding the provisions of TTC § 113.152, many trustees remain unsure of exactly what information should be included on a Texas trust accounting. Although the guidance is limited, a few rules are available.

To begin with, the Texas Supreme Court seems to favor a plain-language interpretation of the statute. In *Roberts*, the court sympathized with the trustee's successor in interest but nonetheless found the trustee's estate liable for failing to account, even though there was no way to produce an accounting after the trustee died.

The court in *Texas State Bank v. Amaro* said that a trustee's investment strategy and potential tort liability were "not components of an accounting" because those items were not listed in TTC § 113.152.[xii]

Similarly, the court in *In re Estate of Dillard* found liability where a trustee failed to strictly adhere to the plain language of the statute and failed to include a bank account in the accounting.[xiii]

In addition to investment strategies and potential tort liabilities, several other elements are conspicuously missing from the language of TTC § 113.152. These include:

- Trustee compensation;
- Lists of beneficiaries or changes to beneficiary status;
- A copy of the trust instrument or even the parts thereof that impact the aggrieved beneficiary; and
- Any memorandum or "letter of wishes" a settlor might have drafted for the distribution of tangible personal property.

Two other cases are instructive with regard to accounting contents. In *Tolar v. Tolar*,[xiv] a trust beneficiary complained that certain assets were left off an accounting. The beneficiary contended that the property at issue was improperly left outside of the trust. But the court granted no relief on this issue because the property was never transferred to the trust, the trustee was not required to account for it.

Finally, in *Beaty v. Bales*[xv] a CPA's unaudited accounting and financial report was admitted in evidence, without original source documentation such as receipts, paid bills and invoices. But the court nonetheless held that, under the circumstances, the document produced complied with then-applicable statutory requirements for a proper court-ordered accounting.

Note, however, that the above cases dealt specifically with accountings and did not elaborate on the broader duty to inform. A trustee who is already going to the trouble to account might as well provide any other relevant information at the same time.

Best Practices

With the above rules in mind, the following best practices are suggested to various practitioners for consideration.

Where Discovery Meets the Duty to Inform

No discussion of a trustee's duty to inform in Texas would be complete without mentioning the seminal case of *Huie v. DeShazo*,[xvi] which dealt with the confluence of discovery and the duty to inform. In that case, the court ruled that a trustee's fiduciary duty to fully disclose all material facts, "exists independently of rules of discovery and applies even if no litigious dispute exists between trustee and beneficiaries."

In so holding, the court ruled that, whereas the communications between trustee and attorney are protected, the underlying facts are not, and the trustee cannot hide the underlying facts by communicating them to their attorney.

For Trustees

Provide information often and regularly to minimize exposure. There is no known penalty for over-disclosing information to trust beneficiaries and you do not need to wait until a beneficiary requests information to begin running the statute of limitations.

When providing information, include as much information as possible and admit to mistakes. Nobody is perfect. It is far better to ask for forgiveness than to be caught trying to hide something.

Do not limit accountings to the items listed in TTC § 113.152. Disclosures should include a narrative of relevant information and anything else that is material to a beneficiary.

An accounting is a trustee's opportunity to defend their actions. The trustee should take that opportunity to explain why something was done.

Anticipate accountings and other disclosures. Trustees should organize their business in anticipation of information requests.

In addition to statements, cancelled checks and other information, trustees should keep detailed notes of their business so that they can later explain it to the beneficiaries they serve (and their attorneys). They should also keep trust information systematically stored for easy access and retrieval.

For Trust Drafters

Limit the number of people who can demand information or accountings to the statutory minimum. This is particularly important with revocable trusts.

Be sure to include powers of appointment to discourage frivolous accounting demands.

Do not require periodic accountings in a trust instrument. There is a reason they call them trusts. If clients have so little confidence in their proposed trustee that they want to require periodic accountings, they should reconsider the appointment.

Accountings are costly and difficult to compile. Requiring them absent an interested party's demand is simply setting the trustee up for failure.

For Beneficiaries

Be very careful when making an accounting demand. If a trust is revocable or grants another person the power to appoint property away from you, there is a high likelihood that you will find yourself excised as a trust beneficiary.

