December/January 18-19

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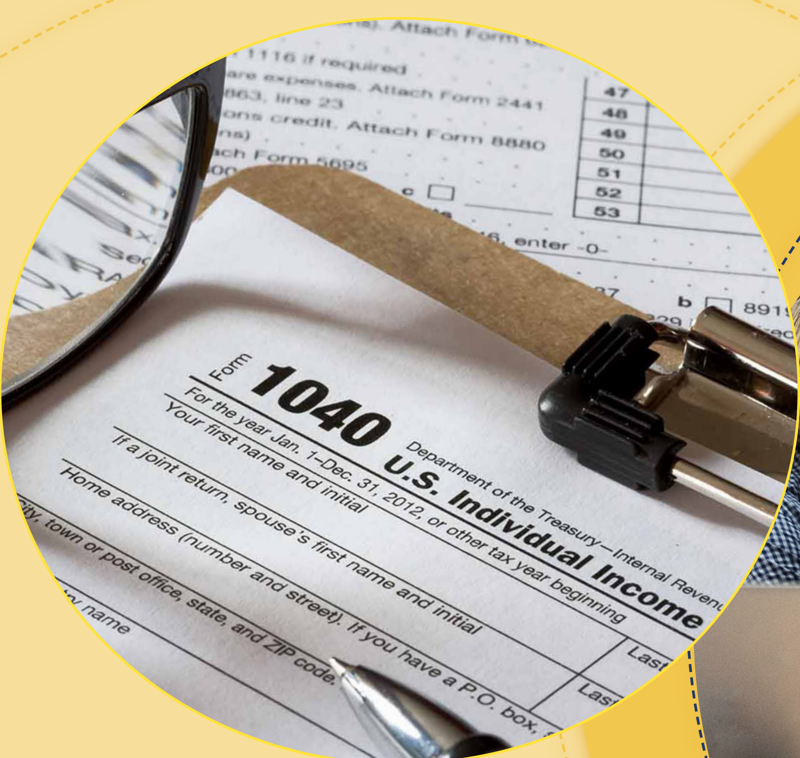
Houston CPA Society



Message

from the desk of

Dr. Mohan Kuruvilla, PhD, MBA, CPA
President

Tis the Season of giving and it is time for those year end donations. We just kicked off our fundraising efforts for the 2019 Scholarship Extravaganza. This premier event will be held on May 4 at the Marriott Marquis in Downtown Houston.

The event allows the Houston Chapter the opportunity to raise funds for future accounting professionals. Each year, we try to help increase the pipeline of our profession by awarding thirty $3,500 scholarships to each of our local universities with accounting programs. We could not do that without help from our members and community partners who graciously support this event each year.

This year's honoree, Steve McEachern graduated from Texas A&M in 1971 and began his career at Ernst & Young before joining Fitts Roberts. He is a Past President of the Houston CPA Society and has served in a variety of roles at the local, state and national levels. He has been named to the Top 100 Most Influential People in Accounting list three times.

The event allows us to continue our strategic direction of growing the future leaders of the profession and building a pipeline by allowing us to help students who are completing their college degrees. The Houston TSCPA Foundation recognized the unique situation for students who are pursuing their accounting degrees with hope to become a CPA. Students must take at least one more year of classes to meet the 150 hour requirement prior to sitting for the exam. This makes their tuition fees more overall than those who pursue career paths that require only a 4-year degree. Our scholarship program is designed to help eliminate some of the burden the extra year can be for future CPAs.

If you have never attended the Extravaganza before, I encourage you to do so by sponsoring a table or purchasing a ticket. The event is a fantastic evening filled with the opportunity to catch up with CPAs and individuals in the local community, enjoy a delicious dinner, dancing and our always fabulous silent auction filled with various items.

I want to wish you and your family a very happy holiday season and best wishes for a fantastic 2019.

Message

from the desk of

Jennifer Poff, CAE
Executive Director

It's the season of giving and joy! Whether you celebrate one of the holidays during the season or you are just in it for family, food and fun, it is a season to reflect and be thankful.

We are halfway through our fiscal year and the Houston CPA Society is doing well. I wanted to outline some highlights below of what we have accomplished as I reflect on the last 6 months.

New Website
On June 1, we launched our new website where you can view upcoming events, check out the latest articles and gain access to the tools and resources you need to succeed. The website is designed with a single sign on option so that you can use the same login on both the TSCPA website and the Houston Chapter website. You can register for courses for just yourself or a group of people. If you haven't spent much time on the website, I encourage you to take a few moments to browse through the website and let us know what you think.

Emerging Leaders Workshop and Leadership Webinar Series
Last July, we kicked off a leadership series with our Emerging Leaders Workshop led by Donny C. Shimamoto, CPA, CITP, CGMA. This fall, we held our first ever webinar series featuring professional thought leaders discussing topics including, receiving and delivering feedback; confidence, mindset and grit; and how your personality impacts your career. We will continue to build other webinar series, so please stay tuned into your e-blasts and other information for more details.

Membership Recruitment and Retention
Thank you to those who continue to trust and believe in our organization.
Our retention rates improved this year during the renewal process and we continue rebuild our numbers and recruit those who may have dropped their membership or have never been a member. We continue to work with TSCPA on active campaigns to increase our membership. We are also doing several firm visits. I spent the last week of November visiting 6 firms in the Houston area with the AICPA and TSCPA staff. It was great to hear what these firms are doing and to see where they are in their thoughts about the future of the profession and their businesses.

CPE Strategy
We continue to look at our CPE strategy going forward. In November, we launched a survey to a group of members to receive feedback on CPE programming and strategy. We will be using these results to build our CPE programming for future years.

I want to wish each of you a wonderful holiday season and prosperous New Year. Thank you for all you do for the profession and the CPA Society.

Houston CPA Society
A Chapter of the Texas Society of CPAs
Houston TSCPA Foundation

Houston CPA Society
Houston TSCPA Foundation

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Contents

CLASSIFIEDS

Tax Efficiency: Investment Planning From and Beyond the Tax Return

By Steven R. Goodman, CPA, CFP®

Our Tax Expo speaker Steven R. Goodman, CPA, CFP® previews his presentation in the following article.

