

# FORUM

LEADING SOURCE OF INFORMATION FOR THE EVERYDAY CPA

Houston CPA Society

Celebrating 90 Years

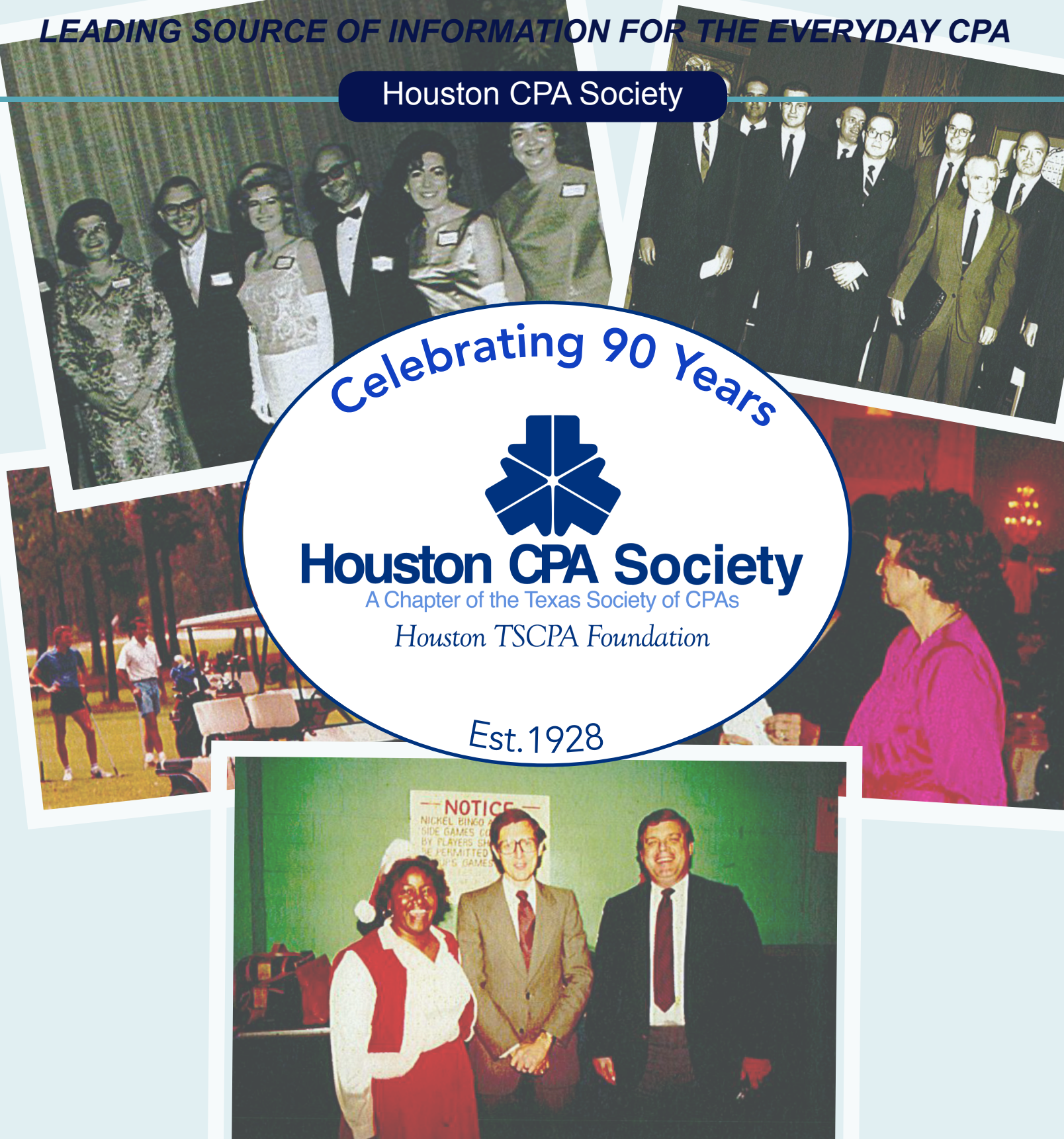


**Houston CPA Society**

*A Chapter of the Texas Society of CPAs*

*Houston TSCPA Foundation*

Est. 1928



# Message

## from the desk of \_\_\_\_\_



Dr. Mohan Kuruvilla, CPA  
*President*

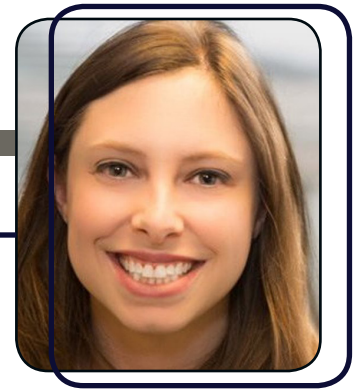
I am so honored to serve you as president of the Houston CPA Society for 2018-19 along with an outstanding executive committee. I have been involved with the Society for more than 12 years in various roles and have enjoyed the interaction with our members. I believe we have come a long way and yet, we can strive to be better. As an educator, I believe free flowing ideas and open channels of communication go a long way in adding value to an organization and its members. At the same time, what we do should be aligned with our mission and our strategic plan (referred to below). This is your organization; I welcome ideas and dialogue to provide services and benefits to members that provide value and relevance.

Speaking of change, advances in technology is disrupting business models in different segments of the economy. In the accounting profession we are seeing where processes are being redefined and services are being repositioned. The Society needs to keep up with the changing times and provide value added services to its members in order to be relevant. Two years ago, we set out on a path of having a long term strategic plan to support our mission to EDUCATE, LEAD AND INFORM. The strategic plan revolved around three pillars: Membership Growth, Membership Engagement and the Future of Learning. We also had to review committee structure and charges, so that they are better aligned with the strategic pillars. The strategic plan lead to several initiatives during the past year, some of which have been completed and some are in progress. These initiatives were based on membership surveys which were carried out to understand your needs. Those surveys clearly indicated that we are a local resource for providing continuing education, protecting and promoting the profession and helping you connect with your peers. The staff at the Society has done an excellent job in executing some of the initiatives. If you have not noticed, we launched a new website on June 1, 2018, and I welcome you to take a look at it. All this was made possible because you provided feedback. This is your organization and I would love to hear from you.

We have several events in the coming months. Please visit our new website at [www.houstoncpa.org](http://www.houstoncpa.org) to see a full list. I look forward to serving you during the year 2018-19.

# Message

## from the desk of \_\_\_\_\_



**Jennifer Poff, CAE**  
*Executive Director*

Several years ago at a Texas Society of Association Executives conference, I heard a gentleman by the name of Clint Swindall talk about Champagne Fridays. The concept was to take all the successes from the past week and toast to them on a Friday. Whether or not your company allows you to do an actual toast, he recommended pulling everyone together for a quick celebration of all successes large or small.

In the initial meetings, he said it was difficult for people to come up with something, so little things like you woke up today or had a good lunch were items that were discussed. While we as humans tend to focus more on the failures or negative aspects of our life, we have to remember to also focus on the successes. The Houston CPA Society has seen its fair share of challenges, but we have seen a lot of accomplishments along the way too and we have successfully stayed in business the last 90 years because of you – our members.

On May 22, 1928 a group of men gathered at the Houston Club to create the Houston CPA Society. Who would have thought that within a little over a year of the Houston CPA Society being created that this country would have seen the beginning of one of the most depressing eras in American history. At the time of creation, the Houston Club was located downtown in the old Chamber of Commerce building that later became the Houston Chronicle before being demolished just a few years ago. During this era, the Democratic Convention was held at Sam Houston Hall in June 1928, the first color motion picture was released and the Ford Model A was the car of choice.

Ninety years later on the exact day, Houston Mayor, Sylvester Turner joined us at Spring Accounting Expo for lunch and a cake cutting. Governor Greg Abbott issued a proclamation recognizing us for 90 years of business and the following evening we went back to the Houston Club. It has moved locations since our 1928 founding, but it still exists and we decided to celebrate at the place where it all started. With a champagne toast, we celebrated our history and longevity as an organization. Another huge success this year was the launch of our new website on May 31st. Debuting at the Awards Banquet, the new site allows for single sign-in, mobile access and the ability to register for events online in an easier way. We still have some updates we will be doing over the next few weeks, but we hope you enjoy the new site as much as we do.

We have had an exciting journey over the last 90 years and I encourage each of you to continue to be a part of that journey and become actively engaged in this journey as we continue our success for another 90 years.





## Houston CPA Society

A Chapter of the Texas Society of CPAs

Houston TSCPA Foundation

Houston CPA Society  
Houston TSCPA  
Foundation

Dr. Mohan Kuruvilla, CPA  
President

Jennifer Poff, CAE  
Executive Director

Lauren Fowlkes  
Editor

Telephone No.  
713.622.7733

Admin. Fax No.  
713.622.0522

CPE/Order Fax No.  
713.622.3327

Email Address:  
chapter@houstoncpa.org

Website:  
www.Houstoncpa.org

# Contents

## **Eleven Ways to Help Yourself Stay Sane in a Crazy Market**

By: Scott A. Bishop, MBA, CPA/PFS, CFP®

Here are 11 ways to help keep yourself from making hasty decisions that could have a long-term impact on your ability to achieve your financial goals.

5

## **Captive Insurance: Avoiding the Risks**

By: Philip Garrett Panitz, Esq., LL.M.