Trustees should provide information often and regularly to minimize exposure. There is no known penalty for over-disclosing information to trust beneficiaries...

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Footnotes

[i] *See* TEX. PROP. CODE ANN. § 113.152 (West 1984).

[ii] Reference is made to The Restatement (Third) of Trusts (the Restatement (Third)), which was promulgated in 2003 and followed the Restatement (Second) of Trusts (the Restatement (Second)), which dates to 1959. Texas has not adopted either of these Restatements, but they are nonetheless valuable here for context and guidance.

[iii] *See* Julia C. Zajac & Robert Whitman, *Fiduciary Accounting Standards for the 21st Century*, REPRESENTING EST. & TR. BENEFICIARIES & FIDUCIARIES (A.L.I. – A.B.A., Phila., Pa.) July 14-15, 2011 at 339.

[iv] TEX. PROP. CODE ANN. § 113.051 (West 2006). For other references to the common law, see TEX. PROP. CODE ANN. §§ 111.0035(c), 111.005, 112.054(f), 114.007(c) and 121.058 (West 2019).

[v] *Huie v. DeShazo*, 922 S.W.2d 920, 923 (Tex. 1996) (citing *Montgomery v. Kennedy*, 669 S.W.2d 309, 313 (Tex. 1984)).

[vi] *Hollenbeck v. Hanna*, 802 S.W.2d 412 (Tex. App.-San Antonio 1991, no pet,).

[vii] *Mayfield v. Peek*, 546 S.W.3d 253 (Tex. App.-El Paso 2017, no pet.).

[viii] *See* TEX. PROP. CODE ANN. § 115.001(c) (West 2017).

[ix] No. 13-18-00169-CV, 2020 WL 1060576 (Tex. App.-Corpus Christi-Edinburg Mar. 5, 2020, no pet. h.).

[x] Harrison v. Harrison Interests, Ltd., No. 14-15-00348-CV, 2017 WL 830504 (Tex. App.-Houston [14th Dist.] Feb. 28, 2017, pet. denied) (mem. op.).

[xi] *Corpus Christi Bank and Trust v. Roberts*, 597 S.W.2d 752 (Tex. 1980).

[xii] *Texas State Bank v. Amaro*, 87 S.W.3d 538, 543 (Tex. 2002).

[xiii] *In re Estate of Dillard*, 98 S.W.3d 386 (Tex. App.-Amarillo 2003, pet. denied). (The court also noted that the accounting was inaccurate because it included items that were part of a related estate but not the trust at issue.).

[xiv] *Tolar v. Tolar*, No. 12-14-00228-CV, 2015 WL 2393993 (Tex. App.-Tyler. May 20, 2015, no pet.) (mem. op.).

[xv] *Beaty v. Bales*, 677 S.W.2d 750 (Tex. App.-San Antonio 1984, writ ref'd n.r.e.).

[xvi] *Huie v. DeShazo*, 922 S.W.2d 920 (Tex. 1996).

Investing Directly Into Oil and Some of the Tax Consequences: A Case Study

By Arthur Young, Ph.D., CPA (Retired), Debjeet Pradhan, Ph.D., and Dennis Jones, Ed.D.

Curriculum: Tax, consulting services

Level: Basic

Designed For: Tax practitioners and CPAs in public practice

Objectives: To give the reader information about investing directly into oil and the resulting tax consequences, and to discuss investments in oil and gas royalty trusts, Crude Oil ETFs and oil futures contracts

Key Topics: Oil and Gas Royalty Trusts, ETFs and Futures Contracts, the tax consequences, issues and risks involved, calculations used, and consideration of the investment options available

Prerequisites: None

Advanced Preparation: None

Over the past 40 years, countries, industries and companies have explored replacing oil and gas with renewable energy sources. However, according to the U.S. Energy Information Administration, petroleum (36%) and natural gas (32%) still account for over two-thirds of energy consumption in the United States[1]. Therefore, investments in oil and gas will continue to be attractive additions to a portfolio.