To hear more from him and other great speakers, register for the 29th Annual Tax Expo January 7-8th at the Sugar Land Marriott Town Square [here.]

For readers planning to attend that session, this article serves to introduce the topic; and, for those of you not able to attend the always spectacular Tax Expo, this article will provide a few takeaways that should help you in identifying planning opportunities for your clients.

Tax-efficient planning is often overlooked, but is essential in the accumulation, growth and distribution stages of a portfolio's lifecycle. Often there are items seen on a tax return that suggest opportunities for improved results. Likewise, what is absent from the return may similarly provide opportunities for greater results. In the paragraphs that follow I have identified some of the items that we see as most valuable in enhancing your clients' investment and financial planning outcomes. While some come directly from the tax return, others may become apparent in reviewing a tax organizer and supporting documents or from conversations with your clients.

Realized Gains and Losses

Excessive amounts of losses are likely the result of poor investing and possible evidence that the client is buying high and selling low, the opposite of what is desired. Further, excessive transactions might be the sign of day trading and not investing, or possible churning of investment accounts. Large gains on the other hand may be signs of investment success. While we have heard clients bemoan having large taxable gains in years where the market has been flat or down, that isn't necessarily a sign of a problem, but likely evidence that the client or their advisor was harvesting gains that had been deferred from prior years, and possibly been prudent rebalancing.

Large Number of K-1s from Investment Partnerships or Other Pass-through Entities – While investment K-1s add complexity and CPA time/fees, unless these are generated from entities that your client controls, they could also be evidence of excessive investing in illiquid investments. Consider asking how the client got involved in all of these partnerships or other pass-through entities. If they are all at the direction of a commission-based broker, your client may be investing in what is making the broker the most money and not the client. Such K-1s may be related to illiquid real estate partnerships, hedge funds or MLPs.

Interest Income

If your client is in the top tax bracket and they have significant interest income, make sure that they have communicated to their advisor that they are in the top tax bracket. While there are times where taxable bonds, net of taxes, out earn their tax-free equivalent, a careful comparison of net-of-tax yields should be done. Conversely, if the client is not in a high tax bracket, municipal bond interest may be seen as a warning sign of the client accepting a lower return than they might achieve with taxable bonds.

Dividend Income

Lack of any qualified dividend income (which is taxed at capital gains rates) might suggest that the client's portfolio is allocated too conservatively, and they may be missing out on investment growth necessary to fund their desired retirement goals.

Also, an abundance of dividend income and a lack of interest income might suggest that the client is disproportionally invested in equities. While that may be appropriate given the client's age or risk tolerance, it may also be a sign that the client has an asset allocation that is overly aggressive.

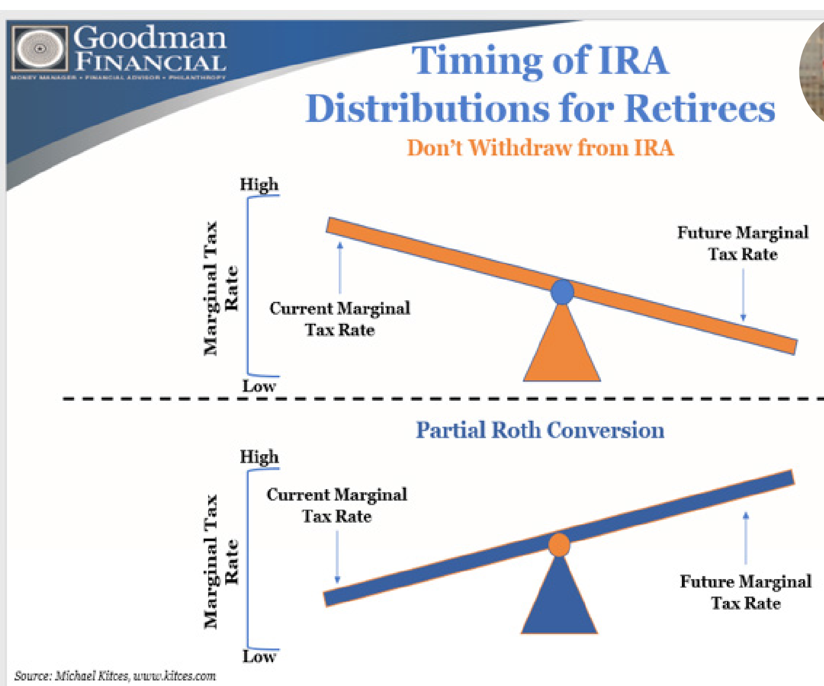
History of Large Charitable Deductions

If the client is prone to making large annual charitable contributions, given the larger standard deduction, it could be that bunching contributions every other year may be appropriate. Further, if the client is 70 ½ years old or beyond, there may be an opportunity for qualified charitable distributions (QCD) from their IRA. Such distributions are a reduction of adjusted gross income and may have further benefits when it comes to other calculations on the return. Additionally, consideration should be given to funding charitable contributions with highly appreciated long-term capital gain stock held in a taxable account, which gets the double benefit of the charitable deduction and avoiding capital gains on the holding.

Taking Advantage of Low Ordinary Income

In years where a client expects to have lower than normal ordinary income, there are many planning opportunities. Roth IRA conversions, using taxable distributions from IRAs at low rates to fund cash needs, and recognizing long-term capital gains at 0% are some of the significant planning options available for taxpayers who expect to find themselves in the bottom two tax brackets. Of course, this is on a case-by-case basis – for example, a client who has a large business loss recognized in the current year, but hasn't reached age 59.5, wouldn't want to take IRA distributions due to the early withdrawal penalty. But, they should strongly consider a Roth IRA conversion for that year or utilizing an NOL carryback or carryforward for planning purposes in other years.

For a discussion of additional planning ideas, plan to attend the 2019 Tax Expo. Register [here.]



Steve Goodman, CPA, CFP® is president of Goodman Financial Corporation, a 14-person fee-only financial advisory and money management firm employing six CPAs in its execution of tax-efficient planning.

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How to Transform Your Company Through Automation

By: Koray Ozturk & Dan Krishman, MBA

Organizations of all sizes are going through a transformation process. Digital transformation or optimization of business processes is being fueled by advancement in software and hardware technologies.

