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TODAY'S CPA

Texas Society of Certified Public Accountants

TXCPA'S 2021-2022 YEAR IN REVIEW

Technology Special Report: Age of the Intelligent Enterprise

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FUTURE READY AND LOOKING AHEAD

By TXCPA President and CEO
Jodi Ann Ray, CAE

Share Your Thoughts

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

It has been an amazing year for TXCPA thanks to this community and despite the many challenges we have all endured in the last 24 months. With the dedication of our volunteers, leaders, chapters and committed members, we are ending our 2021-2022 year with more members, more educational offerings and more progress towards the completion of our strategic plan.

Our cover story will share more about the goals we have reached and the objectives we checked off the list over the past 12 months. The progress we are making as an organization is positioning us to be future ready and even stronger while we serve our loyal membership base and attract future members to join us.

Looking ahead, we are excited to welcome new members through expanded membership categories, implement a statewide strategy focused on growing the CPA pipeline, energize and expand our educational offerings, and continue to ensure that the CPA license remains protected and attractive to those ready to enter this exciting profession.

Each of you has played an important role in taking TXCPA into the future. If you would like to find ways to be even more involved and engaged in TXCPA, please reach out so we can find the best fit for your time and talents. We are better because of the many members who choose to serve the Society and the profession.

Thank you for your continued dedication and commitment! We look forward to doing more great things with you, and for you, in 2022-2023.


CONGRATULATIONS

SEC Proposes Controversial Rules Requiring Climate Related Disclosures

By Don Carpenter, MSAcc/CPA

It is rare to watch a newscast currently without at least one feature addressing climate change. International summits warn of the impacts of fossil fuel emissions on the environment and nations announce lofty goals for reducing these emissions over specific time horizons. Not surprisingly, both corporations and their investor pools have responded to these concerns.

In March, the SEC released proposed rules (https://www.sec.gov/rules/proposed/2022/33-11042.pdf) requiring reporting entities to include extensive disclosures regarding climate-related matters in registration statements and the annual Form 10-K. The proposed rules run to more than 500 pages.

Anticipating that these new requirements will not be welcomed in all quarters, the rationale and motivation for them encompasses the first 40 pages. In this introduction, the SEC highlights its obligations to protect the interests of investors and provide information that is meaningful in making investment decisions. They also point to recent developments in reporting frameworks and data standardization by the Task Force on Climate-Related Financial Disclosure and the Greenhouse Gas Protocol to support the timing of this proposal.

The proposed rules require new disclosures in the following categories:

1) The oversight and governance of climate-related risks by the registrant's board and management;
2) How climate-related risks identified by the registrant have had or are likely to have a material impact on its business and financial statements over the short-, medium- and long-term;
3) How identified climate-related risks have affected or are likely to affect the registrant's strategy, business model and outlook;
4) The processes used by the registrant to identify, assess and manage climate-related risks and whether any such processes are integrated into the overall risk management system;
5) Scope 1 and Scope 2 greenhouse emissions metrics, separately disclosed, by constituent greenhouse gasses and in aggregate in both absolute and intensity terms (to clarify, Scope 1 emissions are emissions that occur from sources controlled or owned by the organization; Scope 2 are indirect emissions associated with the purchase of energy used by the organization);
6) Scope 3 emissions if material or if the registrant has set GHG emissions reduction targets that include these emissions (Scope 3 include upstream emissions associated with purchased products, business travel, etc., as well as downstream activities such as emissions from the use of the company's products or from further processing of such products);

7) The registrant's climate-related targets and goals and any transition plans;
8) The impact of climate-related events (such as severe weather events or natural disasters) on specific financial statement line items.

Although not required, the disclosures can also include information related to any opportunities identified by the reporting entity arising from climate-related matters.

The first seven items listed above are required under an amendment to Reg. S-K. The additional disclosures will require a new section to the Form 10-K. However, referencing other sections of the report such as Risk Factors, MD&A or the Business Description within that new section is allowed to avoid redundancy.