This article was written to give the reader information about investing directly into oil and the resulting tax consequences. Rather than describing these investments in general terms, the lead author made direct investments in the following four types of oil and gas assets to receive tax information from his brokerage accounts to create this case study:

- Oil and Gas Royalty Trusts;
- Crude Oil Exchange-Traded Fund (ETF) that does not issue a K-1;
- Crude Oil ETFs that issue K-1s;
- Oil and Gas Futures Contracts.

The tax consequences described in this case study are unique to the lead author and should not be considered directly applicable to the tax consequences of other people.

Currently, there are investments for commodities such as gold and silver (e.g., Sprott Physical Gold and Silver Trust Fund [CEF]), as well as uranium (e.g., Sprott Physical Uranium Trust Fund [SRUUF]). However, there are no investments in produced oil that is stored at some facility and is available for sale at some future date. Therefore, someone wanting to invest in physical oil must instead purchase assets similar to produced and stored oil. This can be done via investments in oil and gas royalty trusts, Crude Oil ETFs and oil futures contracts.

Oil and Gas Royalty Trusts – BP Prudhoe Bay

Oil and Gas Royalty Trusts own oil and gas that is currently in the ground and has yet to be produced. There are several royalty trust investment options; however, the lead author selected BP Prudhoe Bay

Exhibit 1
BPT Recent Quarter Information

	2021			2022	
Average Costs Per Barrel	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**
WTI Price	66.04	70.64	76.91	94.45	108.70
Less: Adjusted Chargeable Costs	60.63	61.61	62.60	69.91	72.02
Less: Production Taxes	2.31	2.49	2.73	3.42	7.21
Per Barrel Royalty	**3.10**	**6.54**	**11.58**	**21.12**	**29.47**
Average Daily Production	70,857	62,300	71,400	73,500	68,800
Amount Paid to BPT (in millions)*	3.200	6.145	12.801	23.814	30.341
Distributions to Unit Holders (in millions)	0.521	1.486	12.437	23.273	30.066
Distributions Per Unit (21.4 million units)	0.024	0.069	0.581	1.088	1.405

The amount paid to BPT is calculated as follows:
(Per Barrel Royalty x 0.164246) * Average Daily Production * Days in Quarter

*The "Amount paid to BPT (in millions)" is per the distribution announcement and does not exactly hit the amount per the above formula

Distributions are paid approximately 20 days after the end of the quarter

Exhibit 2
Worksheet A
Computation of 2021 Taxable Income for BPT

Worksheet A should be used by Unit holders who either acquire Units after January 15, 2021 or disposed of Units on or before October 15, 2021. This worksheet allows such Unit holders to compute their taxable income based upon ownership at quarterly record dates from the tables and worksheets in the BP Prudhoe Bay Royalty Trust *2021 Tax Information Booklet*.

Items of Income or Expense	**Number of Units Owned**	**Taxable Amount**	**Total**
I. Trust Income Amount calculated using Table I on page 12	1,000	3.10293	$3,103
II. Trust Administrative and Other Expenses (show as a reduction to your Trust Income) Amount calculated using Table II on page 12	1,000	2.83583	$2,836
III. Depletion Deduction (show as a reduction to your Trust Income) Amount calculated using Worksheet B on page 10 Initial Purchase Price: $4,077 * 0.22252 (Cost Depletion Factor from Table III on page 12) = $907			$907

Royalty Trust (BPT) for this case study partially because this trust involves oil that is produced in Alaska (a state that does not have state income tax). It is also one of the largest conventional oil and gas royalty trusts in the United States, with a market capitalization of more than $300 million[2].

The lead author bought 1,000 units of BPT at a price of $4.0768 per unit on July 21, 2021, for an investment of $4,076.80. He received distributions related to (a) third quarter production of $69.43 on October 20, 2021, and (b) fourth quarter production of $581.17 on January 19, 2022. The questions are how much income to report in 2021 and what is the new tax basis in the royalty trust units?

To address these questions, it would be beneficial to get a better understanding of BPT. The royalty trust was formed in 1989 and has an overriding royalty interest on 16.4246% of the lesser of the first 90,000 barrels of oil per day produced from the applicable working interest or the actual production of oil per day.