At times businesses struggle to keep up with the pace of change. However, not keeping pace in today's competitive landscape could likely mean a fatal blow to the business.

There is good news. With advancements in technology, artificial intelligence (AI), machine learning, and increased processing capacity (tools and applications once only accessible to larger enterprises) are now widely available for businesses of all sizes.

Utilizing this emerging technology to enhance workflows and compliance requires a thorough understanding of your processes and resources. Backed by improvements in artificial intelligence (AI), automation appears ready to have a transformational impact on every industry and organization. With increasing accuracy and successful deployment, automation is assuming manual jobs that involve lots of repetitive data-wrangling such as, processing requests, compiling reports, manual data entry, and updating databases. And for good reason; these types of tasks take up a good portion of the average workday. According to Recruiter.com, employees spend 8 hours of their average work week on manual, repetitive tasks.

For example, tasks that were previously handled by first line or data entry personnel, can and should be automated. Staff can now transition to higher value activities – tasks that are more strategic and require analysis. Being able to analyze and spot anomalies in data patterns will increasingly become an invaluable skill.

It should come as no shock that an employee may feel apprehensive about this perceived threat to their jobs. However, if history serves as an example, technological advances in automation holds the promise of slashing the mundane out of the workday, in turn, making jobs more creative and satisfying over the long run.

Here's just one example of how emerging technology can improve both process and employee value: Let's say you're an HR manager and you spend large portions of the workday performing tasks like qualifying job candidates, sending follow-up emails, and answering onboarding questions. Suppose you enlist AI-enabled HR software to handle these repetitive tasks. Doing so does not signal doomsday for your job?

Hardly. The most valuable activities of an HR manager are those that a computer program cannot do, such as, building personal relationships, managing employee concerns, helping employees solve pressing problems, and cultivating employee engagement and job satisfaction. These are the exciting, important parts of HR that you never have enough time for because administrative burdens of "digital paperwork".

Some immediate benefits of automation in the workplace can include gains in customer satisfaction, higher employee productivity, increased efficiency, and faster time to market.

> "Companies that conquer automation first will have a significant competitive advantage in their field."

To simply speak of automation in the workplace as something non-existent one day, and there the next, is unrealistic.

When introducing new technologies, it's important that leaders encourage and facilitate adoption of new technology. Success will favor the teams that are proactive and agile, quickly responding to the changes occurring in their respective industries.

As leaders, we all have the responsibility to guide our teams to embrace new skills that will help them do a better job of executing current responsibilities and potentially advance in their careers in the future.

Here are some ways to help your team — and company — embrace automation.

1. Enlighten - People fear what they don't understand. Look for early adopters that are also influencers at your organization. Identify internal tech champions that you know will share their knowledge to colleagues. Focus on helping them understand how automation can enhance their work.

2. Encourage – Teach employees how to deliberately look for ways to automate their workday. Where do they spend a large portion of time with little or no payoff (tracking down status updates, handling customer communications, building reports, sending recurring invoices, etc.)? Go a step further by rewarding or recognizing employees who successfully automate core processes, since they'll be making a positive impact on the business.

3. Accessibility - Look for workflow solutions that do not required a working knowledge of coding and have user interfaces that are pleasant to the eye and easily understandable. These will enable your employees — regardless of technical ability — to play an active part in solving problems through automation.

4. Take Action – Become the undisputed champion of automation within your organization. People will follow those that show initiative and results. Look for opportunities to suggest process automation improvements to leadership. Show them how automating mundane tasks can unlock hidden value and add to the bottom line.

5. Training - As automation frees up workers to focus on more value-added activities, establish skill-building programs or training systems to help workers build up soft skills, like creativity and critical thinking, to work successfully alongside AI and automation.

Regardless of size or aim, the pace of change demands that organizations contribute resources to imbedding transformational technologies in their future goals and overall mission. Companies that grow and thrive in this new environment will have to master perpetual automation by leveraging the emerging technology trifecta: artificial intelligence, machine learning, and exponential computing

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Cryptocurrencies: What Every Tax Practitioner and Financial Planner Should Know

By Ryan Firth, CPA

If you are a tax practitioner or financial planner, you may have tech-savvy, early adopter clients who hold cryptocurrencies (also referred to as cryptoassets or cryptos for short) such as bitcoin, XRP, ether, litecoin and many more. If you are not technologically-inclined, your first instinct might be to refer the client to someone else, which is understandable. The purpose of this article is to inform you of some of the issues your clients might face from a tax compliance and financial planning perspective. This is not a comprehensive article; it will only focus on high-level items so that you can identify the issues and advise your clients accordingly, or at least know where to go for further guidance, if needed.

The IRS issued Notice 2014-21, which gives taxpayers some guidance on the tax treatment of transacting in cryptocurrencies, or as the IRS refers to them, "virtual currencies." The IRS treats virtual currencies as property, which means it's extremely important that your clients track the cost basis of their crypto holdings, including the quantity, price (in USD) and date of when they buy, sell, receive, spend or exchange cryptos. There are online basis calculators that can help you and your clients keep track of their transactions. Many of the more reputable crypto exchanges have developed, or are in the process of developing, tax reporting features that help customers accurately track their cost basis (usually on a FIFO basis, but some also report on a LIFO basis), gains, and losses from transactions. The IRS requires crypto exchanges to issuea Form 1099-K to taxpayers who have received more than $20,000 of gross payments and more than 200 such transactions in a given calendar year. Be aware that these forms will only report the gross proceeds from transactions, so again, it's important that your clients track their cost basis and account for expenses like trading and network fees.

Another important aspect to consider: offshore exchanges and digital wallets that are operated by foreign third-party providers may be subject to FBAR and FATCA reporting requirements (be mindful of the $10,000 threshold). Finally, because of tax reform, as of January 1, 2018, section 1031 like-kind exchanges of virtual currencies are disallowed and, other than a couple of narrow exceptions, losses (e.g., theft via a hacked wallet) are no longer deductible for tax purposes. For most of 2018, cryptoassets have been in a deep bear market, however, in December 2017, many cryptos reached all-time highs, so keep that in mind when talking to your clients. If you'd like to delve deeper into taxes and cryptos, you might want to read the AICPA's updated comments letter dated May 30,2018 to the IRS regarding Notice 2014-21, as well as several excellent articles in The Tax Adviser (just perform a search using the term "virtual currencies").