The most difficult requirement under the amendment to Reg. S-K will likely be the disclosure of the Scope 1, Scope 2 and Scope 3 emissions. To further complicate the requirement, Large Accelerated Filers and Accelerated Filers will be required to include an attestation report with the Form 10-K and information about the attestation provider.

An initial transition period will allow for a limited attestation similar to the assurance currently provided on interim reports such as the Form 10-Q. This is followed by a second transition period requiring reasonable assurance defined as a level of assurance that the information provided is free from material misstatement.

The attestation report is required to address both the accuracy and consistency of the information reported.

This report may be provided by an independent subject matter expert such as engineering or environmental consultants who may be more qualified to address the topic than a registered public accounting firm.

Given the nature of these proposed rules and the effort required to capture and report the information, it is anticipated that there will be significant comment and possibly even legal action in response. The SEC hopes to finalize the rules by the end of 2022, which would require Large Accelerated Filers to address the rules in their 2023 Form 10-K filed in 2024.

Item 8 above will be required by an amendment to Reg. S-X. This information will be required to be included in a note to the company's audited financial statements and is therefore required to be audited by the registrant's accounting firm. In addition, it is included in the assessment of internal control over the integrity of financial reporting. The reporting under this requirement falls within three categories:

1) Financial statement impacts from both severe weather events or natural disasters, as well as the financial impacts of actions taken to reduce emissions or mitigate climate-related risks;
2) Expenditures related to the items listed in 1 separately aggregated between expenses and capitalized costs;
3) Extent to which estimates and assumptions affecting the financial statements are dependent upon climate-related risks.

The SEC emphasized that these disclosures are considered "filed" rather than "furnished" and are therefore subject to potential liability under the Exchange Act. A safe harbor provision is included specifically for Scope 3 emission reporting unless it can be demonstrated that the disclosure was made without a reasonable basis or in bad faith.

The disclosures will be phased in with Large Accelerated Filers, including all information except Scope 3 reporting in the first full year following adoption, with Scope 3 to follow one year later. Accelerated and Non-accelerated Filers follow one year later. And Smaller Reporting Companies begin in the third year with exemption from Scope 3 reporting entirely.

Given the nature of these proposed rules and the effort required to capture and report the information, it is anticipated that there will be significant comment and possibly even legal action in response. The SEC hopes to finalize the rules by the end of 2022, which would require Large Accelerated Filers to address the rules in their 2023 Form 10-K filed in 2024.

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

Invested in Qualified Opportunity Zones?

The Time is Now to Make Sure You're in Compliance

By Katherine Noll, J.D., LL.M., B.B.A.

The Qualified Opportunity Zone (QOZ) tax incentives were established as a part of the 2017 *Tax Cuts and Jobs Act* and were created to allow taxpayers to reinvest preexisting capital gains into designated low-income areas in exchange for tax benefits.

Qualified Opportunity Zone Funds continue to be an investment alternative offering substantial tax benefits for investments made by the end of tax year 2026, but the publication of a recent report issued by the Treasury Inspector General for Tax Administration, as well as a concurrent probe by Ron Wyden, Senate Finance Committee Chair, indicates compliance will be key going forward.

Background Information

To connect investor capital with low-income areas of the country designated to have the greatest need for reinvestment, Subchapter Z of the Internal Revenue Code (the Code), titled Opportunity Zones, came into effect in January of 2018, adding tremendous tax incentives under Section 1400Z-2 for qualifying capital gain investment in Qualified Opportunity Zone Funds (QOF or QOZ Fund).

A QOF is a special purpose entity that is formed for the purposes of investing in Qualified Opportunity Zone Property (QOZ Property) and is taxed as a partnership or corporation. The tax benefits were threefold:

- The deferral of recently generated capital gains until tax year 2026 by investing the gains in a QOF within 180 days of the disposition event generating the gain;
- Partial elimination of the capital gains invested in the QOF through a step-up in basis of 10% if the investment in the QOF is held five years by 2026 and an additional 5% (for a total 15%) if the investment in the QOF is held seven years by 2026; and
- Tax-free appreciation of the capital gains invested in the QOF upon the sale of the investment if it is held for at least 10 years in the QOF through a step-up in basis to the fair market value of such investment on the date the investment is sold.[i]

The tax benefits only apply to capital gains that are deferred through investment in a QOF; after-tax investment in a QOF does not qualify for any of the tax benefits. And, as the benefit of tax-free appreciation requires the investment to be held for at least 10 years, there will be a phantom tax event in 2026 (although certain debt-financed distributions are permitted). Thus, taxpayers must be mindful of the liquidity needed to meet the upcoming tax obligation for tax year 2026.