This article explores what captive insurance is and why the IRS often challenges it, but also why, if created correctly, captive insurance can be a powerful tool.

9

## **EU GDPR: Past the Deadline, What's next?**

By: Mark Winburn

GDPR is a data protection regulation that became enforceable effective May 25, 2018, that standardizes and modernizes data protection regulations for the current digital economy. Learn how the new regulation will affect you.

16

## **Innovation at the Houston CPA Society**

By: Donny C. Shimamoto, CPA.CITP, CGMA

Our Director of In-novation gives you a look into both new technology and the new ways of how we are advancing our profession to Houston.

23



# Eleven Ways to Help Yourself Stay Sane in a Crazy Market

By: Scott A. Bishop, MBA, CPA/PFS, CFP®



In order to keep your Financial Plan on track, you need to have a sound and disciplined investment plan. That sounds easy and logical, but as Stephen Covey said, “Common sense is not always common practice”. Keeping your cool can be hard to do when the market goes on one of its periodic roller-coaster rides. It’s useful to have strategies in place that prepare you both financially and psychologically to handle market volatility. Here are 11 ways to help keep yourself from making hasty decisions that could have a long-term impact on your ability to achieve your financial goals.

## 1. Have a game plan

“Plans are nothing...Planning is everything.”

--Dwight D. Eisenhower

Having predetermined guidelines that recognize the potential for turbulent times can help prevent emotion from dictating your decisions. For example, you might take a core-and-satellite approach, combining the use of buy-and-hold principles for the bulk of your portfolio with tactical investing based on a shorter-term market outlook. You also can use diversification to try to offset the risks of certain holdings with those of others. Diversification may not ensure a profit or guarantee against a loss, but it can help you understand and balance your risk in advance. And if you’re an active investor, a trading discipline can help you stick to a long-term strategy. For example, you might determine in advance that you will take profits when a security or index rises by a certain percentage, and buy when it has fallen by a set percentage.

## 2. Know what you own and why you own it

“Most of the time common stocks are subject to irrational and excessive price fluctuations in both directions as the consequence of the ingrained tendency of most people to speculate or gamble ... to give way to hope, fear and greed.”

--Benjamin Graham

When the market goes off the tracks, knowing why you originally made a specific investment can help you evaluate whether your reasons still hold, regardless of what the overall market is doing. Understanding how a specific holding fits in your portfolio also can help you consider whether a lower price might actually represent a buying opportunity. And if you don’t understand why a security is in your portfolio, find out. That knowledge can be particularly important when the market goes south, especially if you’re considering replacing your current holding with another investment.

## 3. Remember that everything is relative

Most of the variance in the returns of different portfolios can generally be attributed to their asset allocations. If you’ve got a well-diversified portfolio that includes multiple asset classes, it could be useful to compare its overall performance to relevant benchmarks. If you find that your investments are performing in line with those benchmarks, that realization might help you feel better about your overall strategy. Even a diversified portfolio is no guarantee that you won’t suffer losses, of course. But diversification means that just because the S&P 500 might have dropped 10% or 20% doesn’t necessarily mean

your overall portfolio is down by the same amount.

#### **4. Tell yourself that this too shall pass**

The financial markets are historically cyclical. Even if you wish you had sold at what turned out to be a market peak, or regret having sat out a buying opportunity, you may well get another chance at some point. Even if you're considering changes, a volatile market can be an inopportune time to turn your portfolio inside out. A well-thought-out asset allocation is still the basis of good investment planning.

#### **5. Be willing to learn from your mistakes**

Anyone can look good during bull markets; smart investors are produced by the inevitable rough patches. Even the best investors aren't right all the time. If an earlier choice now seems rash, sometimes the best strategy is to take a tax loss, learn from the experience, and apply the lesson to future decisions. Expert help can prepare you and your portfolio to both weather and take advantage of the market's ups and downs.

#### **6. Consider playing defense**

"Investors should remember that excitement and expenses are their enemies. And if they insist on trying to time their participation in equities, they should try to be fearful when others are greedy and greedy when others are fearful."

--Warren Buffett

During volatile periods in the stock market, many investors reexamine their allocation to such defensive sectors as consumer staples or utilities (though like all stocks, those sectors involve their own risks, and are not necessarily immune from overall market movements). Dividends also can help cushion the impact of price swings. According to Standard & Poor's, dividend income has represented roughly one-third of the monthly total return on the S&P 500 since 1926, ranging from a high of 53% during the 1940s to a low of 14% in the 1990s, when investors focused on growth.

#### **7. Stay on course by continuing to save**

Even if the value of your holdings fluctuates, regularly adding to an account designed for a long-term goal may cushion the emotional impact of market swings. If losses are offset even in part

by new savings, your bottom-line number might not be quite so discouraging.

If you're using dollar-cost averaging--investing a specific amount regularly regardless of fluctuating price levels--you may be getting a bargain by buying when prices are down. However, dollar cost averaging can't guarantee a profit or protect against a loss. Also consider your ability to continue purchases through market slumps; systematic investing doesn't work if you stop when prices are down. Finally, remember that the return and principal value of your investments will fluctuate with changes in market conditions, and shares may be worth more or less than their original cost when you sell them.

#### **8. Use cash to help manage your mind-set**

Cash can be the financial equivalent of taking deep breaths to relax. It can enhance your ability to make thoughtful decisions instead of impulsive ones. If you've established an appropriate asset allocation, you should have resources on hand to prevent having to sell stocks to meet ordinary expenses or, if you've used leverage, a margin call. Having a cash cushion coupled with a disciplined investing strategy can change your perspective on market volatility. Knowing that you're positioned to take advantage of a downturn by picking up bargains may increase your ability to be patient.

#### **9. Remember your road map**

Solid asset allocation is the basis of sound investing. One of the reasons a diversified portfolio is so important is that strong performance of some investments may help offset poor performance by others. Even with an appropriate asset allocation, some parts of a portfolio may struggle at any given time. Timing the market can be challenging under the best of circumstances; wildly volatile markets can magnify the impact of making a wrong decision just as the market is about to move in an unexpected direction, either up or down. Make sure your asset allocation is appropriate before making drastic changes.

## 10. Look in the rear-view mirror

"In this business if you're good, you're right six times out of ten. You're never going to be right nine times out of ten."

--Peter Lynch

If you're investing long term, sometimes it helps to take a look back and see how far you've come. If your portfolio is down this year, it can be easy to forget any progress you may already have made over the years. Though past performance is no guarantee of future returns, of course, the stock market's long-term direction has historically been up. With stocks, it's important to remember that having an investing strategy is only half the battle; the other half is being able to stick to it. Even if you're able to avoid losses by being out of the market, will you know when to get back in? If patience has helped you build a nest egg, it just might be useful now, too.

## 11. Take it easy

If you feel you need to make changes in your portfolio, there are ways to do so short of a total makeover. You could test the waters by redirecting a small percentage of one asset class to another. You could put any new money into investments you feel are well-positioned for the future, but leave the rest as is. You could set a stop-loss order to prevent an investment from falling below a certain level, or have an informal threshold below which you will not allow an investment to fall before selling. Even if you need or want to adjust your portfolio during a period of turmoil, those changes can--and probably should--happen in gradual steps. Taking gradual steps is one way to spread your risk over time, as well as over a variety of asset classes.

Remember that while they're sound strategies, diversification, asset allocation, and dollar cost averaging can't guarantee a profit or eliminate the possibility of loss. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

### *Disclaimer:*

*The information herein has been obtained from sources believed to be reliable, but we do not guarantee its accuracy or completeness. Neither the information nor any opinion expressed constitutes a solicitation for the purchase or sale*

*of any security. Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by STA Wealth Management, LLC), or any non-investment related content, made reference to directly or indirectly in this presentation will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this presentation serves as the receipt of, or as a substitute for, personalized investment advice from STA Wealth Management, LLC. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. STA Wealth Management, LLC is neither a law firm nor a certified public accounting firm and no portion of this article should be construed as legal or accounting advice. A copy of the STA Wealth Management, LLC's current written disclosure statement discussing our advisory services and fees is available for review upon request. ALL INFORMATION PROVIDED HEREIN IS FOR EDUCATIONAL PURPOSES ONLY – USE ONLY AT YOUR OWN RISK AND PERIL.*

*IRS CIRCULAR 230 NOTICE: To the extent that this message or any attachment concerns tax matters, it is not intended to be used and cannot be used by a taxpayer for the purpose of avoiding penalties that may be imposed by law.*



Scott Bishop MBA, CPA/PFS, CFP®  
Executive Vice President - Financial Planning,  
Partner

Scott has been working in the financial services industry since 1995. In 2014, Scott joined STA Wealth Management, LLC (STA), as the Director of Financial Planning. Prior to joining STA, Scott was a founding partner at Sound Financial Solutions, L.P. and worked with Research Financial Strategies.



# CLASSIFIEDS

**SUBLEASE SPACE AVAILABLE:**

3 offices plus storage area available for a small CPA practice in the Greenway Plaza area. Also available if interested, a share of admin staff, conference rooms and copier.