As mentioned previously in this article, cryptocurrencies are a highly volatile asset class that can experience extreme price fluctuations over short periods of time. Most cryptos are highly correlated with each other, although there are relatively new types of cryptocurrencies called stablecoins that are pegged to a fiat currency such as the U.S. dollar. While cryptos are not directly correlated with broader equity or commodities markets, there is potential for increasing correlation. There are currently several OTC investment vehicles and futures contract trading on the two Chicago exchanges. ICE (the parent company of NYSE), NASDAQ, Fidelity and TD Ameritrade have all independently announced institutional-focused offerings that are expected to be rolled out over the coming year. The SEC has not approved any ETF proposals, but that could change at some point in the near future.

There's public speculation that if the SEC approves ETFs, then institutional investors will enter the space en masse, potentially leading to an increase in the price of many cryptoassets, but it remains to be seen how this will all play out. There is significant liquidity risk for some cryptocurrencies that are thinly traded, particularly tokens or coins that have been recently issued through an initial coin or token offering (ICO), the mechanics of which are similar to an equity IPO. There is no centralized exchange for cryptocurrencies, so investors are likely to encounter wide bid-ask spreads--this is how most exchanges make money--as compared to more traditional assets. Also, spot prices can often vary between exchanges depending on the cryptoasset and the depth of trading volume on that exchange for that particular asset. Most cryptoassets are deflationary because there is a limited supply of new coins or tokens that can be issued by the network over time (e.g., Bitcoin), but there are some networks that are currently not (e.g., Ethereum).

In theory, a cryptocurrency like bitcoin could be used as an inflation hedge, much like traditional commodities such as precious metals. Cryptoassets that are held with an exchange or third-party digital wallet are susceptible to theft. It's unclear which exchanges are adequately capitalized and insured to protect against loss due to theft, and indeed, many exchanges have been targets of cybertheft.
Most P&C insurers do not write policies that cover consumers from loss or theft of crypto assets.
One of the most important but an often overlooked consideration of cryptoassets is digital estate planning. Best practice would be to inventory the cryptoassets held by your client and ensure that instructions are left for the executor(s) on how to access the assets. Most crypto exchanges and third-party digital wallet providers control the private key to your client's wallet, but for those clients that have access to the private key, it is extremely important that it be stored in a safe place offline, yet accessible to those who may need to access it in the event the client becomes incapacitated or dies.

However you choose to advise your clients with respect to cryptocurrencies, it's prudent that you communicate to them that they should only invest whatever they're comfortable losing, because there's a chance they might lose their entire investment. As a best practice, you should communicate this in writing to your client and have your client acknowledge in writing that he or she is aware of and understands the risks of investing in cryptocurrencies. As another best practice, you should ensure that your clients understand how the cryptocurrency they are invested in, or would like to invest in, works. For example, do they have a basic understanding of the blockchain technology that underpins the cryptocurrency and what intrinsic features and/or functionality of the cryptocurrencymake it a good investment in their eyes?

Many advisers are hesitant to advise clients on cryptocurrencies, and for good reason, but some clients are comfortable with these types of assets and the risks inherent in holding them. As the technology matures and becomes more widely adopted, clients will increasingly expect their advisers to know what's happening in the crypto sphere, and they will seek guidance on how to best navigate this nascent asset class from a trusted adviser: someone like a CPA.

Ryan Firth, CPA is the founder and president of Mercer Street Personal Financial Services I Business & Tax Services. For more information visit Mercer Street [here](#) or contact Ryan Firth at ryan@mercerst.com.

Tax Cut and Jobs Act: A Close Look at Depreciation Treatment

By David McGuire

Our Tax Expo speaker David McGuire previews his presentation in the following article.

To hear more from him and other great speakers, register for the 29th Annual Tax Expo January 7-8th at the Sugar Land Marriott Town Square here.

In late 2017, the Tax Cuts and Jobs Act (TCJA) brought sweeping changes to the U.S. Tax Code. This included changes to personal deductions and tax rate adjustments as well as other far-reaching revisions. Some of the biggest areas affected under the TCJA relate to depreciation treatment.

These areas include bonus depreciation, requirements to utilize the Alternative Depreciation System and 1031 exchanges. Due to the magnitude of these changes, they will often have a much larger impact on an affected taxpayer's return than the adjustments to tax rates. This means that for many taxpayers, depreciation should be a major focus of their annual tax planning.

Let's look closer at these three areas:

Bonus Depreciation

One of the biggest areas of change regards 100% bonus depreciation for a five-year period. Under the new rules, companies that install eligible property can take advantage of 100% bonus depreciation. Assets acquired and placed in service, subject to binding contract restrictions, between September 27, 2017, and December 31, 2022, are eligible for this accelerated treatment. After 2022, this bonus depreciation percentage will start phasing down.

In addition to increasing the amount of bonus depreciation, the TCJA also increases the types of property that are eligible. In the past, bonus depreciation was restricted to new property that passed the "first use" test, which stipulated the taxpayer had to be the first one to utilize the property to qualify for bonus depreciation. That restriction was removed under the new bill, and now used property is eligible for bonus treatment, with some restrictions for related party transactions. This effectively means that a taxpayer can purchase a used piece of equipment and take bonus depreciation on it, effectively expensing the entire purchase price in one year.

The bonus depreciation guidelines contain some wrinkles, however. The biggest one is that bonus guidelines currently exclude Qualified Improvement Property (QIP). Prior to the TCJA, bonus depreciation included certain types of "qualified real property," such as Qualified Leasehold Improvements and Qualified Improvement Property. To simplify the system, the TCJA combined all qualified property into one asset class called Qualified Improvement Property, or QIP. In creating the law, the intention was to provide QIP a 15-year life and make it bonus eligible. Unfortunately, in the drafting process, the 15-year life was mistakenly left out. Without a technical correction, QIP is now considered 39-year property and is not eligible for bonus treatment. It is widely expected that a technical correction bill will pass to fix this error.