The requirements on a QOZ Fund investment are restrictive, tedious and complex. The final regulations and preamble totaled 544 pages on original release and are designed to work with a real estate development project located in a designated QOZ or a start-up business operating in a QOZ.[ii] A QOZ Fund must hold at least 90% of its assets in QOZ Property and must be structured as either a direct investment by the QOF in QOZ Business Property or an investment through a subsidiary entity that meets the requirements of a Qualified Opportunity Zone Business (QOZ Business) and that entity owns or leases the QOZ Business Property (with most QOZ investments structured under a two-tier entity structure).[iii]

Any gain that is treated as a capital gain for federal income tax purposes is eligible for the QOZ tax benefits, including long-term and short-term capital gains, qualified gains under Section 1231 and 1250 gains.[iv] Thus, a business owner selling their business could receive incredible tax benefits if desiring to invest in real estate or a start-up business located in a QOZ.

Like with Section 1031 exchanges, investment in a QOF must be made within 180 days of the gain event, but unlike Section 1031, if the gain is generated through a pass-through entity, the 180 days starts on the sale transaction date, December 31 of the year of sale, or the due date of the pass-through entity's tax return, without extension. Thus, real estate investors who have entered into a Section 1031 exchange that failed the 180-day requirement may utilize the more favorable timing rules for a QOZ Fund investment.

Following the spirit of the law, Code Section 1400Z-2 states that QOZ Property is tangible property acquired by purchase after December 31, 2017, and used in a trade or business of the QOF that must satisfy one of the following requirements:

- The original use of Qualified Opportunity Zone Property commences with the qualified QOF, or
- The QOF *substantially improves* the property.

The *substantial improvement* to the property is generally defined as taxpayers doubling the adjusted basis in the property after purchase and during any 30-month period that they hold their qualified QOZ Property, but

Tax Benefits for Investments in a QOZ Fund
Made by December 31, 2026

Which tax benefits remain for investments in a QOZ Fund made by December 31, 2026? Starting in tax year 2022, only two tax incentives remain, the deferral of recently generated capital gains until tax year 2026 and the tax-free appreciation of such investment held for at least 10 years in a QOZ Fund.

As detailed above, the partial elimination of 15% of the deferred capital gain required investment by December 31, 2019, and the partial elimination of 10% of the deferred capital gain required investment by December 31, 2021. But with the remaining tax incentives, in particular tax-free appreciation, investing into a QOZ Fund during tax years 2022 through the end of 2026 continues to be an incredible option for investors.

IRS guidance provides nuances to how this is computed for various types of property.[v]

Notable additional requirements include:

- Strict prohibition of generating the invested capital gain from a related party or acquiring the QOZ Property from a related party;[vi]
- 50% income sourcing within a QOZ for a QOZ Business;[vii]
- The nonqualified financial property test that restricts a QOZ Business from holding nonqualified financial property (cash, debt, stock, partnership interest, options, and futures) to average less than 5% (except for a reasonable amount of operating working capital);[viii]
- The working capital safe harbor, which essentially permits a QOZ Business to hold cash during the development of a project or business for 31+ months (with up to an additional 24 months due to a federally declared disaster), but requires a specific written document and a schedule that meets the requirements of Treasury Regulations that is substantially followed;[ix] and
- Annual testing of the QOF on June 30 and December 31.[x]