Contact Jack Horn, 713-520-1986 ext.1

**PRACTICES FOR SALE:** Gross revenues shown: SW Houston CPA \$746K; Champions Area CPA \$360K; West Houston CPA \$170K; West Houston CPA \$165K; NW Harris County Tax \$145K; Columbia-Lake Jackson-Brazoria Area Tax \$102K. Call 888-847-1040 x2 or Wade@APS.net

**BUSINESS VALUATION APPRAISALS:**

Certified reports and consulting for private companies/professional practices/partnerships (liquidity events, income/estate/gift tax, litigation. Our firm does no tax returns or audits. Genesis Partners, 713.828.1751

DPalmer@GenesisPartners.info.

**PRACTICE FOR SALE: \$260,000**

Gross. CPA Firm West of Katy. Tax and Accounting. Well established. Loyal client base. Potential for growth in growing area. Respond to CPA Firm for Sale, P.O. Box 214, Fulshear, Texas 77441-0214.

**TANGLEWOOD AREA OFFICE SPACE**

15' X 15' office space on 8th floor available for sublease. Great view of Tanglewood/Galleria/Downtown. Includes access to conference room; Wi-Fi; phone; free garage parking; bank, courtesy officer and deli in building. Call Michael 713-333-6822.

**LOOKING TO PURCHASE:**

Well rounded CPA with 19 years of experience seeks to purchase an accounting and tax practice in the Houston area. Confidential response to PurchaseCPA@gmail.com

**HEIGHTS PRIME AREA OFFICE SPACE FOR SALE**

- ± 3,759 SF building
- ± 7,500 SF land
- 8 parking spaces – more can be constructed
- Call Broker for pricing

Jeanie Gibbs

Jeanie@read-king.com

713.980.4749

# Captive Insurance: Avoiding the Risks

*The hazards are real, but so are the rewards.*

*By Philip Garrett Panitz, Esq., LL.M.*



Captive insurance entities offer a vehicle to self-insure that can be especially cost- and tax-effective. Although their implementation and legal structure are often poorly understood, their financial rewards can be very attractive. Some professionals recommend captive insurance as the greatest thing since sliced bread. Others are wary of getting their clients involved in creating a captive, knowing that the IRS closely scrutinizes them. This article explores what captive insurance is and why the IRS often challenges it, but also why, if created correctly, captive insurance can be a powerful tool. The article also describes how to structure and manage a captive to avoid IRS challenges.

## THE ALLURE TO SELF-INSURE

Why form a captive insurance company in the first place? As a basic example, assume a doctor is paying \$500,000 per year for medical malpractice insurance, an ordinary and necessary business expense. The premiums paid are fully deductible under Sec. 162. But once paid, the money is forfeited. The policy transfers the liability for claims to a third-party insurance provider, but assuming a claim-free practice, there is no recovery of the cash paid for coverage (beyond the value of a tax deduction), nor any return to the insured on the funds set aside in a reserve to pay any claims.

Contrast that to a captive insurance entity formed by the doctor to self-insure against malpractice claims. The doctor incorporates the captive insurance company, owns all its shares, and pays the premiums to his own company. His medical practice still gets the Sec. 162 tax deduction for all premiums paid, assuming the captive entity is formed properly and managed correctly. During the life of the captive entity, funds contributed to it are reserved and invested for the benefit of any potential claims. When the doctor retires, he liquidates his captive insurance company. The investments made over the years can earn substantial returns. The funds liquidated are paid out as long-term capital gain. It is obvious that, given a choice, setting up a captive insurance company appears on its face to be a no-brainer. So, what's the problem?

The first question the doctor would likely ask you as his trusted adviser would be whether his captive insurance company could afford to actually pay any major claim should one be made. He might also question whether he has the time to deal with all the regulatory compliance needed to become an insurance company.

To answer the second question first, several companies in the United States specialize solely in setting up captive insurance companies at a

moderate cost and handle all of the regulatory compliance issues for their clients.

The answer to the first question is more complicated. When a captive insurance company is set up, a portion of the premiums paid annually into the captive entity are typically then paid into a reinsurer fund that pools resources and reinsures a multitude of captives invested in the pool of funds. The reinsurance company may be collecting premiums from as many as 100 or more captive insurance companies. A reinsurer provides protection against one captive insurance company's having to pay a large loss itself. Sometimes the setup involves an enforceable pledge agreement whereby the captive keeps the funds, subject to the reinsurer's having the right to payment in the event of claims.

In the majority of cases, captive insurance entities pool their funds with like-kind entities and similar risk profiles so they will not face catastrophic losses, and can typically expect to receive the bulk of the reinsurance premiums back in a refund. This is the fundamental insurance concept of risk distribution. When claims are made, this pool of money collected from all of the captive insurance companies is used to defend the claim and pay it if it has merit.

### **THE IRS's SKEPTICISM**

The IRS has continually listed certain small captive (microcaptive) insurance arrangements on its "Dirty Dozen" list of tax-abusive transactions. The Service has taken the position that microcaptive insurance arrangements are often really a disguised device for estate planning with a large tax deduction attached to it. After all, if a doctor set up a trust and contributed money to it and, ultimately, the proceeds from the trust were liquidated to the doctor or his beneficiaries at some point in his life or at his death, there would be a tax consequence upon the liquidation but no tax deduction upon the contribution. The IRS argues that the premiums paid in captive arrangements are often not legitimate ordinary and necessary business expenses and often seeks to disallow the original tax deduction.

It should be pointed out that captive insurance companies are not exclusive to doctors or professionals. Any business can set up a captive insurance company. Any business where insurance may be a large component of expenses would generally benefit from establishing its own captive entity. In one of the

first court cases challenged by the IRS, an electronics, furniture, and appliance rental company set up its own captive insurance company. The IRS in essence argued that the arrangement created an incestuous relationship between the captive and the company setting it up, a brother-sister arrangement. The Tax Court ruled in favor of the taxpayer and against the IRS (*Rent-A-Center, Inc.*, 142 T.C. 1 (2014)). The court found that all the indicia of insurance existed. There was a shift of the risk from the rental company to its captive insurance company, and there was a distribution of that risk among all the captive insurance companies in the reinsurance pool.

The IRS challenged the concept again in *Securitas Holdings, Inc.*, T.C. Memo. 2014-225. Again the IRS lost. The elements of risk shifting and risk distribution were present. Since the crucial elements existed — namely, that there was a real risk of loss from claims, that risk had been shifted from the insured company to the captive, and the captive was adequately capitalized and the arrangement otherwise constituted insurance in the commonly accepted sense — the Tax Court allowed the transaction and the deductibility of the premiums.

### **AVRAHAMI AND LESSONS LEARNED**

Despite its losses in these cases involving large captive insurance arrangements, the IRS has not given up its attack on captive insurance arrangements in general and microcaptive insurance arrangements in particular. Part of the reason for its continued unwillingness to accept captive insurance companies as a legitimate business was the potential for taxpayers to abuse the structure. A Tax Court case last year highlights this potential and why the IRS remains skeptical of these types of arrangements. The case, *Avrahami*, 149 T.C. No. 7 (2017), is a clear road map of what not to do in setting up a captive insurance arrangement.

In *Avrahami*, the taxpayers, after consulting with a lawyer who was a promoter of microcaptive insurance arrangements, created their own microcaptive insurance company pursuant to Sec. 831(b) (microcaptives are discussed later in this article). The evidence undermined the taxpayers' claims that their microcaptive insurance company arrangement was legitimate. For example, the taxpayers' premiums went from approximately \$150,000 per year paid to independent insurance companies to



almost \$1.2 million per year to their own microcaptive. They did not cancel their preexisting insurance.

The taxpayers also created another real estate company that borrowed almost all of the money paid in premiums to the microcaptive. They then borrowed all the money paid to the real estate company themselves. The court observed that this appeared to be a “circular flow of funds.” In addition, the borrowing back of the funds also created a situation in which, if claims had been made against the policies, the microcaptive would have been undercapitalized.

In addition, the actuary who determined the amounts of risk to set the premiums appeared to the court to be unable to justify the premiums, and the premiums appeared to have no relation to industry standards pertaining to a relationship between premiums and risk. It probably didn't help the court's perception that the actuary that set the premiums for the taxpayers' policies worked almost exclusively for the promoter who marketed the microcaptive arrangement to the taxpayers and that the premiums for the taxpayers' company magically seemed to be just under the Sec. 831(b) \$1.2 million ceiling then in effect for treatment as a small (“micro”) insurance company.

Testimony in the case indicated that, as the policies were written, there would be almost no possibility of any legitimate claims being made against them, and no claims were actually made before the IRS began its audit of the taxpayers. After the IRS informed the taxpayers of its proposed audit changes, a sudden slew of claims were made against the microcaptive, with all of them being paid, even though they were not timely under the policy and by its terms should have been turned down.

The Tax Court ruled that the captive's election to be a Sec. 831(b) microcaptive was invalid. Because the company created was not really an insurance company, there was no risk shifting or risk distribution, and the arrangement would not meet acceptable definitions and standards of how insurance companies operate.

As Avrahami shows, this area is ripe for abuse. But that does not mean that a legitimate microcaptive insurance company that is not set up and used for

tax-avoidance purposes cannot still be a valuable vehicle. Following are some of the lessons to be learned from Avrahami, as well as Notice 2016-66, in which the IRS specifically outlined what it perceives to be evidence of tax-avoidance objectives of microcaptive insurance companies and designated certain arrangements involving them as transactions of interest under Regs. Sec. 1.6011-4(b).