Alternative Depreciation System

Under the TCJA, new restrictions were placed on certain types of property requiring the use of the Alternative Depreciation System, or ADS. These restrictions include requiring ADS for real property when a taxpayer elects out of the 30% interest expense limits, or on all property if a taxpayer deducts floorplan interest. This will require advanced tax planning to determine whether the bonus depreciation is more valuable than the interest deductions.

A review is especially critical if QIP receives bonus eligibility in a technical corrections bill. In this case, QIP would be considered real property. Under the TCJA, companies with gross receipts of $25 million or more are subject to a 30% limitation on interest deductibility, unless they elect to be treated as a real estate entity. However, that election requires that all real property be taken utilizing ADS. That means that taxpayers electing out of the 30% interest limitations would be restricted from taking bonus depreciation on their QIP, provided the correction is made. This could add up to significant money for real estate companies that have performed major tenant improvements over the year.

1031 Exchanges

One of the biggest impacts of the TCJA is on 1031 exchanges. In the past, 1031 exchanges could be completed on real property and certain types of personal property transactions. Under the new law, 1031 exchanges can only be completed on "real property" transactions. Furthermore, the IRS has previously confirmed in Legal Memorandum 201238027 that real property for 1031 exchanges follows the federal definition for 1250 property. Taxpayers need to do some tax planning to determine if they want to recognize personal property that might lead to some recapture on a sale involving a 1031 exchange. In most cases it will still make sense, but it requires a discussion with a trained professional.

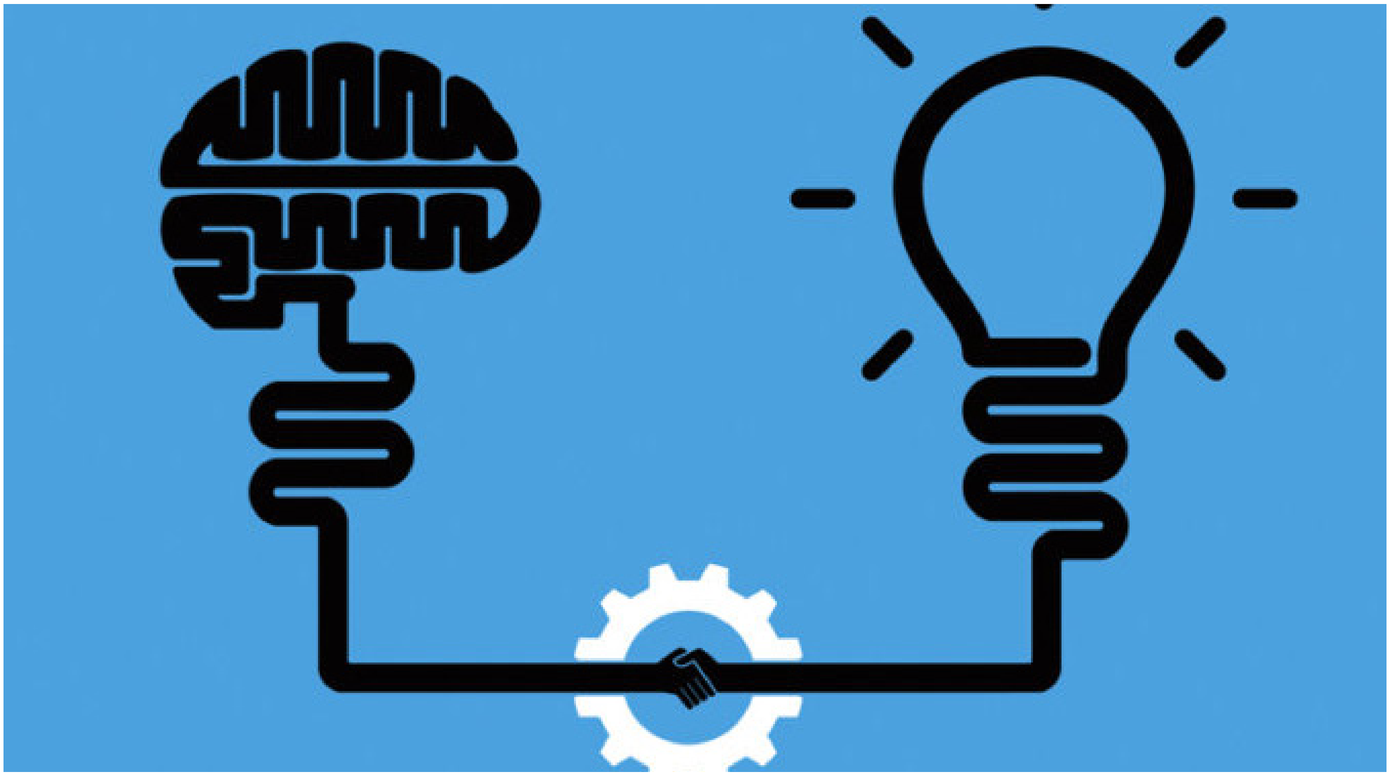
In a nutshell, the rules surrounding depreciation became more lucrative to the taxpayer under the TCJA, but also more complicated. It is more important than ever that taxpayers and tax preparers work with qualified individuals to

For additional information on depreciation treatment, attend the 2019 Tax Expo. Register [here.]

David McGuire is a leading expert on cost segregation, fixed assets and depreciation law and a co-founder of McGuire Sponsel. He has reviewed real estate portfolios ranging in size from six-figure acquisition costs to billions of dollars in value and has provided cost segregation services for companies in a wide variety of industries.

Innovation in our CPE Programs:
Business, Industry, Nonprofits, and Government Sectors

By Donny C. Shimamoto, CPA, CITP, CGMA



With the new year, I'm pleased to report that we will be adding some innovations for our members in business, industry, nonprofits, and government—specifically we would like to enhance the programs that we have for those of you in controller or CFO roles (and also those of you in family offices or client accounting services).

Revamped Spring Accounting Expo Program

We have already started revamping the program for the Spring Accounting Expo to incorporate business/management, leadership, and people skills into the program. We'll also be adding a track that will feature technology innovations that support the finance function, just not in transaction processing, but also in team collaboration, and IT risk management (i.e. cybersecurity and privacy). I have also confirmed speakers from some of the national accounting conferences, and I know that having these CPAs that specialize in IT will help ensure that we are getting some exciting accountant-relevant insights to you! Be sure to mark your calendars for May 22-23, 2018 so that you can join us!