For the past 10 years, the actual production has been less than 90,000 barrels per day. The production levels for the past three years (ending September 30) were 73,800 barrels per day in 2019, 74,430 barrels per day in 2020, and 71,480 barrels per day in 2021[3]. This reduced level of production has negatively impacted quarterly royalty payments. About a week after the quarter ends, BPT announces the quarterly royalty payment that it is going to receive, as well as the distribution that it will be making to Unit holders, if any (see Exhibit 1).

The amount of income to be reported by the lead author was computed by reference to the *BP Prudhoe Bay Royalty Trust 2021 Tax Information Booklet*. BPT is classified as a grantor trust. Therefore, unit holder taxable income depends on what BPT actually received in royalty payments, which can be different from the amount of the distributions. Related to the third quarter 2021 production, about two-thirds of the amount received by the trust was used to increase the trust's cash reserve. That amount was still taxable to the unit holders, even though not received as a distribution for the year.

Following the directions in the *BPT 2021 Tax Information Booklet*, the gross income for the 1,000 units = $3,103, the Trust Administrative and other expenses = $2,836. Therefore, the net income was $267. There was also a deduction of $907 for cost depletion (see Exhibit 2). Thus, the net amount reported on Schedule E was minus $640. The amount deducted for cost depletion lowered the basis in the 1000 units by the same amount, so that the basis became $3,170.

Exhibit 3
OILK Information
Information from 1099-B and Supplemental Information to Support 1099-DIV

Short-Term Transactions for Covered Lots

Date Sold	Quantity	Proceeds	Date Acquired	Cost	Gain
02.03.21	20	986.08	03.18.20	819.01	167.07
09.21.21	25	1,520.99	12.10.20	1,043.38	477.61
	Total	**2,507.07**		**1,862.39**	**644.68**

Long-Term Transactions for Covered Lots

Date Sold	Quantity	Proceeds	Date Acquired	Cost	Gain
04.28.21	80	4,571.16	03.18.20	3,276.04	1,295.12
08.17.21	25	1,449.49	03.18.20	1,023.76	425.73
09.21.21	75	4,562.97	03.18.20	3,071.29	1,491.68
	Total	**10,583.62**		**7,371.09**	**3,212.53**

Detailed of Dividends

Date	Amount	Type of Dividend
06.29.21	900.43	Nonqualified
09.29.21	981.42	Nonqualified
11.08.21	1,851.80	Nonqualified
12.08.21	2,865.97	Nonqualified
12.31.21	2,411.01	Nonqualified
Total	**9,010.63**	

Exhibit 4
Excerpt from K-1 Information for USO (2021)

Line 5	Interest Income	2
Line 6a	Ordinary Dividends	2
Line 11C	Section 1256 Income	12,509
Line 13W	Other Deductions	174

Exhibit 5
Transaction Schedule – USO (2021)

	Account	Date	Shares
Beginning of the Year	E		600
	K		25
Sell	K	01.13.21	-25
Buy	K	02.22.21	49
Buy	A	03.03.21	97
Sell	E	05.12.21	-100
Sell	E	09.30.21	-500
Sell	A	11.01.21	-97
Sell	K	12.27.21	-19
End of the Year	E		0
	K		30

What a difference a year makes! Due to low oil prices, there was no revenue from royalties related to any production in 2020. This led to a Going Concern paragraph being added to the KPMG audit report on the 2020 financial statements because the trust will terminate if net revenues from the royalty interest are less than $1,000,000 per year for two successive years[4]. However, for the past four quarters, BPT has received net revenue of at least $2,000,000 per quarter. In fact, for the second quarter of 2022, the net revenue received was about $24 million as oil prices surged over $100 per barrel.

The massive change in fortune is also reflected in the unit price. In October 2020, the price per unit was under $2.00 while as of early July 2022, the units were being traded at a price of about $20.00 per unit[5].