Care should be given to drafting the working capital plan and schedule, as the Treasury Regulations do not generally provide that these documents can be amended, although proposed Treasury Regulations provide for amending a working capital plan for a QOZ Business operating in a federally declared disaster area for 120 days after the declaration lapses.[xi] Note that at the time of writing, the federally declared disaster due to COVID-19, originally issued on March 13, 2020, continues to be in effect.[xii]

OQZ Controversy – Senator Wyden's Investigation

As previously noted, the policy behind the QOZ provision in the Code was to spur economic development and create jobs in designated communities that were considered distressed during the 2010 census by providing tax incentives to investors who made long-term investment into these communities. Due to concerns whether investments in QOZs are benefiting low-income communities rather than providing a tax-avoidance tool for wealthy individuals, Senate Finance Committee Chair Ron Wyden of Oregon launched an investigation into the operation and effects of QOZ Funds.[xiii] The senator has also previously introduced legislation to amend the statute.

In a letter sent to seven firms that invested in QOZ projects dated January 2022, Wyden noted that he has "long been concerned that the Opportunity Zone program may permit wealthy investors another opportunity to avoid billions of dollars in taxes without meaningfully benefitting the distressed communities the program was intended to help. ...Currently, there are no safeguards or transparency measures in place to ensure taxpayers are not simply subsidizing high-end real estate investments by billionaires without demonstrating the benefit they are providing to low-income communities they claim to help."

Unlike other government programs, Subchapter Z provides no formal job or economic tracking requirement for a QOZ investment. This lack of information has been cited as a criticism of QOZs, but the IRS has stated it needs Congressional authority to collect the data necessary to evaluate QOZ Funds and set guardrails.

With that said, Wyden specifically requested the firms provide detailed project information, including statistics on job creation and details regarding the business planning activities that occurred prior to the introduction of QOZs in December 2017, as well as any efforts made by the investors to solicit the designation of the QOZ utilized in the project.

The QOZ selection process involved governors submitting nominations of certain low-income census tracts by March 1, 2018, to the Secretary of the Treasury for certification and designation as an eligible tract under the terms of Section 1400Z-1. Notably, the census data used to determine if the tract qualified as a low-income community was almost 10 years old.

Regardless of the 2020 decennial census data, the 8,760 QOZ census tract boundaries listed in 2018 are confirmed as final and unchanged.[xiv] Thus, QOZ designations are permanent for purposes of Section 1400Z-1 and despite criticism, the statute would have to be amended by the U.S. Congress to change the QOZ tracts.[xv]

In his letter, Wyden noted several luxury real estate projects he finds problematic, including a marina in Palm Beach, hotels in Portland and New Orleans, and projects in Houston, Miami and Las Vegas, many of which he believed would have been developed absent the QOZ designation and tax benefits, in part because the area was already "booming."

Compliance – A Major Issue

On February 7, 2022, following an audit initiated to confirm the IRS's review process and to ensure that QOZ Funds meet the statutory requirements and reporting requirements for compliance for a QOZ investment, the Treasury Inspector General for Tax Administration issued a report titled "Additional Actions Are Needed to Address Qualified Opportunity Zone Fund and Investor Noncompliance," which details that both qualified

Currently, there are no safeguards or transparency measures in place to ensure taxpayers are not simply subsidizing high-end real estate investments by billionaires without demonstrating the benefit they are providing to low-income communities they claim to help.

opportunity funds and investors often failed to provide the IRS with the required accurate information reporting to the IRS.[xvi] The report also listed additional actions that are needed to address QOZ Fund and investor noncompliance. It further notes that the IRS is developing a compliance plan to ensure the QOZ requirements are met.

Annually, QOZ Funds are required to submit Form 8996, *Qualified Opportunity Fund*, to certify to the IRS the QOF status, provide investment information and report to the IRS a penalty if the QOF fails the 90% investment standard.[xvii] Additionally, QOF investors are required to submit Form 8997, the *Initial and Annual Statement of Qualified Opportunity Fund Investments*.

A significant recurring error noted in the report pertained to the filing of Form 8996, with 37% of initially e-filed 2018 Forms 8996 failing to file the following tax year. The report also cited failure to include required information on Form 8996 and QOFs intentionally not complying with the QOZ requirements.