NEW Spring B&I Webinar Series

I know that it may sometimes be hard for you to get away from your offices, so we are planning to launch a webinar series specific to controllers and CFOs this spring. We are just starting the planning for this so if you have particular topics that you would like to see or speakers that you think would be good for the webinars, please email me at dshimamoto@houstoncpa.org.

Client Accounting Services or Family Office
We know that some of you in public accounting are also providing Client Accounting Services (CAS) where you're the outsourced controller or CFO for your clients. Or perhaps you're overseeing a family office. We are exploring discussions with some of the

CAS accounting technology vendors to do some special events for you in Houston. I would like to get a focus group together of members working in these areas to help us better understand your needs. Please email me at dshimamoto@houstoncpa.org if you are (1) interested in receiving information about these programs, or (2) interested in participating in the focus group(s) to help guide our chapter's programs in this area.

I hope you are as excited as I am to see our chapter shift some focus onto these often-underserved areas of our profession.

Don't hesitate to send any suggestions for innovations in these areas or any other areas of our chapter to dshimamoto@houstoncpa.org. I'd love to hear from you!

Donny C. Shimamoto, CPA, CITP, CGMA is the Director of Innovation at Houston CPA Society.

Texas Tax Law: Changes Expected in 2019

By: Lacy Leonard

Our Tax Expo speaker Lacy Leonard previews her presentation in the following article.

To hear more from her and other great speakers, register for the 29th Annual Tax Expo January 7-8th at the Sugar Land Marriott Town Square here.

The 86th regular session of the Texas Legislature will begin on January 8, 2019. With each new regular session, the Legislature begins its work with an estimate of how much tax revenue is appropriate and (hopefully) a desire to collect the least amount of tax possible to do the most good for our state. To that end, there are always a few bills filed that purport to strengthen taxpayer rights, but never quite seem to gain traction.

For example, House Bill 150 related to "Honesty in Taxation" would prevent the use of the label "state fee" when the fee walks like a tax and talks like a tax and is paid to the state like a tax. Unfortunately, bills promoting transparency in taxation have not traditionally been prioritized by the Texas Legislature.

Similarly, there was a House Joint Resolution proposing a constitutional amendment that would require a two-thirds vote of all members of both houses of the legislature to impose a new state tax or to increase the rate of an existing tax. This would allow businesses to more easily predict their state tax burdens in the future. As with HB 150, there has been no early indication that this measure will receive any significant attention this session either.

The first day to pre-file bills for the 86th regular session was November 12th. By noon, over 400 bills had been filed and over 100 of those bills related to tax matters in some fashion. There were eighteen bills pertaining to sales and use tax (the overwhelmingly largest source of revenue in Texas) and three pertaining to franchise tax.

Of the sales tax bills filed through November 30th, perhaps the most anticipated bill for in-state and out-of-state retailers is Senate Bill 70 which pertains to creating a single local use tax rate as an alternative to the combined local tax rate for remote sellers. This bill attempts to address some of the issues that the comptroller has anticipated will arise when he begins to enforce the United States Supreme Court's decision in Wayfair v. South Dakota[1] to out-of-state taxpayers seeking to decipher Texas Tax Code Chapter 151 on sales and use tax, particularly the use tax provisions.

In the franchise tax realm, Senate Bill 66 would reduce the franchise tax rates following a five percent increase in biennial revenue estimates produced by the comptroller. Eventually, the franchise tax would expire entirely after successive rate reductions resulted in a zero tax rate. Obviously, if this bill were to become the law in Texas, the accuracy of the Comptroller's biennial revenue estimates would become very important.

According to a recent report from the Texas Taxpayers and Research Association, in 2009, franchise tax revenue accounted for over 11 percent of all state taxes collected, but since that time the 11 percent share has steadily declined by almost half to 6.5 percent in 2017. Franchise tax as a percentage of gross state product also peaked in 2008 and 2009 at 0.36 percent (soon after the changes went into effect) but has since declined to almost half that amount at 0.19 percent in 2017. The decrease in the amount of franchise tax

1. *South Dakota v. Wayfair, Inc., 585 U.S. ___ (2018)*

collected by the comptroller is widely attributed to the rate reductions enacted by the Legislature in 2013 and 2015 and to continue legislative adjustments favoring small businesses, such as the tripling of the "no tax due" threshold from $300,000 to over $1 million and doubling the availability of the EZ tax rate.

A common critique of the franchise tax is its lack of clarity for businesses trying to comply with its requirements. As a result, there has been a substantial amount of litigation over the franchise tax, primarily with respect to qualification for and calculation of the limited revenue exclusions available and the COGS deduction. While several early court decisions added some clarity to these issues (Newpark[2], Titan[3], CGGVeritas[4]), the comptroller has continued to pursue litigation in this area to limit the holdings in those cases.

Currently, there are several cases pending before the Third Court of Appeals in Austin and at the Texas Supreme Court that could affect these earlier decisions. Two such cases are Gulf Copper[5] and Autohaus[6]. These cases primarily deal with the issue of whether installation labor may be included in the COGS deduction. Autohaus was tried on cross motions for summary judgement before a Travis County district court judge, and the judge ruled in favor of Autohaus. However, that order was later overturned by the Third Court of Appeals.

Gulf Copper was adjudicated through a one week trial on the merits in Travis County District Court. The district court judge found in Gulf Copper's favor and entered an order allowing Gulf Copper to include installation labor expenses in its COGS deduction.

2. Combs v. Newpark Res., Inc., 422 S.W.3d 46 (Tex. App.—Austin 2013, no pet.).

3. Titan Transp., LP v. Combs, 433 S.W.3d 625 (Tex. App.—Austin 2014, pet. denied).

4. Hegar v. CGG Veritas Servs. (U.S.), Inc., No. 03-14-00713-CV, 2016 WL 1039054 (Tex. App.—Austin Mar. 9, 2016, no pet.) (mem. op.).