OILK K-1 Free Crude Oil Strategy ETF

ProShares K-1 Free Crude Oil Strategy ETF (OILK) invests in financial instruments that ProShares Advisors believe should track the performance of the Bloomberg Commodity Balanced WTI Crude Oil Index. The fund invests in oil and gas futures contracts indirectly through its wholly-owned subsidiary, ProShares Cayman Crude Oil Strategy Portfolio.

The lead author entered 2021 with 400 shares of OILK. This consisted of 200 shares (split adjusted) bought on March 18, 2020 for $8,190.10 and 200 shares bought on December 10, 2020 for $8,347.00. He reduced his position to 175 shares by making four separate stock sales and then built back his position to 400 shares at the end of the year with an additional four separate purchases.

OILK is the only oil ETF that is not a commodities partnership. Therefore, rather than reporting tax information on a K-1, they report tax information on a Form 1099. It is a regulated investment company that is registered under the Investment Company Act of 1940[6]. The good news is that this investment distributes income in a timely manner, but the bad news is that the dividends are considered to be "Nonqualified" dividends.

In this case, the four sales showed up on the 1099 information and there was no need for any tax basis adjustments. The tax information showed short-term capital gains of $644.68 and long-term capital gains of $3,212.53. The dividend information was also easily obtained. For the year, the total amount of dividends received from OILK was $9,010.63 of nonqualified dividends (see Exhibit 3).

The simplicity of OILK is greatly appreciated. Investments in so called commodity ETF partnerships are

Exhibit 6
USO Sales Schedule

Col 1 Units Sold	Col 2 Sales Date	Col 3 Sales Proceeds	Col 4 Purchase Price/ Initial Basis Amount	Col 5 Cumulative Adjustments to Basis	Col 6 Cost Basis	Col 7 STCG	Col 7 LTCG	Col 8 Pct LTCG
25	01.13.21	896	802	77	879	17	0	0
100	05.12.21	4,555	3,354	1,178	4,532	6	17	72
500	09.30.21	26,465	16,710	9,538	26,248	50	167	77
97	11.01.21	5,583	3,249	1,385	4,634	218	731	77
19	12.27.21	1,034	630	404	1,034	0	0	84
	Total	**38,533**	**24,745**	**12,582**	**37,327**	**291**	**915**	

Note: The taxpayer has to fill in Columns 3 and 7. USO provided the rest of the information.
Column 7 = Column 3 – Column 6
The Column 7 gain must be broken down into the proper amount of STCG and LTCG using the information from Column 8.

much more complicated to deal with at tax time. Overall, the OILK returns have been very volatile over the past few years. For the first half of 2022, the return was 44.94% and for the year ended June 30, 2022, was 57.05%. However, the return for the most recent five-year period was just 4.07% on an annualized basis[7].

Oil and Gas ETFs – United States Oil Fund LP

United States Oil Fund LP (USO) invests primarily in near-term oil futures contracts. According to the December 31, 2020 annual report, the fund had 74,708 open commodity futures contracts, with 63,370 of them being for February 2021 through June 2021 WTI Crude Oil. According to the December 31, 2021 annual report, the fund had 32,136 open commodity futures contracts, with 27,106 of them being for February 2022 through June 2022 WTI Crude Oil.

The lead author entered the year with 625 shares of USO. During the year, he sold all 625 of these shares. He also purchased 146 additional shares and sold 116 of these shares by year end. He had 30 shares of USO remaining at the end of 2021.

The tax treatment of his investment in USO for the year is handled with the help of the K-1 and supporting schedules that are provided by the fund. The K-1 indicates that he had income of 12,339 during the year. This was divided up into interest income (+2), dividend income (+2), Section 1256 income (+12,509), minus other deductions (-174). The K-1 directions indicated that the "other deductions" should be reported on Schedule E, line 28 (see Exhibit 4). Section 1256 gains are primarily from the sale of the oil futures contracts and are taxed as follows: 60% is taxed as a long-term capital gain and 40% is taxed as a short-term capital gain. These types of gains are reported on Form 6781.