The report identified a significant issue regarding the legal structure of the QOF, with many QOFs reporting investment in another QOF. This is contrary to the statute, which requires a QOF be "organized for the purpose of investing in qualified opportunity zone property (*other than qualified opportunity zone fund*)."[xviii]

The report notes that "Management stated that a QOF may invest in another QOF, but that investment is not considered QOZ Property and counts against the QOF in the 90% investment standard," a difficult error to overcome, but one that may warrant evaluation given certain permitted transfers for reinvestment under the Treasury regulations.

As a result of the report, the IRS is developing guidance for QOFs that intentionally do not comply with the requirements of a QOZ investment and thereafter will work on developing a decertification process for such QOFs. IRS Notices will be sent to QOZ Funds identified as providing inaccurate information, including those that reported investing in another QOZ Fund and to certain QOF investors to address the investment eligibility.

The IRS is also developing a plan to address QOZ Fund and investor compliance and coding issues with software providers. Further, amendments to Form 8996 are forthcoming, including the requirement for QOFs to report the tax ID of any investor who disposes of their equity interest in the QOF on the Form 8996.

Opportunity to Correct Errors

While certain structural issues with QOZ Funds may be difficult to correct, now is the time to look into any concerns. Due to the COVID-19 pandemic, the IRS issued relief to QOZ compliance requirements, which presents an opportunity to potentially remedy mistakes.

The relief from the penalty for QOF compliance with the 90% investment standard for 2020 and 2021, combined with the ongoing federal disaster declaration, allows certain errors in a QOF or the underlying subsidiary QOZ Business it is invested in to be corrected before the next testing date on June 30, 2022.

For anyone already invested in a QOZ project, now is the time to examine your compliance regime and be prepared for an IRS review.

Tremendous Tax Benefits

Despite the rigidity of Section 1400Z-2 and the Treasury Regulations, the tax benefits continue to be tremendous for compliant investments. There is no limit to the amount of gain excluded after the 10 years and the exclusion includes depreciation recapture.

About the Author:

Katherine Noll, J.D., LL.M., B.B.A. Finance, is a Co-Chair of Chamberlain Hrdlicka's Qualified Opportunity Zones practice, advising clients on tax incentives to invest in economically disadvantaged communities through private sector investment vehicles known as Qualified Opportunity Funds (QOFs). She also applies her legal and finance acumen to assist clients with federal and multi-state income tax matters, including business tax planning, tax compliance, controversy, executive compensation, fringe benefits and employee benefit plan matters.

Active in the legal community, Noll is a board member and a past president of the Bexar County Women's Bar Association and Foundation, where she also sits on the Steering Committee for its LEAD Academy. She is a member of the State Bar of Texas, the Oklahoma Bar Association, the American Bar Association-Tax Section, and the San Antonio Bar Association, as well as the San Antonio Economic Development Department's External Advisory Group for Qualified Opportunity Zones.

Footnotes

[i] IRC § 1400Z-2(a), (b).
[ii] 83 Fed. Reg. 54279 (Oct. 29, 2018); 84 Fed. Reg. 18652 (May 1, 2019).
[iii] IRC §1400Z-2(d)(2)(A).
[iv] Treas. Reg. § 1.1400Z2(a)-1(b)(11).
[v] IRC §1400Z-2(d)(2)(D)(ii); Treas. Reg. § 1.1400Z2(d)-2(d); IRS Notice 2018-29 (April 16, 2018). See IRS Notice 2021-10 (January 19, 2021).
[vi] IRC §1400Z-2(a)(1), (d)(2)(D)(iii).
[vii] IRC § 1400Z-2(d)(3)(A)(ii) (cross referencing IRC § 1397C(b)(2)).
[viii] IRC § 1400Z-2(d)(3)(A)(ii) (cross referencing IRC § 1397C(b)(8)).
[ix] Treas. Reg. § 1.1400Z2(d)-1(d)(3)(v)(A)-(C).
[x] IRC § 1400Z-2(d)(1).
[xi] Prop. Reg. § 1.1400Z2(d)-1(d)(3)(v)(D).
[xii] See https://www.fema.gov/disaster/coronavirus/disaster-declarations.
[xiii] https://www.finance.senate.gov/chairmans-news/wyden-launches-investigation-into-opportunity-zones.
[xiv] IRS Announcement 2021-10 (May 14, 2021).
[xv] IRC § 1400Z-1(c)(2)(B).
[xvi] TIGTA report number 2022-40-018, "Additional Actions Are Needed to Address Qualified Opportunity Zone Fund and Investor Noncompliance" (February 7, 2022), https://www.treasury.gov/tigta/auditreports/2022reports/202240018fr.pdf.
[xvii] Note that under Notice 2021-10, the 90% investment standard is not taken into account for tax years 2020 and 2021.
[xviii] IRC § 1400Z-2(d)(1).