First, if one of the legitimate goals of setting up a captive insurance company is to combat rising premium costs, then premiums to the captive insurance company should go down compared with those of previous commercial coverage, not up. Also, the previous insurance should no longer be needed and should be canceled. If the policies written by the captive include potential additional coverages that the taxpayer did not have before or could not afford before forming its own captive, the premiums could go up somewhat, but there should be specific written documentation of why those additional coverages are necessary. If a doctor typically pays, as in the example above, \$500,000 in annual premiums and upon setting up his own captive pays \$2 million in premiums, is it really plausible that the doctor set up the captive with the legitimate goal of cutting his insurance costs? The IRS certainly has a stronger argument that once the captive was formed, the estate planning element became more prominent.

The IRS also focuses on how the premiums were set in the first place. If your client was paying premiums to a commercial insurer, it would determine the premium using actuarial and risk calculations. Likewise, a captive insurance company must hire legitimate actuarial and risk factoring companies to set the premium structure for it to be justifiable. This is another line of IRS attack: the legitimacy of the company setting the premiums and the allocations of the premiums to various risk factors. The actuarial company used should be able to justify the premiums it determined by comparison with industry standards.

The IRS is challenging the arrangement by a doctor, in *Goel*, T.C. No. 028013-14, petition filed Nov. 24, 2014, for a large percentage of the allocation of the premiums paid to his captive attributed to a potential terrorist attack. However, the doctor is arguing that if his patients' records were subject to being lost in a cyberattack, their lives could be at stake. Besides, the premium was set by a legitimate actuarial company and not by him. This case (in which the author of this article is petitioner's counsel) is currently pending trial in the Tax Court. Unlike *Avrahami*, the doctor in *Goel* is arguing that he had legitimate concerns regarding computer hacking and ransomware of patient records, falling under the umbrella of terrorist threats.

### **MICROCAPTIVES AND NOTICE 2016-66**

Under Sec. 831(b), a small non-life insurance company can elect to be taxed only on taxable investment income. This provision was designed to allow a small, self-owned (microcaptive) insurance company to avoid taxation on premium income. To qualify to elect this alternative tax treatment, the insurance company's net written premiums (or, if greater, direct written premiums) can't exceed \$2.2 million per year, adjusted for inflation after 2016 (\$1.2 million for tax years before 2016), and must meet certain diversification requirements.

In Notice 2016-66, the IRS laid out the various factors that indicate that a microcaptive insurance arrangement has tax-avoidance or tax-evasion purposes. If the IRS finds that this is the case, it will disallow the Sec. 162 ordinary and necessary business expense for the payment of the premium to the captive insurance company. Negligence penalties could also apply.

### **CONTRACT COVERAGE**

In Section 1.02(c) of Notice 2016-66, the IRS identified traits of abusive microcaptive contract coverage. The first is that the coverage involves an implausible risk. In its Dirty Dozen news releases IR-2015-19 and IR-2016-25, the IRS referred to these as "esoteric, implausible risks." While it is a question of fact whether a risk is implausible, the IRS, unsurprisingly, takes a narrow view of what risks are plausible. This is demonstrated in *Goel*, where despite the

increasing prevalence of cyberattacks by terrorist organizations, the IRS is arguing that the risk of such an attack against a doctor's medical practice is an implausible risk. Taxpayers must be prepared to offer credible evidence that an unusual covered risk is not an implausible risk for their business.

Insuring against a cyberattack as part of the cost of premiums, however, is not far-fetched. Today, such attacks and malware that include ransomware are becoming part of the lexicon. Businesses can be wiped out if their computer networks are attacked. An attack such as this subjects a company not only to potential lawsuits from customers but also to a drop in future revenue, as fear of providing sensitive information to the company results in a loss of ongoing business opportunities. To combat the IRS perception, companies need to document the financially catastrophic consequences of a cyberattack. This would include a report to the insurer documenting potential damage to the insured's business if its data were breached, if its confidential information were stolen, or if its computer network were shut down.

The second listed feature of abusive coverage is that which does not match a business need or risk of the insured. A butcher paying \$5,000 in annual insurance premiums would likely insure against a customer's getting some type of food poisoning. It is unlikely, however, that an additional premium of \$10,000 per year to a captive insurance company for keeping the butcher's computers from being hacked would pass IRS muster. This is because there is no real logical basis that such a business would be significantly and irrevocably damaged should its computers go down; its relationship with meat vendors would not be damaged, and even though it might accept customers' credit cards, it wouldn't keep them on its database. There should be a correlation between the potential risk and the calculation of the premium.

On the other hand, a health care organization with confidential patient information could be required to maintain tremendous risk insurance coverage to defray the cost of a loss that would almost certainly arise if its records were compromised. Again, the solution would be for professionals representing the insured to prepare a detailed report of the risks and the potentially catastrophic effect of the consequences. This should be provided to the insurance

company and its actuarial component to document the reasonable relationship between the setting of the premium and the actual risks being insured.

The third IRS objection listed in the notice is that the description of the scope of the coverage in the contract appears vague, ambiguous, or illusory. The IRS perceives this abuse when it audits a captive insurance company and finds the insurance contract so poorly written that the actual coverage is not spelled out. Insurance companies, captives included, should be very specific as to what they are covering. The rule of thumb should be if a major commercial insurer wouldn't structure the insurance in a certain way, the captive insurance company shouldn't, either.

Most actuarial companies specifically break down the origin of how they compute the premium. The total premium is made up of subpremiums for all the risks that it covers. Without a doubt, that delineation should be clearly spelled out in the insurance contract. Each subpremium should be consistent and justified by an industry standard. This was one of the problems in Avrahami; the premiums had no basis in any industry standard, and the court surmised that the premiums were set more to meet the small-insurer ceiling of Sec. 831(b) than to cover any particular risk.

The IRS's fourth objection is to coverage that duplicates coverage provided to the insured by an unrelated, commercial insurance company, where the policy with the commercial insurer has a far smaller premium. An example of this perceived abuse occurs when the insured is paying a commercial insurer a set premium, then sets up a captive insurance company, pays it higher premiums, and doesn't cancel its existing insurance. The motivation of the insured is put into question if the total premiums rise substantially and the original insurance is still maintained. In such cases, the IRS may contend these new premiums to the captive are not ordinary or necessary. To avoid this problem, taxpayers need to be instructed that a captive's premiums should be consistent with those for insurance on the open marketplace, and that there is no need to keep existing insurance in place.

## **AMOUNTS PAID TO, MANAGEMENT OF, AND CAPITALIZATION OF A CAPTIVE**

The IRS also highlights in Notice 2016-66 arrangements in which the amounts paid to the captive might indicate an abusive microcaptive arrangement. These include, as discussed above, when the premiums significantly exceed those for coverage offered by other unrelated commercial insurance companies, when the premiums are not made consistently, or when there is no actuarial analysis in setting the premiums. The management of the captive may also raise questions, and the IRS will also examine whether the captive complies with the laws of the jurisdiction where it is incorporated, issues policies or binders in a timely manner, has clear claims procedures consistent with insurance industry standards, and the insured files claims for loss events.

The IRS also scrutinizes the company's capital, including, for example, whether it has sufficient capital to assume the risk of claims, whether the capital consists of illiquid assets not usually held by insurance companies, and whether the company has made loans or transferred the capital back to the insured (as occurred in Avrahami, described above). In an attempt to quantify undercapitalization of a microcaptive, the IRS states in Section 2.01 of the notice that if the taxpayers or related persons own at least 20% of the microcaptive, and claims made against the captive are less than 70% of the premiums paid in, or less than 70% of the dividends paid to the owners, or the captive has made some financing arrangement with the owners that didn't result in taxable income (e.g., a loan to an owner), then this is a "transaction of interest."

## **STANDARD INDUSTRY PRACTICE**

Some of the other issues that the IRS points to in Notice 2016-66 can be characterized as standard industry practice for insurance in general. For example, forming captives that do not have legitimate underwriting or actuarial analysis, that collect premiums in a haphazard manner and do not enforce collection when the insured fails to pay, or that show no relationship between the premiums and what could be obtained in the open marketplace clearly indicates that the real purpose of forming the captive is estate planning or investment. To overcome these perceived



faults, captives should set premiums that are reasonable, competitive, and, of course, based on real actuarial and underwriting standards. Then the insured should actually pay them regularly.

### REWARDS FOR CORRECT FORMATION AND OPERATION

When advising clients about setting up a captive insurance company, a trusted adviser should stress that if a captive is set up correctly, it is possible for the insured to lower premiums and, ultimately, upon the dissolution of the business, get back most of the amounts paid to the captive — a great incentive that doesn't happen with the purchase of commercial insurance. Also, the amounts paid into a captive can be invested in conservative, delineated investments that are regulated under insurance industry requirements. Absent payment of claims, the amounts contributed as premiums have an opportunity to grow. Plus, if an election is made under Sec. 831(b), the microinsurance company won't have to pay tax on the premiums, just on the investment income.

However, it should also be stressed that owning a captive insurance company is not a license to treat it as a personal piggy bank. The company will use a significant amount of the premiums paid to reinsure in an insurance pool to cover risks, the company must be adequately capitalized, and the premiums must be set to conform with industry standards for the risk being insured. The taxpayers should not borrow the premiums back from the captive, they should cancel their existing insurance, and they should turn over management of the captive to experienced professionals who manage captives, much as pension plan administrators do for Sec. 401(k) plans and IRAs. If they comply with these logical rules, taxpayers get the benefit of both a present tax deduction and, potentially, a future return of their premiums as well as any growth.