The fund provided a Transaction Schedule for the year that reported the beginning of year units of USO, as well as subsequent selling and buying activity. They combined all of the activity from various brokerage accounts in this schedule. For example, he had 600 units in his E account and 25 units in his K account at the start of the year. During the year, he sold these at various times. He bought and sold 97 units in his A account. He also bought 49 more units in his K account and sold 19 of these units as of the end of the year, leaving 30 units in this account (see Exhibit 5).

The fund also provides a Sales Schedule. The lead author looked up information from his brokerage accounts to put in Column 3 of the Sales Schedule worksheet. He then combined this information with the Initial Basis Amount (Column 4) and added to this the Cumulative Basis Adjustments (Column 5) to determine the overall gain for the year of $1,206 (see Exhibit 6).

The Cumulative Adjustments are necessary to make because as oil futures contracts are sold at a gain by the fund, the gain is passed through to the partner on Line 11C of the K-1 and increases the basis in his partnership interest. The Cumulative Adjustment kept the lead author from being taxed twice on this income.

A key number is the total Cost Basis of units sold. This number ($37,327) agrees with the "Withdrawals and Distributions" amount shown in Part II, Item L of the K-1 because there were no cash distributions by USO during the year (see Exhibit 7). Another critical number in area L is Capital Contributed during the year (=$6,012), which equaled what he paid for units during the year as follows: 49 units purchased on Feb 22, 2021 for $2,010 and 97 units purchased on March 3, 2021 for $4,002. For 2021, he reported a capital gain of $1,206, which was broken down with the help of the supplemental information into a short-term capital gain of $291 and a long-term capital gain of $915. His remaining 30 units have a basis of $1,628 as of the end of 2021, which agrees with the ending capital account balance (see Exhibit 7).

For the first half of 2022, the return of USO was 47.81% and the return for the year ended June 30, 2022 was 61.09%. However, the return for the most recent five-year period was just 1.12% on an annualized basis.

Oil and Gas 2X ETF – ProShares Ultra Bloomberg Crude Oil

ProShares Ultra Bloomberg Crude Oil (UCO) is an ETF that is designed to return twice the Bloomberg WTI Crude Index amount. Volatility, however, has a negative impact on the fund's performance and can be as important as the change in the Bloomberg Index to the fund's return.

As a leveraged fund, this investment is extremely risky. The Fund Prospectus and Supplement has several pages of capitalized and/or in bold print information about the risks of the fund.

Three especially important notes are as follows: the fund "seeks a return that is 2x the return of its index (target) for a single day," "due to the compounding of daily returns, holding periods of greater than one day can result in returns that are significantly different than the target return," and "investors should monitor their holdings as frequently as daily."[8]

Like USO, the amount of income to report is reported on a K-1 and there is also a Transaction Schedule and a Sales Schedule. The lead author started out the year with 130 units and by the end of the year, he had just 20 units remaining. The K-1 told him to report $2,147 as a net short-term capital gain and to report Section 1256 income of $4,308. There is also a $100 deduction that he put on Schedule E, line 28 (see Exhibit 8).

UCO can be wonderful when oil prices go up and disastrous when they decline. The volatility of the Bloomberg WTI Crude Oil Index has averaged about 35% for the past five years. If the index increased by 30%, rather than receiving a 60% return, due to volatility the return would only be 49.5%. If instead the index decreased by 30%, the return would be -56.6%.

The fund has had good returns and disastrous returns. The worst of times was March 2020 when the fund lost 85.06%! It was down 92.86% for the year 2020. However, for the first half of 2022, the return was 92.94% and for the year ended on June 30, 2022, the return was 114.04%. Surprisingly, the annualized rate of return for the past five years ended on June 30, 2022 was -14.73%[9].

UCO can be a fantastic investment. However, the investor should use extreme caution when using such a financial instrument. If someone was sure that oil was going up, then it would be a great investment. Unfortunately, no one is correct every time!

Oil and Gas Futures Contracts

A final option for investing directly in oil is by actually buying and selling oil and gas futures contracts. The lead author bought and then sold three contracts during the year, and then bought and still held at year end a fourth futures contract.