Renew Your TXCPA Membership!

It's time to renew your TXCPA membership. Now more than ever, it's critical to stay connected to TXCPA's resources, learning opportunities and network of CPA members across the state. Your annual renewal includes at least 20 hours of FREE CPE, deep discounts on TXCPA Passport CPE, updated news and professional information, exclusive access to the communities on TXCPA Exchange, and more. You can renew online by logging in to our website. Please reach out to our member service team if you need assistance.

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The editors of *Today's CPA* are seeking article submissions for the magazine. *Today's CPA* is a peer-reviewed publication with an Editorial Board consisting of highly respected CPA practitioners.

The publication features articles and columns that focus on issues, trends and developments affecting CPAs in all facets of business. If you would like to submit an article for consideration or to learn more, please contact Managing Editor DeLynn Deakins at ddeakins@tx.cpa or Technical Editor Brinn Serbanic, CPA, CFP™, at technicaleditor@tx.cpa.

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TXCPA'S 2021-2022 YEAR IN REVIEW

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

The 2021-2022 year continued the challenging and unprecedented time as we faced the impacts the pandemic had on our professional and daily lives. TXCPA remained committed to advocating for the profession and serving our members with critical updates and information, learning opportunities and connections to thousands of CPAs across the state.

TXCPA is in year two of our current strategic plan. There are three pillars of success that form the foundation of our strategic plan: Community and Connection, Professional Excellence and Advocacy. Within the plan, there are three organizational goals:

- Goal 1, Governance – Organize the Society's governance and chapter affiliations to design an adaptable and unified structure that will act as a catalyst for growth and strengthening operations.
- Goal 2, Technology – Acquire or leverage technology platforms to customize and expand delivery of education and member value.
- Goal 3, Growth – Broaden member categories to reflect an evolving profession and identify complementary organizations to partner or affiliate with for expanded service capabilities.

You can see the plan on our website at this link. The work done under this plan is helping TXCPA become a stronger and more future-ready organization.

Within the first year of the plan, we completed several objectives, including collaborating with all 20 chapters on the completion of affiliation agreements and completing an internal assessment of our technology resources and data.

Following is a summary of the efforts completed in 2021-2022 under the strategic plan goals and under the three pillars of success.

GOAL 1 – GOVERNANCE

In this second year of the plan, we consolidated some of the organization's 501(c)(3) entities. The changes were made to increase the quality of our content and its delivery, expand our service of health and well-being to members, and to competitively position us for the future of education.

At the Midyear Board of Directors and Members meeting in January, the Board of Directors voted to merge the CPE Foundation into the Accounting Education Foundation (AEF). The work of the Accountants Confidential Assistance Network (ACAN), under the former Peer Assistance Foundation, will continue to be done through the TXCPA 501(c)(6) entity.

GOAL 2 – TECHNOLOGY

We're making great progress to move TXCPA and the chapters to common technology platforms and better serve our members. To date, 17 chapters have websites hosted by TXCPA, 19 chapters have nested career centers, and 16 chapters are utilizing NetForum for event registrations and engagement tracking (with all 20 chapters having access).

GOAL 3 – GROWTH

Also at the Midyear Board of Directors and Members meeting in January, the Board of Directors approved revisions to the membership categories and dues rates, which included no state-level increase for CPA members.