**This article originally appeared in the Journal of Accountancy, June 2, 2018. ©2018 Association of International Certified Professional Accountants. All rights reserved. Reprinted by permission.**

# OPTIONS TO LIVE THE WAY YOU WANT

*Even if the way you want  
is creating your own path.*



Regardless of what financial freedom means to you, Trustmark's experienced wealth management team can put you on the right path. From retirement planning to personal trust, one of our professionals can work with you to develop the right strategy for the accumulation, preservation and transfer of wealth.

945 Bunker Hill, Suite 200 | Houston, TX | 713.827.3741

[trustmark.com](http://trustmark.com)



# CELEBRATING OUR 90TH ANNIVERSARY

On May 22nd, we celebrated our 90th anniversary with a cake cutting celebration at Spring Accounting Expo. Houston's Mayor, Sylvester Turner, was in attendance to congratulate us. The following evening, we met at the Houston Club for a reception continuing the celebration in the place where it all started. For more pictures please visit our Facebook page.





# CONGRATULATIONS TO THE AWARD WINNERS

Congrats on their hard work and  
dedication to the profession



Listed from left to right  
Top Row

## **CPE Event of the Year - Personal Financial Planning Conference + Medicare Workshops**

### **Outstanding Speaker**

M. Marc Schlesinger, CPA

### **Outstanding CPA of the Year**

Andrew Hardwick

### **Outstanding Committee - CPAs Helping Schools**

Rubik Yeriazarian, CPA, CFE

Bradley S. Elgin, CPA

Bottom Row

### **Rookie of the Year**

Ryan R. Firth, CPA

### **Outstanding Student Member**

Kateryna Kruk

### **True Grit**

Charlotte M. Jungen, CPA, CFP

### **Outstanding Young CPA**

Laura Mardis, CPA

### **Stan and Margaret Voelkel Award**

Kelley Lau, CPA

### **Outstanding Committee - CPAs Helping Schools**

Carol M. Hahn, CPA

### **Distinguished Public Service**

Seleha Khumawala, PhD, CPA

### **Outstanding Committee Member**

Nina D. Perez, CPA

### **Presidential Citation**

Lisa A. Pitts, CPA

*2017-18 Board President Shelia Enriquez*

### **Outstanding Committee Chair**

Katherine R. Rodriguez, CPA

NOT PICTURED

### **Special Recognition**

Austin C. Carlson, CPA, JD

### **Distinguished Service to the Profession**

William R. Frazer, CPA

## **CPE Event of the Year - Personal Financial Planning Conference + Medicare Workshops**

Howard Lau, CPA

### **Outstanding Committee Member**

Anthony R. Love, CPA

### **Presidential Citation**

Kathy M. Ploch, CPA

### **Significant Contribution by a Member in Education**

Danielle Supkis Cheek, CPA, CFE, CVA



# CONGRATULATIONS TO THE 2018 SCHOLARSHIP RECIPIENTS



**TSCPA's Rising Stars Awards**  
 Su Wah  
 Stephanie McCasland (not pictured)

**HCPAS 2018 Scholarship Recipients**  
 Michelle Wang  
 Olaoluwa Akinwande



**HCPAS 2018 Scholarship Recipients**

Brielle Eskridge  
 Demi Janak



**HCPAS 2018 Scholarship Recipients**

Harees Samad  
 Andrew Felton  
 Virginia Van der Pool  
 Olga Simon  
 Dongyu Zhang  
 Jack Graham, IV

*Not Pictured*

Karhen Jimenez  
 Anthony Rocha  
 Linda Wu



## TSCPA's Accounting Excellence Awards

Demi Janak  
Antoinette Williams  
Gaye Allgood  
Matthew Brossart

Not pictured

Chris Gervasio  
Betty Malagon  
Ashanti Phelps

# The future of accounting starts with Xero

Xero brings the technology, tools and teams to boost your practice efficiency. Now enjoy the time-saving, industry-specific solutions to better service your clients.



xero.com



**Jay Kimelman**  
the digital CPA



We'll help you find the  
**OPPORTUNITY**  
that's right for you.

## Houston Career Center

Employers and recruiters can access the most qualified talent pool with relevant work experience to fulfill staffing needs. Job candidates can access the most successful and rewarding companies to invest their skills and talents in.

**Recruiters:** Target your recruiting and reach qualified candidates quickly and easily.

**Job Candidates:** Post your resume to all employers, even confidentially and get job alerts sent to your inbox.

Simply complete our online registration form and start posting jobs or searching for jobs today!

**Visit today: [www.careers.houstoncpa.org](http://www.careers.houstoncpa.org)**



# EU GDPR: Past the Deadline, What's next?

By: Mark Winburn, CISA CITP CPA CRISC



## What is GDPR?

GDPR is a data protection regulation that became enforceable effective May 25, 2018, that standardizes and modernizes data protection regulations for the current digital economy. It imposes new rules on companies, government agencies, non-profits, and other organizations that offer goods and services to people in the European Union (EU), or that collect and analyze data tied to EU residents. It applies regardless of location. Like the credit card commercial from years ago – it goes wherever your data wants to be (i.e., goes where the personally identifiable EU resident data goes).

Past the deadline for possible enforcement, so now what?

Recent surveys indicate that most companies are not ready for the data security and privacy regulation and many don't expect to be fully compliant by year end. After the deadline, enforcement actions are possible. Penalties are expected to be applied per Article 83 – which allows EU supervisory authorities to impose administrative fines and calls for fines in each case to be “effective, proportionate and dissuasive”.

GDPR provides for (1) fines of up to 4% of an undertaking's global annual revenue for the preceding fiscal year, or €20,000,000

(whichever is higher) can be levied for breaches of key data processing principles (such as lawfulness, fairness, transparency, purpose limitation, data minimization, storage limitation, integrity, confidentiality and accountability) or of data subjects' rights (such as the right to be informed, right of access, right to rectification or the “right to be forgotten”) or for transferring personal data outside the EU without a valid ground or derogation; and (2) fines of up to 2% of an undertaking's global annual revenue for the preceding fiscal year, or €10,000,000 (whichever is higher) can be levied for other breaches of the GDPR, including those concerning the principles of data protection “by design” and “by default”, the failure to designate a data protection officer, the failure to take appropriate security measures or the failure to duly notify data breaches.

Some recently published Article 29 guidance provides insight for those considering compliance priorities:

- “Undertaking” should be construed broadly as an economic unit engaging in the same commercial/ economic activities, which may include the parent company and all relevant subsidiaries.

- A fine may not always be appropriate. A reprimand may be issued instead of a fine when a fine would



constitutes a disproportionate burden to a natural person: where the breach is a minor infringement; and where the infringer adheres to a code of conduct, and the regulator considers that enforcement under the code will be sufficiently effective or proportionate.

- Regulators consider several factors when assessing the nature, gravity and duration of the infringement:

\_\_\_\_\_The number of individuals affected relative to the total pool;

\_\_\_\_\_The purpose of the processing (and whether use was compatible the specified purpose);

\_\_\_\_\_The level of damage suffered by affected individuals; and

\_\_\_\_\_The duration of the processing; as a longer duration may indicate willful misconduct or failure to take appropriate preventative measures.

- Regulators should take into account the degree of responsibility of the controller or processor. The degree of responsibility will require an assessment of, for example, whether technical, organizational and security measures were implemented by the organization (by design and by default).

- Notification to the supervisory authority. Failure to notify may be considered by a supervisory authority as an aggravating circumstance meriting a more serious penalty.

- Failure to follow the advice of your data protection officer may constitute an aggravating factor, as it could show that a breach was intentional. Other indicators include amending records which include personal data to give a misleading impression about targets being met, or trading personal data for marketing purposes without regard to data subjects' consent.

- Other aggravating factors include not dedicating enough resources; previous infringements, where this indicates a general disregard for the data protection rules; economic gain obtained by from the breach.

- Actions taken to mitigate impact on individuals may reduce the fine, although guidance emphasizes that no credit will be given to organizations for simply complying with GDPR obligations. For example, taking timely action which prevents breach from continuing or expanding.

If we haven't started, what should we do?

GDPR lenience is more likely, in the short term, for companies that can show a good effort.

Educating the workforce, reviewing and updating privacy policies, ensuring customer notices are adequate, as well as defining the personal data collected and establishing a legal basis for data collection are key steps. Consider your organizations level of exposure to EU resident data (current and future). The business will be in a better position if able to demonstrate awareness and improvement efforts. Besides avoiding fines, is there a GDPR value proposition?

Some organizations view GDPR as an opportunity to improve policies and procedures designed to protect personal and private data and establish more credibility and trust with the customers. According to a Cap Gemini survey - Individuals are more willing to engage with, and be more loyal to, organizations when confident they can and will protect the data. When convinced, individuals have increased spend with an organization by as much as 24 percent. But if consumers are unhappy with organizations' privacy performance, over 70 percent said they are prepared to decrease spend, stop doing business with the organization, and warn their contacts.



Mark Winburn, CISA CITP CPA CRISC  
Senior Manager - IT Risk Advisory at Briggs & Veselka Co.