Before the lead author could trade futures contracts, the brokerage firm encouraged him to watch several related videos. He also had to sign a disclosure form saying that he understood the risks of investing in futures contracts (see the example at https://content.etrade.com/etrade/estation/pdf/Futures_Addtional_Risk_Disclosure.pdf).

The futures contracts were set up in a margin account by his broker. He only had to put 10% cash down for each contract. Each day, the account was marked to market value, and the difference increased or decreased the margin balance in a linked non-futures brokerage account.

Exhibit 7
USO K-1 ...Part II, Item L

Beginning Capital Account	20,604
Capital Contributed during the year	6,012
Current Year net income	12,339
Other Increases and (Decreases)	0
Withdrawals and Distributions (See Total for Exhibit 6, Col 6)	(37,327)
Ending Capital Account	1,628

He bought three contracts on Dec. 20, 2021. They were a standard 1,000 barrel contract for Dec. 22 Crude, a 100 barrel contract (called a Micro Contract) for Oct. 22 Crude and a 500 barrel contract (called an EMINI Contract) for Nov. 22 Crude.

He sold these contracts on December 27 and made a profit of $7,233.46. He then bought a standard 1,000 barrel contract for Dec. 23 Crude. At the time, the price of this oil was $65.35 per barrel. By year end, the contract was only worth $64.89 per barrel, so it was marked down by $460.00 in total. At the end of the year, he received tax information from the broker that showed a net profit from the trading of futures during the year of $6,773.46 (see Exhibit 9).

He combined this gain with his USO and UCO Section 1256 income and then entered these on Form 6781, Line 1. As the lead author completed the form, as expected, the results were 40% of the gain was to be treated as a short-term capital gain and the remaining 60% treated as a long-term capital gain. This treatment is consistent with Section 1256 of the tax code (see Exhibit 10).

The Dec. 23 Crude contract had a return of 25% ([$81.10-64.89]/64.89) for the first quarter of 2022. For the year

Exhibit 8
Excerpt of K-1 Information for UCO (2021)

Line 8	Net Short-Term Capital Gain	2,147
Line 11C	Section 1256 Income	4,308
Line 13W	Other Deductions	100

Exhibit 9
1099B – Proceeds from Broker and Barter | Exchange Transactions
Regulated Futures Contracts

8 – Realized Profit on Future Contracts	7,233.46
10 – Unrealized Profit or Loss on Futures	-460.00
11 – Aggregate Profit for Lines 8 and 10	**6,773.46**

Exhibit 10
Excerpts – Form 6781

	Identification of Account	Gain
Line 1	USO K-1	12,509
	UCO K-1	4,308
	1099B: Futures Account	6,773
Line 2	**Total of all Gains**	**23,590**
Line 8 (40% of Line 2)	Short-Term Capital Gain	9,436
Line 9 (60% of Line 2)	Long-Term Capital Gain	14,154

end on March 31, 2022, the contract had a rate of return of 59.5% ([$81.10-50.84]/50.84)[10]. The lead author sold his Dec. 23 Crude contract on June 29, 2022 for $86.47 per barrel. His overall gain was $21,120.00, with -$460.00 recognized in 2021 and $21,580.00 recognized in 2022.

Oil and Gas Investment Options

In today's world, who knows what will happen to the price of oil? The Russian invasion of Ukraine changed everything overnight. Someone has several options if they would like to invest directly into oil, rather than investing in an operating oil company. Several choices were examined in this article.

These investments can be risky, but they can also help favorably diversify a portfolio. For example, the past few months have seen many stocks go down by 20-30%, yet the lead author's diversified portfolio has about broken even because of the enormous gains that he made with oil and gas investments.

The tax consequences of these investments are not so difficult that an investor should be scared away by them. Investors choosing to invest directly into oil should use caution and hope for good luck!

About the Authors

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Footnotes

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[7] ProShares. *OILK: K-1 Free Crude Oil Strategy ETF: Total Return (Quarter-Ended as of June 30, 2022)*. https://www.proshares.com/our-etfs/strategic/oilk. Accessed 26 Aug 2022.

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CPE ARTICLE: INVESTING DIRECTLY INTO OIL AND SOME OF THE TAX CONSEQUENCES: A CASE STUDY

By Arthur Young, Ph.D., CPA (Retired), Debjeet Pradhan, Ph.D., and Dennis Jones, Ed.D.