Member categories were changed for simplification and clarity, as well as to provide expansion opportunities to connect more people to TXCPA. The number of member categories did not change. Please see Figure 1 for a summary of the changes that were made.

THREE PILLARS OF SUCCESS

The following efforts were completed this year under the three pillars of success in the strategic plan – Community and Connection, Professional Excellence and Advocacy.

Community and Connection

We focused again this year on growing our community with the addition of new members. The goal this year was to grow by 1,000 new members (1/3 being CPA members). As of April 14, 2022, we had exceeded this goal, with nearly 2,700 new members added, including more than 600 new CPA members.

To engage the next generation of CPAs, we're broadening our reach and increasing our metrics around our pipeline initiatives. We had a goal to reach at least 6,000 high school and college students with accounting career and TXCPA membership information. This is the first year we have tracked the statewide efforts related to the pipeline. As of April 14, 2022, TXCPA and our chapters reported nearly 3,200 student interactions. A statewide pipeline strategy plan is being developed to help us increase our reach and measurement going forward.

Professional Excellence

Digital learning opportunities have been critical over the past few years and they will continue to be a valuable way to provide value to members. We set a goal to increase our digital learning programs by 20%, which would be a total of 620 offerings. As of April 14, 2022, we had offered 633 digital programs.

We also began meeting in person again as pandemic conditions improved. We look forward to continuing to host in-person events and providing attendees with opportunities to network and enjoy some great destinations across the state.

To enhance state and chapter collaboration, we set out to work with at least one chapter on a CPE pilot project to have dialogue regarding a business model of CPE. TXCPA Fort Worth worked with us on a pilot this year. We thank the chapter leadership in Fort Worth for their willingness to work together on this important opportunity to deliver additional value in Fort Worth.

Advocacy

In the area of advocacy, we continued our work to extend the TXCPA brand to promote the profession to the public through our CPA Advantage campaign, with a goal this year of hitting 2 million impressions. As of April 14, 2022, we had more than 1 million impressions and our largest awareness campaign rolled out in the spring.

To expand the influence of the CPA-PAC, we set out to increase participation to at least 5% of members and strive for a fundraising amount of at least $250,000. As of April 14, 2022, we reached $235,000 of this goal.



TXCPA and AICPA leaders held annual hill visits virtually this past fall. We met with 18 Texas Congressional offices, including both senators. These important opportunities enable us to strengthen our relationships and have significant dialogue with our legislators.

When we visited with legislators, we addressed four key pieces of legislation that would impact the profession and discussed the following:

- The bipartisan Filing Relief for Natural Disasters Act (H.R. 3574/S. 2748), which would allow the IRS specific authority to quickly postpone certain deadlines in response to state-declared disasters;
- COVID-19 Tax Penalty Relief, H.R. 5155, the Taxpayer Penalty Protection Act of 2021, which would provide taxpayers with targeted relief from both the underpayment of estimated tax penalty and the late payment penalty for the 2020 tax year;
- HCR 44/SCR 11, Fiscal State of the Nation Concurrent Resolutions, which require the Comptroller General to present the Financial Report of the U.S. Government to an annual joint hearing of the House and Senate Budget Committees;
- Objective analysis of the nation's financial position;
- Supporting AICPA and the accounting profession's enhanced awareness of the federal budget deficit and improving fiscal decision-making;
- H.R. 3855, the Accounting STEM Pursuit Act of 2021, which would include or recognize accounting under the technology definition of STEM.