Years of progressive experience in auditing, analytical, and risk management roles with leading accounting and industry firms. Certified knowledge of technology-risk, auditing, business process and internal controls.

Certifications: CPA.CITP, CGMA, CISA, CRISC  
Specialties: IT Internal Audit and Advisory Services, Technology Risk Management, Project Planning and Scheduling, Issue Tracking and Resolution, Sarbanes Oxley Compliance, Cybersecurity, Disaster Recovery and Business Continuity, Data Privacy, Credit Card Security Compliance, Monitoring and Data Analytics.

---

**Sources:**

<https://ico.org.uk/for-organisations/guide-to-the-general-data-protection-regulation-gdpr>  
<https://www.clearycyberwatch.com/2017/12/administrative-fines-gdpr/>

**Sources:**

<https://ico.org.uk/for-organisations/guide-to-the-general-data-protection-regulation-gdpr>  
<https://www.clearycyberwatch.com/2017/12/administrative-fines-gdpr/>

# Nonprofit Assistance Program

## We Need Your Experience!

One of Houston CPA Society's charges is to assist not-for-profit organizations that need the assistance of a CPA, but are unable to afford it. We match volunteer CPAs with organizations on a SINGLE PROJECT BASIS only, not for on-going services such as routine accounting. Volunteer CPAs are not asked to provide annual audits. We need YOU to be a volunteer and experience the satisfaction of helping a worthwhile cause!

By signing up to be a part of the program, we will add you to our volunteer pool and may call on you if a need arises in an area you have indicated. You may decline to accept any request.

**Yes...I am willing to participate in the Community Services Volunteer Program, if needed, and may be able to provide assistance in the area(s) indicated below:**

**ACE:**

- ☐ Educate young professionals on career development and financial literacy

**TAX:**

- ☐ Application for exempt status under 501(c)(3) (Preparation of Form 1023)
- ☐ Preparation of tax returns and/or annual 990s

**ACCOUNTING/FINANCIAL REPORTING:**

- ☐ Accounting policies and procedures
- ☐ Financial reporting policies and procedures
- ☐ General ledger set up consulting
- ☐ Assist with the preparation of client-prepared audit schedules

**OTHER AREAS:**

- ☐ Silent Auction Management Assistance
- ☐ Please specify

---

---

Name \_\_\_\_\_ Employer \_\_\_\_\_

Address \_\_\_\_\_ City \_\_\_\_\_ Zip \_\_\_\_\_

Daytime Phone: \_\_\_\_\_ Email: \_\_\_\_\_

Do you have prior experience with nonprofits? (Experience is not required to be a part of this program.) If so, please describe: \_\_\_\_\_

Do you have restrictions or strong preferences on the geographic area of Houston where you will volunteer?

Do you have restrictions or strong preferences on the type of charity you will volunteer for?

---

**Please forward this completed form to:**

**chapter@houstoncpa.org**

**777 Post Oak Boulevard, Suite 500, Houston, TX 77056-3212, or FAX (713) 622-0522.**

# Innovation at the Houston CPA Society

by Donny C. Shimamoto, CPA.CITP, CGMA



Education ▾

Membership ▾

For the Public ▾

Resources ▾



[Become A Member](#)

[About](#) | [Career Center](#) | [Contribute](#) | [Login](#)

## Welcome to the Houston CPA Society

The Houston CPA Society has been a trusted professional community for CPAs in the greater Houston area for nearly a century. With about 8,000 members from a 13-county area, we are the largest CPA chapter in Texas. The Houston CPA Society has a reputation for action, integrity and competence as the result of the strong leadership of our volunteers.

[About Us](#)

Aloha everyone! I was honored to join the Chapter this past March as the part-time Director of Innovation. I split my time between Hawaii and Houston, thus the part-time, and I'm excited to be working with the Chapter to bring both new technology and new ways of advancing our profession to Houston.

Jennifer mentioned in her letter that the Chapter has a new website, but this is just the first publicly visible change that we've launched for the Chapter. I actually started working for the Chapter as an outsourced Chief Innovation Officer in June 2017 and in the last fiscal year, we've done quite a bit to completely revamp the technology infrastructure for the Chapter. Some highlights of the last year include a migration to Office 365, migration from the Chapter's much outdated association management system (AMS), implementation of an internal project and task management system, and implementation of a customer relationship management (CRM) system. Those of you interacting with the Chapter via one of the "generic" emails (e.g. [cpamail@houstoncpa.org](mailto:cpamail@houstoncpa.org)) have actually be using the CRM system without even knowing it, as it serves as a

central hub for you to contact us and for us to coordinate our responses and tasks to support you.

In the coming fiscal year, we've got some additional innovations planned that I know you will all like. The new website is built on top of the TSCPA's AMS and you will see some familiar looking screens as you register for courses and update your profile. This is a conscious effort by the TSCPA and our chapter to bring you a unified user experience—meaning that you have one place to up-date and one place to see all of your interactions with both the state and chapter. We will continue to improve this and I'd love your feedback as to what you like or how we can further improve your experience.

Those of you participating in our conference planning committees are also starting to experience some of the innovations that Jennifer and I are introducing to our conference planning processes and formats. Jennifer has been sharing some of the ideas that they found successful in Georgia, and I am sharing some of the approaches that has been used by the AICPA and state societies to both help streamline

conference planning and making the conferences a more immersive attendee experience. Rene has also been bringing some new flair and style to the facilities, meals, and program presentation. We will be extending the use of the project management system to the conference committees next, which should help with committee task management and provide a central hub of information for everyone involved in help plan and execute the events.

One of the last in-office technology elements is our Dynamics GP accounting system. Kristie and I will be working on moving this last piece into the cloud in the coming months and then our Chapter will then be operating off a “pure cloud” infrastructure. Yes, you read that right, no servers in the office.

And last, but not least, we are looking into ways to host webinars and offer live streaming to our conferences, as well as experimenting with new “blended learning” program formats where part of the course is online and part of the course is in-person.

I hope reading this that you are getting as excited as I am to be actually working on making all of this happen! If you have any feedback on our innovations or have other ideas that you would like us to consider, please don’t hesitate to send them my way via email at [dshimamoto@houstoncpa.org](mailto:dshimamoto@houstoncpa.org).



Donny C. Shimamoto, CPA.CITP, CGMA, is the founder and managing director of IntrapriseTechKnowlogies LLC, a specialized CPA firm dedicated to helping small businesses and middle market organizations leverage strategic technologies, proactively manage their business and technical risks, and enable balanced organizational growth and development. Donny also works with larger organizations as a trusted business advisor, facilitating organizational strategic planning and execution, IT governance and planning, enterprise architecture, information architecture and assurance, business process improvement, and business intelligence initiatives.

Call or visit [www.APS.net](http://www.APS.net) Today for a free and confidential valuation of your practice.



**IMAGINE...  
A CHAIR  
WITHOUT  
A DESK**



**DELIVERING RESULTS -  
ONE PRACTICE AT A TIME**



**ACCOUNTING  
PRACTICE SALES**  
THE GLOBAL LEADER IN PRACTICE SALES

**Wade Holmes** [Wade@APS.net](mailto:Wade@APS.net)

**888-847-1040**





# A glimpse into the history of our members and past leadership.





HOUSTON CHAPTER  
of the  
TEXAS SOCIETY OF  
CERTIFIED  
PUBLIC ACCOUNTANTS



PROGRAM  
AND  
ROSTER OF MEMBERS  
1952 - 1953

# 1952/53

## Course Schedule

### TEXAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

DECEMBER 15, 1952



JOINT MEETING WITH NATIONAL  
ASSOCIATION OF COST ACCOUNT-  
ANTS, CONTROLLERS INSTITUTE OF  
AMERICA, AND THE INSTITUTE OF  
INTERNAL AUDITORS

### "TAXATION OF CARRIED WORKING INTERESTS"

MARVIN K. COLLIE  
*Partner, Vinson, Elkins & Weems  
Houston*

Marvin K. Collie is a recognized tax practitioner and is a partner in charge of the Tax Department of Vinson, Elkins & Weems. He attended Washington and Lee University and graduated from The University of Texas Law School.

Mr. Collie is immediate past Chairman of the Tax Section of the State Bar of Texas, immediate past Chairman of the Federal Tax Committee of the Trust Section of the American Bar Association, former President of Business & Estate Planning Council of Houston, and Trust Counsel for the City National Bank of Houston, in addition to being active in church and civic affairs.

Meeting to be Held at Ben Milam Hotel

Fellowship .....	6:00 P.M.
Dinner .....	6:30 P.M.

HOUSTON CHAPTER  
of the  
TEXAS SOCIETY OF  
CERTIFIED  
PUBLIC ACCOUNTANTS



Committee Appointments  
and  
Roster of Members  
1961-1962

# 1961-1962 Meeting Schedule

HOUSTON CHAPTER  
OF THE  
TEXAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS  
MEETINGS

THE HOUSTON CLUB

Tax Institute Banquet.....	October 2, 1961
Regular Chapter Meetings.....	September 13, 1961
	November 6, 1961
	January 17, 1962
(Program and Speakers will be published in Newsletters)	February 21, 1962
	March 17, 1962
	April 18, 1962
	May 16, 1962
Dinner Dance—Semi-Formal—Houston Club—	October 13, 1961
Texas Society Annual Meeting, Houston, Texas,	June 17-19, 1962
Seminars—Information to be published in Newsletters	

TIME SCHEDULE FOR REGULAR CHAPTER MEETINGS

Professional Development Sessions.....	4:15 P.M.
(See scheduled programs on Page 2)	
Social Meetings—Refreshments .....	5:15 P.M.
Dinner .....	6:30 P.M.
Program .....	7:30 P.M.
Adjournment .....	8:30 P.M.