Today's CPA offers the self-study exam for readers to earn one hour of continuing professional education credit. The questions are based on technical information from the preceding article. If you score 70 or better, you will receive a certificate verifying you have earned one hour of CPE credit – granted as of the date the test arrived in the TXCPA office – in accordance with the rules of the Texas State Board of Public Accountancy (TSBPA). If you score below 70, you will receive a letter with your grade.

1. Petroleum and natural gas still account for about _____ of energy consumption in the United States.
a. 42% c. 68%
b. 52% d. 80%

2. Given the following information, what is the calculated amount to be paid to BPT? The Per Barrel Royalty was $36.19. The Average Daily Production for the quarter (which was 90 days long) was 40,000 barrels.
a. $15.0 million c. $36.4 million
b. $21.4 million d. $50.4 million

3. A client owns 1,000 units of BPT. Distributions for the year to the client were $4,000. The BPT Tax Information Booklet says that Trust Income to report = $15,000, Trust Administrative and Other Expenses = $10,000, and the Depletion Deduction = $1,700. How much net income should be reported on Schedule E?
a. $2300 c. $3300
b. $2800 d. $5500

4. ProShares K-1 Free Crude Oil Strategy ETF (OILK) is the only oil ETF that is not a commodities partnership.
a. True b. False

5. In the case study, what was the disadvantage of investing in OILK?
a. The dividends were "unqualified"
b. Dividend payments reduced the shareholders basis in the stock
c. Shareholders received a K-1 at the end of the year
d. The depletion computation was complex

6. What supplemental information is provided with a K-1 to enable a tax preparer to properly determine the gain or loss from the sale of USO and UCO partnership interests?
a. Depletion Schedule
b. Sales Schedule
c. Capital Reconciliation Schedule
d. Schedule of Distributions

7. The client is examining his Sales Schedule related to the 5000 units of USO that he sold on September 30, 2021. His Sales Proceeds were $27,000. His "Purchase Price/Initial Basis" amount was $15,000. The Cumulative Adjustment was a positive $4,600. All of the gain is to be considered short-term. What is the amount of the short-term capital gain that should be reported related to this sale?
a. $12,000 c. $7,400
b. $10,600 d. $5,400

8. To illustrate the extreme volatility of UCO (2xOil), the fund was up 114.04% for the year ended June 30, 2022. However, the fund declined by ______% in the month of March 2020.
a. 74.81 c. 92.86
b. 46.42 d. 85.06

9. On a Form 6781, Section 1256 Gains = $14,000. How will they be taxed?
a. $14,000 as long-term capital gains
b. $8,400 as short-term capital gains and $5,600 as long-term capital gains
c. $7,000 as short-term capital gains and $7,000 as long-term capital gains
d. $5,600 as short-term capital gains and $8,400 as long-term capital gains

10. A client bought a standard 1,000 barrel contract for Dec. 23 Crude on Dec. 27, 2021 for $80/barrel (Total = $80,000). By year end, this contract was only worth $74/barrel (Total = $74,000). She sold this contract on June 28, 2022 for $100/barrel (Total = $100,000). How much Section 1256 gain or loss should be reported by the client for 2021 and 2022?
a. Loss of $6,000 for 2021 and gain of $26,000 for 2022
b. No gain or loss for 2021 and gain of $20,000 for 2022
c. Gain of $6,000 for 2021 and gain of $14,000 for 2022
d. Loss of $6,000 for 2021 and gain of $20,000 for 2022

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

$533,000 gross. East Texas CPA firm. Highly regarded firm offers bilingual services to businesses and business owners. Revenues 50/50 tax work and accounting services. Strong cash flow over 50% gross income. TXN1601

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

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

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

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

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

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

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

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

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

$296,000 gross. Houston Beltway CPA firm. Motivated seller willing to assist in transition. Revenues 43% tax, 32% accounting, 25% other for year-round income. Knowledgeable staff in place ready to support. TXS1307

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

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

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

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