5. Hegar v. Gulf Copper and Manufacturing Corporation, 535 S.W.3d 1 (Tex. App.—Austin 2017, pet. filed).

6. Autohaus LP, LLP v. Hegar, 514 S.W.3d 897 (Tex. App.—Austin Feb. 24, 2017, pet. filed).

The Court also ruled that the comptroller's policy limiting the revenue exclusion for real property services and oil and gas contractors to contracts containing percentage based fee allocations was improper under the Titan decision, and in doing so allowed Gulf Copper to exclude from revenue payments to hourly temporary workers who supplemented Gulf Copper's existing workforce.

In response to these decisions, the comptroller has proposed changes to Comptroller Rule 3.588 that would change the outcome of many of the cases mentioned above. In remains to be see whether this will invite further litigation.

In addition, to these cases there are also many cases currently pending before the Third Court of Appeals and Texas Supreme Court impacting sales and use tax. Of note are several cases dealing with when items are resold. Alamo National v. Hegar[7], (Do hotels resell toilet paper to their guests?), CEC v, Hegar[8], (Does Chuck E. Cheese resell gaming machines to its patrons?), and El Paso Electric v. Hegar[9], (Do utility companies resell meters to customers?) are three such examples. It is possible and likely that one or more of these cases will be decided before the 86th Regular Session of the Texas Legislature comes to an end.

As a result, we may see additional tax bills filed to address the outcomes of these cases. You can check the status of any bill that has been filed at the Texas Legislature online webpage here, as well as set up alerts for new tax bills that are filed. For any of the cases above, you can check their status here.

7. Alamo Nat'l v. Hegar, No. D-1-GN-15-000802 (126th Dist. Ct., Travis County, Tex. Dec. 15, 2016), pet. filed, No. 13-17-00040-CV.

8. CEC Entertainment v. Hegar, No. D-1-GN-16-004422 (126th Dist. Ct., Travis County, Tex. May 2, 2018), pet filed, No. 03-18-00375-CV.

9. El Paso Electric Co v. Hegar, No. D-1-GN-17-006837 (353rd Dist. Ct., Travis County, Tex. November 5, 2018).

Lacy Leonard is a partner at Martens, Todd, Leonard & Ahlrich. She represents state and federal taxpayers through all stages of a tax controversy, including audit assistance, challenging assessments, and seeking a refund of overpaid taxes.

STUDENT AUXILIARY

Houston CPA Society
A Chapter of the Texas Society of CPAs
Houston TSCPA Foundation

The Houston CPA Society's Student Auxiliary provides career training, career path options and information, networking, and hiring opportunities for students in the Houston area interested in Accounting.

REASONS TO JOIN THE HOUSTON CPA SOCIETY:

- Networking with Houston's most prominent CPAs
- Getting involved with your future profession
- The Houston CPA Society gives 30 scholarships every year
- You can join at TSCPA.org for just $35 per year

JOIN US FOR THE 2018-19 STUDENT AUXILIARY FALL EVENTS:

Houston CPA Society—777 Post Oak Blvd. Suite 500 Houston TX 77056
5:30 – 6:30 p.m. Check-in; snacks; and mingling with other students
6:30 – 8:00 p.m. Presentation
8:00 – 8:30 p.m. Additional networking time with students and professionals

Saturday, January 5	**"I" Excel! (Special time:** 11 a.m. - 1 p.m.**)**
Friday, January 11	**Everything's Bigger in Taxes**
Friday, January 25	**Changing Lanes: Alternatives to Public Accounting**
Friday, February 8	**Cybersecurity: Taking off in Cyberspace**
Friday, February 22	**Audit or Tax? How about Advisory**
Friday, March 22	**Transcending Technology: The Impact of AI, Blockchain, and Big Data**

For more information: call 713.622.7733 or email Carol Spencer at cspencer@houstoncpa.org

Schedule dates and topics are subject to change.

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.

Houston CPA Society
A Chapter of the Texas Society of CPAs
Houston TSCPA Foundation

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: ___________________________________

Email: ___________________________________

Fax: _____________________________________

Business: _________________________________

Phone: ___________________________________

Address: _________________________________

____

CPE Related Committees
Quality control and oversight of Society CPE

______ CFO/ 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 RoundTable

Charity/Civic Related Committees
Sponsor community and organization events.

______ Accounting Scholarship Endowment
______ Accounting Scholarships
______ CPAs Helping Schools
______ Scholarship Extravaganza

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.

Chapter News

UPCOMING EVENTS Register at www.houstoncpa.org

2019 NW CPA BUSINESS ROUNDTABLE DISCUSSION GROUP

Location: Spring Creek BBQ
21746 Tomball Pkwy.

Strategic Planning for Small Business
January 17, 2019

Tax Season Review
May 16, 2019

ETHICS CLASSES:
Houston CPA Society Learning Center

Ethics for CPAs: It's a Matter of Choice
Deanna Sullivan, CPA, CGMA, CIA, CRMA, CFE

December 17, 2018
January 31, 2019

TAX CLASSES:
Houston CPA Society Learning Center

Mid-Year Federal Tax Update
Steve Tillinger, CPA
January 30, 2019
February 13, 2019
February 15, 2019

Individual Income Tax Update
Blaise C. Bender, CPA, JD
January 24, 2019
February 4, 2019

Business Income Tax Update
Blaise C. Bender, CPA, JD
January 25, 2019
February 5, 2019

CONFERENCES

Tax Expo
January 7-8 2019
Sugar Land Marriott Town Square

Chapter News

Annual Business Meeting
January 24, 2019
JW Marriott in Downtown Houston

5:30 p.m. - Networking Reception
6 p.m. - Dinner and Program

Receive an update on what has been going on with the Houston CPA Society and TSCPA, elect your leadership for the upcoming year and share your feedback during this upcoming meeting. The best way to learn what is going on with your chapter is to attend and then you can help us spread the word.

Chapter News

ADVOCACY EVENTS:

TSCPA's Advocacy Day and the Midyear Board and Members Meeting

January 29-30, 2019

TSCPA's Advocacy Day and the Midyear Board and Members Meeting will be held in Austin on January 29-30, 2019. This is a great opportunity to connect with colleagues, visit with legislators about critical professional issues, make new contacts and influence the future of our association.