CHAPTER OFFICE  
315 Melrose Building  
CA 5-3086

Administrative Secretary.....Mrs. Ruth Ann Krohn

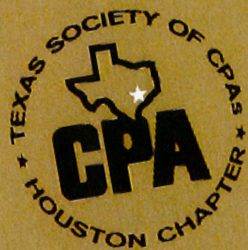
ANNUAL MEETINGS

The Seventy-Fourth Annual Meeting of the American Institute of Certified Public Accountants will be held October 29-November 1, 1961, in Chicago, Illinois.

The Southern States Accounting Conference will be held June 10-13, 1962, at the Robert Meyer Hotel, Jacksonville, Florida.

The Forty-Seventh Annual Meeting of the Texas Society of Certified Public Accountants will be held, as listed above, June 17-19, 1962, in Houston, Texas.





Houston Chapter  
Texas Society Of CPAs  
1979/1980  
Directory of Members

# 1979/80 Course Schedule

Following is a list of all TSCPA sponsored courses for 1979. Course size is limited, requiring advance registration accompanied by the course fee. To register, use the form attached to the Texas CPE Spotlight (mailed to you monthly from the TSCPA office) or send a letter to the CPE Department (1111 West Mockingbird Lane, Suite 201, Dallas, Texas 75247). Confirmed registrations can be cancelled up to 5 days prior to the program. Cancellations within 5 days of the program are subject to a 10 per cent service charge. If advance course material was mailed, it must be returned to TSCPA within 30 days or the registration fee will be forfeited. Questions concerning any of the programs listed should be directed to the TSCPA CPE Department (214/630-8900).

DATE	COURSE #	TITLE	CPE COST	HOURS
02/19-21	8204	Leadership Skills for the CPA in Industry	\$315	24
03/19-20	8220	Petroleum Accounting — Level I	\$250	16
03/21-22	8221	Petroleum Accounting — Level II	\$250	16
03/26-28	8240	Basic Insurance Accounting — Property and Liability	\$350	24
03/29-30	8241	Intermediate Insurance Accounting — Property and Liability	\$250	16
04/19-20	8224	Revenue Accounting	\$250	16
04/30	4208	Discussion Leader Training	—	8
05/04	8227	Current Developments in Oil and Gas Accounting SEC Reporting Requirements	\$150	8
05/07-08	8228	Joint Interest Operations	\$250	16
05/07-09	8244	Basic Life Insurance Accounting	\$350	24
05/09-10	8231	Audit of Joint Interest	\$250	16
05/10-11	8245	Intermediate Life Insurance Accounting	\$250	16
05/10-11	8232	Taxation and Financial Reporting in the Mining Industry	\$250	16
<b>05/14-15</b>	<b>3117</b>	<b>ACCOUNTING AND AUDITING SYMPOSIUM</b>	<b>two days \$ 90 one day \$ 50</b>	<b>16 8</b>
05/16	4210	Texas School District Auditing	\$ 65	8
05/17	1253	Accountants' Fees	\$ 80	8
05/21-22	1266	Effective Writing	\$160	16
05/23	8233	Time Management for Professionals	\$150	8
05/24	8234	How to Conduct an Effective Meeting	\$150	8
<b>05/24</b>	<b>2049</b>	<b>COMPILATION AND REVIEW OF FINANCIAL STATEMENTS</b>	<b>\$ 80</b>	<b>8</b>



WHAT'S BETTER THAN CALLING  
ANY TIME YOU NEED ADVICE  
ABOUT PRACTICE SUPPORT AND  
RISK MANAGEMENT?



## REACHING KNOWLEDGEABLE EXPERTS.

CAMICO® policyholders know that when they call us, they'll speak directly with in-house CPAs, JDs and other experts. We have dedicated hotlines for loss prevention, tax, and accounting and auditing issues. You can **call as often as you need and consult with experienced specialists — all free of charge.** No one knows more about the profession, because we provide **Professional Liability Insurance and risk management for CPAs only** — it's all we've done for more than 31 years.

### Connect with CAMICO.

Sign up for CAMICO Connection — our monthly e-newsletter with risk management tips and articles.

[www.camico.com/camico-connection](http://www.camico.com/camico-connection)



**CAMICO®**

Accountants Professional Liability Insurance may be underwritten by CAMICO Mutual Insurance Company or through CAMICO Insurance Services by one or more insurance company subsidiaries of W. R. Berkley Corporation. Not all products and services are available in every jurisdiction, and the precise coverage afforded by any insurer is subject to the actual terms and conditions of the policies as issued. ©CAMICO Services, Inc., dba CAMICO Insurance Services. All Rights Reserved.

CAMICO Representative:



**Wortham**  
*Insuring the Future  
Since 1915*

Regan E. Katz, Managing Director

T: 713.346.1081

E: [Regan.Katz@WorthamInsurance.com](mailto:Regan.Katz@WorthamInsurance.com)

## Information and opportunities relevant to you!

Houston CPA Society members are involved in a multitude of committees and task forces. Please check your top three committee(s) based on interest.

Name: \_\_\_\_\_

Business: \_\_\_\_\_

Email: \_\_\_\_\_

Phone: \_\_\_\_\_

Fax: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

### CPE Related Committees

Bus. Ity control and oversight of Society CPE

- ☐ CTO/ Controllers Conference
- ☐ CPE
- ☐ CPE by the Sea

### Membership Related Committees

Work on Society image enhancement, career awareness and member services

- ☐ Information Technology
- ☐ Membership Development
- ☐ Young Professionals

### Industry/Other Committees

Plan topics, serve as on-site coordinators for industry CPE.

- ☐ Business & Industry
- ☐ Energy
- ☐ Healthcare

### Professional Services Committees

Plan topics, serve as on-site coordinators for CPE.

- ☐ Accounting & Auditing
- ☐ Forensic & Valuation Services
- ☐ Personal Financial Planning
- ☐ Circular 230 Round Table

### Charity/Civic Related Committees

Sponsor community and organization events.

- ☐ Accounting Scholarship Endowment
- ☐ Accounting Scholarships
- ☐ CPAs Helping Schools
- ☐ Scholarship Endorsements

Thank you for signing up!

Your active participation will provide:

Current topic updates, professional development, networking opportunities ... and more!

You will be placed on the distribution list for each chosen committee. Committee meeting dates vary from monthly to quarterly. Email this form to [chapter@houstoncpa.org](mailto:chapter@houstoncpa.org).





# 40 + YEARS OF MEMBERSHIP

*A look into two member's  
experience over the years.*





## 40 YEAR MEMBER

# Paula T. Saizan

### ***How has the Houston CPA Society changed from your first year as a member until now?***

The Society has continued to grow and show more diversity in membership. When I joined, there were very few women or minorities in leadership roles. I was very pleased when Sheila Root, the first woman president was elected in 1992.

The effective use of advanced technology has made a tremendous positive impact on the organization's administration, communications, CE offerings and other activities.

### ***What has been the highlight of your membership over the years?***

Board of Directors (1990 -94)  
Outstanding Committee Award - Public Affairs, Chair (1991-92)  
Outstanding CPA of the Year Award (1992-93)  
Serving as a TSCPA key person for state legislators (Ongoing)  
Developing & implementing the CPAs Helping Schools Program (1992-94)  
Network of high caliber colleagues and friends

### ***Why would you recommend someone to join the Society?***

The Society offers exceptional opportunities for CPAs (especially young professionals) to expand their network, knowledge and outreach capabilities. Whatever area of the profession you work in, the society has resources to support your endeavors.

### ***What committees have you served on?***

Board of Directors  
Public Affairs Committee (Chair)  
CPA Helping Schools Committee (Chair)  
Houston CPA-PAC Committee (Chair; currently Vice-Chair)  
Charity Event Committee



## *50 YEAR MEMBER*

# **Jerry T. Paul, CPA**

### ***How has the Houston CPA Society changed from your first year as a member until now?***

This year I celebrated my 50th anniversary as a member of the Houston CPA Society. When I joined 50 years ago the chapter was relatively small and only had a minimal amount of staff. Today it is a much larger organization servicing a large amount of members. Technology has been the biggest change and services can be reached through the internet rather than by a personal visit to the chapter office or by telephone. Technology has permitted the chapter to offer a wider range of services and benefits with quicker response time. I do miss the monthly chapter meetings at the Houston Club where you could mix networking , cpe and current events in a couple hour session.

### ***What has been the highlight of your membership over the years?***

The highlight of my membership is the relationships that I developed with the chapter staff over the years and the ability to pick up the phone and talk to someone about assistance with a problem. The award dinner was certainly a highlight also and I am appreciate all the work that went into planning, coordinating and setting up for the ceremony.

### ***Why would you recommend someone to join the Society?***

I would highly recommend the society to anyone interested in the profession. Our goal as a professional is to offer the best service we can and to do this we need to be current on all issues, informed and educated and being part of a local chapter of Houstonians is one way that can be accomplished.