Before heading to the capitol on Advocacy Day (Jan. 29) you'll hear from two top speakers. Joe Gagen from Cal Capitol Academy will help you prepare to make the most of your visits with legislators, and Harvey Kronberg, publisher of the Quorum Report, will give an analysis of the recent election and preview the 2019 legislative session.

Make your hotel reservation here today before rooms sell out!

Young Professionals Legislative Bus

Tuesday, January 29, 2019

Protecting and promoting the CPA profession is a critical component to protecting the CPA license you have worked so hard to earn. Join us during TSCPA's Advocacy Day to learn more about how your fellow CPAs are working with various legislators from a bipartisan position to protect the profession and the public and get hands on experience in advocating for the profession when you visit the Capitol with one of our experience key people. Young Professionals will enjoy Tuesday's sessions and networking. Breakfast and lunch will be included.

This opportunity is free to all HCPAS young professionals.

Agenda for the day:
7 a.m. – Park at the office and then meet in front of the building or Uptown Park to catch van/bus
10 a.m. – Arrive at the Sheraton in Austin
10:30 a.m. – How to Make an Impact Session with Joe Gagen
12 p.m. – Lunch
1 p.m. – Post-Election Analysis & Legislative Session Preview with Harvey Kronberg
2 p.m. – Why It Matters
2:15 p.m. – TSCPA Legislative Agenda with John Sharbaugh and Linda Messing
2:45 – 5 p.m. – Capitol visit (each young professional will be paired with a PAC Committee member or Past President)
5:30 p.m. – Board van/bus for return ride to Houston
8:30 p.m. – Arrive back Houston office

To sign-up contact Lauren Fowlkes at lfowlkes@houstoncpa.org

Member News

CONGRATS

Ruben Yeriazarian, CPA, CFE, CFF
Briggs & Veselka Co.
Forensic, Valuation & Litigation Support Principal

Yeriazarian along with 25 young CPAs received the FVS Standing Ovation for significant contributions in the forensic accounting and business valuation fields and engagement in their communities at the November AICPA Forensic and Valuation Services (FVS) Conference in Atlanta.

Houston Women's Society of Certified Public Accountants invites you to our 36th Annual Seminar on Saturday February 2, 2019 at the Hess Club, 5430 Westheimer Road, Houston, Texas 77056.

Among the topics to be covered in this 8 hour CPE course are:
- Fraud risk Identification
- Excel: Pivot Tables versus Power Pivot
- Blockchain fundamentals
- Tax Update (separate sessions for individual and corporate tax)

Fees are $155 ($195 after February 1, 2019) for members and $175 ($215 after February 2, 2019) for non-members.

Register here.

We look forward to seeing you there.

Member News

Briggs & Veselka Co.
CPAs and Business Advisors
A Legacy of Loyalty

Seefeld Lawson Moeller LLP
Certified Public Accountants

Expansion to The Woodlands with the Acquisition of Seefeld Lawson Moeller LLP

Briggs & Veselka Co. ("B&V") has reached an agreement to acquire Seefeld Lawson Moeller LLP ("SLM"), a CPA firm based in The Woodlands, Texas. The SLM acquisition is the fourth this year by B&V, which acquired two other accounting firms and Pathway Forensics in the first quarter.

SLM is a quality firm that will not only expand B&V's geographic footprint, but will bring additional resources, especially given their deep experience in the not-for-profit sector. In an industry that has been in the throes of consolidation, B&V is proud of its independence and ability to provide both high levels of client service and sophisticated services to the middle market space, the driver of Houston's booming economy.

SLM has built a strong reputation in The Woodlands-Conroe area. "Our primary consideration in such a transaction was the right cultural fit for our clients and employees," said Debra Seefeld, one of the founding partners of SLM, who will join Briggs & Veselka as a shareholder. "We will be able to lever Briggs & Veselka's expanded service offerings and resources to better serve both our existing and new clients, while providing more growth opportunities for our staff" Seefeld, the past President of the Houston CPA Society, added.

Briggs & Veselka will continue to operate SLM's current office in The Woodlands, as well as the new office for Pathway Forensics. The Woodlands office of Briggs & Veselka will be able to provide audit, tax, and consulting services to the 7,500 companies in the area, which has fulfilled George Mitchell's vision of a complete community in which people could live and work.

Member News

BAKER TILLY

Accounting and advisory firm Baker Tilly Virchow Krause, LLP (Baker Tilly) and MiddletonRaines+Zapata (MRZ), a Houston-area accounting and advisory firm, announce their intent to merge with an effective date expected by the end of the year.

Houston is the largest city in Texas and the fourth-largest city in the U.S. behind New York, Los Angeles and Chicago. "MRZ is one of the fastest-growing accounting firms in Houston," Baker Tilly Chairman and CEO Alan D. Whitman said. "They are progressive and entrepreneurial and are an ideal partner for us in Houston."

"We are proud of our reputation for delivering innovative accounting and tax solutions through a high-energy, hands-on client experience," MRZ Managing Partner Wesley Middleton said. "Joining forces with Baker Tilly gives us national resources and broader capabilities to better serve our clients and provide growth and development opportunities for our team members."

MRZ and Baker Tilly share a focus on the client experience and industry specialization. MRZ's industry strengths are highly compatible with Baker Tilly's, particularly construction and real estate, manufacturing and healthcare. MRZ also specializes in the oil and gas industry. Baker Tilly's specialization in private equity and tax credits and incentives will be a competitive addition to MRZ's offerings in the Houston market.

Allan D. Koltin, CEO of Koltin Consulting Group, advised both firms on the merger. "MRZ represents the type of firm that larger firms dream of aligning with – great leadership, dynamic growth, innovation, young talented professionals and a passion for client service. Wes Middleton and his partners were courted by almost every major CPA firm in the country to become their Houston office. In the end, they loved Baker Tilly's strategy, culture and leadership and knew it provided the best growth opportunities for their people and clients. Baker Tilly continues to be one of the highest-performing Top 15 CPA firms in the country. This combination is a huge step for them in Texas and I believe it is only the beginning of their expansion plans throughout the state."

Chapter News

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 Kristie Ondracek at kondracek@houstoncpa.org.

Houston CPA Society
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Houston TSCPA Foundation

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