# Committee Spotlight:

## CPAs Helping Schools



“You’re a CPA? That means you can do my taxes, right?” Unfortunately, many non-accountants think taxes are the only accounting job. We know as CPAs, that accounting includes so much more, from tax, audit, forensic, hedge fund accounting to name a few. The CPAs Helping Schools Committee (CHS) has revamped the Accounting Career Education (ACE) and Financial Literacy program to inform K-12 students of what a career in accounting is and present the many opportunities in accounting to help dispel the misconception that CPAs only do taxes. CHS members work with high school organizations such as Future Business Leaders of America (FBLA) and Business Professionals of America (BPA). CHS members presented to students and judged some competitions at FBLA events during the 2017-2018 school year.

The committee also assists students in one of the biggest conundrums that accounting college students face - “Should I go into public accounting or industry?” With the revamped program that took place during the 2017-2018 school year, we helped provide more guidance to those students wondering where their best fit would be. One example that stuck out was a ninth grader which after guidance and much consideration, decided that his career path would include being the next CFO of Exxon. Another purpose of the program is to help educate students about financial literacy, such as budgeting, balancing a checkbook, credit card debt, paying for college, and buying a home. We also get to help parents by providing guidance and information about paying for college. Members of the Houston CPA Society are passionate about their jobs, and they pass on that same passion to students.

A look inside the classrooms I have made 12 school visits to see firsthand the use of grant funds. At each school I was accompanied by the teacher or principal who submitted the grant application. On all visits, I was impressed by the courtesy of the students and the dedication of teachers. I reported back to the committee that grant funds are applied as stated in the application and definitely provide a benefit to students.

### David Garza’s 3 School visits

The 3 visits that stand out to me were Grace England Early Childhood & PreK Center, Beta Academy Charter School and Kingwood Park High School.

### Grace England Early Childhood & PreK Center

This grant was used to equip every classroom with 3 Hot Dot Talking Pens and a set of number and counting cards, patterns and sequencing cards. The cards range in difficulty level so all students can use them. This assists with differentiating instruction and pairing various ability groups together. There are three different answers on each card and they use the pen to select the correct answer. The pen will talk and tell them if the answer is correct or incorrect so they are self-checking. This allows the students to take ownership of their learning. Grace England is dedicated to special need students. I observed some of the students struggle with the pens and cards but they all light up and smile when they get it correct. I left the school totally impressed with the patience and dedication each teacher showed to their students.



### **Beta Academy Charter School**

Kelly Lau and I visited Beta Academy to participate in their annual Beta Business Day. Beta Business Day was an event where scholars (as students are referred to by teachers) raise money, develop a business plan, make a product and sell the products to other scholars. The products were innovative and served a practical purpose for use at school or home. Beta scholars dress in uniforms and use Mr. or Mrs. when talking with adults. Beta Academy intends to expand from 8th grade to high school level classes.

Beta Academy is an outstanding charter school which CPAs Helping Schools Committee has and will continue to support through grant applications.

### **Kingwood Park High School**

Mr. Glenn Taylor's AP Physics class used grant funds for Dell Latitude 3150 laptop computers. The AP Physics class had a stated budget to build 3 rockets carrying 10 pounds of various materials. The rockets will go up one mile and then deploy a parachute to return. Stand-alone probe ware in the lab room was also given for additional visualization of the concepts being encountered. The student can use their phone to video the motion of an object then upload and analyze on the laptop for displacement, velocity and acceleration. The video and real-time graphing of the data allows the student to make connections between the mathematical and physical model. Students explained the type of rockets to be built, the materials to be carried, and the expected results their rocket launch. I was totally impressed with the knowledge and passion of each student in the class. These students will do well in the professional careers.

### **Become a CHS School Presenter**

#### **We set you up for success**

We provide you with everything you need to become a CPAs Helping Schools Committee school presenter. Both TSCPA and AICPA offer free brochures about accounting and that were passed on to many students during the 2017-2018 school year. The CHS is also utilizing TSCPA presentations that discuss financial literacy topics mentioned earlier. Some topics even include handouts and notes for the presenter. The AICPA also provides fun and interactive games. One game, called Start Here, Go Places, is played just like bingo. The game card has accounting terms, such as audit, liquidation, and withholding. Instead of calling out letters and

### **Mr. Glenn Taylor's AP Physics class**



numbers, an accounting definition is called out. The ACE group also explores other resources available through the Federal Reserve, Junior Achievement, the Federal Deposit Insurance Corporation, and more through the AICPA.

Are you interested in hearing more about ACE and becoming a volunteer? Summer 2018 informational sessions will be scheduled soon. Please reach out to Carol Spencer at [cspencer@houstoncpa.org](mailto:cspencer@houstoncpa.org) and Kelley Lau at [klau@bvccpa.com](mailto:klau@bvccpa.com).

### **Fundraising Events**

The \$25,000 biannual grants that are given to K-12th grade teachers through the CPAs Helping Schools grant program are the result of fundraising efforts conducted by the Houston CPA Society. While the fall fundraisers have changed throughout the years, the Scholarship Extravaganza is an annual dinner to recognize a CPA who has gone above and beyond throughout his/her career to enhance the profession. The dinner also serves a charitable purpose in that the money raised through ticket sales will be used for the 5th Year Accounting Student Scholarship program as well as CPAs Helping Schools. Additionally, CPAs Helping Schools is in charge of the event's silent auction in which 100% of the proceeds go toward the program as well.

The fall fundraiser has been a Country Club Golf Tournament in past years but for 2018 we will be moving the fundraiser to a Top Golf facility where the participants will be able to show off their golf skills in the comfort of air conditioning. The event will be held October 22nd. Register today at [houstoncpa.org](http://houstoncpa.org). Food is provided and we will be holding another silent auction for attendees to try and outbid their fellow CPAs. While these are our largest events, the fundraising efforts don't stop there. Anyone who wants to contribute to the CPAs Helping Schools program can make online contributions to the program anytime and know that their contributions will assist teachers in engaging students and ensuring that there will be an educated pool of students who may want to become CPAs themselves one day.

### **Support Local Education with Contributions**

You can help support local education with direct contributions to CPAs Helping Schools through Just Give or the voluntary contribution check-off on your annual dues invoice. Just Give is a tax-deductible online contribution option for CPAs Helping Schools or accounting scholarships. You also have an opportunity on your dues invoice to donate with or

without your dues payment to CPAs Helping Schools and accounting scholarships.

Donate today through Just Give or along with your annual dues so we can help more kids and continue to promote our profession throughout schools across the Houston area!

To donate please visit [www.houstoncpa.org](http://www.houstoncpa.org) and click contribute at the top of the screen.

*Written by members of the CPAs Helping Schools Committee:*

Brad Elgin  
David Garza  
Carol Hahn  
Kelly Lau  
*Laura Mardis*



Lupe Garcia visits Goodman Elementary to educate the students on accounting.



# 2018 Energy Conference



**Houston CPA Society**

*A Chapter of the Texas Society of CPAs*

*Houston TSCPA Foundation*

2018 Energy Conference  
August 29  
Hilton Americas

**Topics Include:**

Economic Update  
Exploration and Production Panel  
Tax Reform  
Accounting and SEC Updates  
Oilfield, Midstream and Liquefied Natural Gas  
Energy and Capital Markets  
Mergers and Acquisitions  
Technology and Cybersecurity

**Register:** [www.houstoncpa.org](http://www.houstoncpa.org)



# Member News

## UPCOMING EVENTS

---

### **Tillinger's Mid-Year Federal Tax Update**

August 17, 2018  
8:30AM - 4:30PM  
HCPAS Learning Center

### **Energy Conference**

August 29, 2018  
Hilton Americas

### **CFO/Controller Conference**

September 26, 2018  
Marriott Sugar Land

### **“Teeing off to 90 years” Top Golf Tournament supporting CPAs Helping Schools**

October 22, 2018  
Top Golf Houston-Katy

### **Personal Financial Planning Conference**

October 29-30, 2018  
Houston Chapter Learning Center

### **Healthcare Symposium**

November 15, 2018  
Amegy Bank

### **Tax Expo**

January 7-8, 2018  
Marriott Sugar Land

### **Visit [www.houstoncpa.org](http://www.houstoncpa.org)**

for more information on above activities.

---

## Sponsorship Opportunities

CPAs play an integral role in their company's important decision-making process. Becoming a sponsor is a great way to engage these influential accounting professionals. There are many upcoming events for you to take advantage of.

Sponsorship benefits vary and levels start at \$500. If you are interested in becoming a sponsor for an upcoming event contact René Plaisance at [rplaisance@houstoncpa.org](mailto:rplaisance@houstoncpa.org).



Your Values. Your Influence. Your Legacy.

From left: Tom Williams, Leah Bennett, Allen Lewis, Bill Cunningham,  
Susan Wedelich, Maureen Phillips, Donnie Roberts

## Our Advice.



**Westwood  
Trust®**

**Westwood Trust | Houston**

10000 Memorial Drive, Suite 650, Houston, Texas 77024

T 713.683.7070 | [westwoodgroup.com](http://westwoodgroup.com)



# **Houston CPA Society**

A Chapter of the Texas Society of CPAs

*Houston TSCPA Foundation*

777 Post Oak Boulevard  
Suite 500  
Houston TX 77056-3212

**Phone:** 713.622.7733

**Fax:** 713-622-0522