Summary of Membership Category Changes

INTERNATIONAL AFFILIATE AND CPA CATEGORIES – Combined, with same dues, similar criteria

CANDIDATE, STUDENT, RETIRED CPAS AND FACULTY AMBASSADOR CATEGORIES – Language changes made for clarity of eligibility

LIFETIME/HONORARY CATEGORY – No changes

NON-CPA EMPLOYEE CATEGORY – Changed to Accounting and Finance Professional and expanded to other accounting and finance professionals; still requires a TXCPA CPA member sponsor for some; now includes non-CPAs working in the same organization as a TXCPA CPA member or for a company owned by a TXCPA CPA member; degreed non-CPAs working in an accounting/finance function with no CPA on staff; and related credential holders

ACADEMIC AFFILIATES CATEGORY – Changed to Business and Accounting Educator and expanded to include both CPA and non-CPA educators

NEW: ASSOCIATES CATEGORY – Requires two TXCPA CPA member sponsors; includes non-CPAs not qualified for other categories and/or individuals who offer a related product or service

TXCPA's Federal Tax Policy Committee (FTP) was hard at work addressing issues that impact the profession and urging changes within the IRS. As of this writing, the FTP:

- Urged sufficient IRS funding to improve taxpayer services (May 2021);
- Recommended the IRS stop collection efforts and other administrative actions against taxpayers while related correspondence is unread or unresolved, address inaccessibility of the IRS phone system and implement the NTA's recommendations for more efficient communications (September 2021);
- Requested changes in IRS statute of limitation practices (December 2021);
- Recommended that the IRS streamline and expedite the administrative adjustment request process of the Centralized Partnership Audit regime (January 2022);
- Recommended TXCPA join other state CPA societies asking members of Congress to support bipartisan House and Senate letters to improve this year's tax filing season process (January 2022);
- Recommended that the IRS engage and seek comments from the tax professional community before moving forward with any additional third-party authentication process (February 2022);
- Urged Treasury and the IRS to fully delay implementation of Schedules K-2 and K-3 filing requirements to 2023 for the 2022 tax year (March 2022);
- Called for a balanced IRS budget in the Build Back Better Act (March 2022).

GET INVOLVED

We are thankful for the many contributions of our members and state and chapter leaders who made the work possible this year and kept us focused on achieving our goals. We're always looking for new leaders and volunteers at TXCPA. If you have not served in a volunteer role and are interested in participating, please contact your chapter or visit the "Get Involved" section on our website.

TXCPA's Annual Meeting of Members and Board of Directors Meeting will be held on July 1-2, 2022, at the family friendly Kalahari Resorts and Convention in Round Rock, Texas. We'll have a full agenda of engaging topics and opportunities for you to shape the future of TXCPA and your profession. We'll also provide a full report on our progress as we continue to move TXCPA's priorities forward. We hope to see you there!

FEATURE

A CPA's Guide to Data Analytics

By Izhar Haq, Sarah Hinchliffe and Christopher Bates

Data analytics has become increasingly common in businesses of all sizes and across all industries. It is enabling businesses to improve their operations, reduce costs and identify new business opportunities by better understanding their customers and improving the products and services provided to those customers.

Some aspects of data analytics can be a challenge to understand without some knowledge of statistics. However, the basic principles and the impact it will have on businesses and public accounting are important for CPAs to understand.

The same analytical tools used by companies to manage their operations will also provide CPAs the tools to better understand their clients' operations and dramatically change the way that external audits are performed. These changes will be driven by the challenges to improve the services provided to clients while also reducing costs. The changes will also affect the skill sets needed by current as well as aspiring CPAs to effectively identify material omissions and misstatements in client financial statements.

The purpose of this article is to help practicing CPAs understand the basic concepts of data analytics, as well as its implications on businesses.

What is Data Analytics?

The phrase data analytics is derived from two words "data" and "analytics" and the simple answer would be that it is the analysis of data. Although most CPAs would equate data with numbers and spreadsheets, data in the context of data analytics could be numbers, but it could also be locational (gps), textual (product reviews), videos (yahoo), pictures, and so much more. Businesses have been analyzing data even before computers existed and most statistical and data analysis techniques have been around at least since the turn of the previous century.

What makes the current term "data analytics" different from data analysis in the past is that within the last two decades, the proliferation of the internet and significant increases in storage capacity has exponentially increased the amount of data that exists.

Companies have always had data on their customers and their operations, but it was not either readily available (documents and processes were primarily paper driven) or there was insufficient data storage and processing power available (data storage was much more expensive in the past).

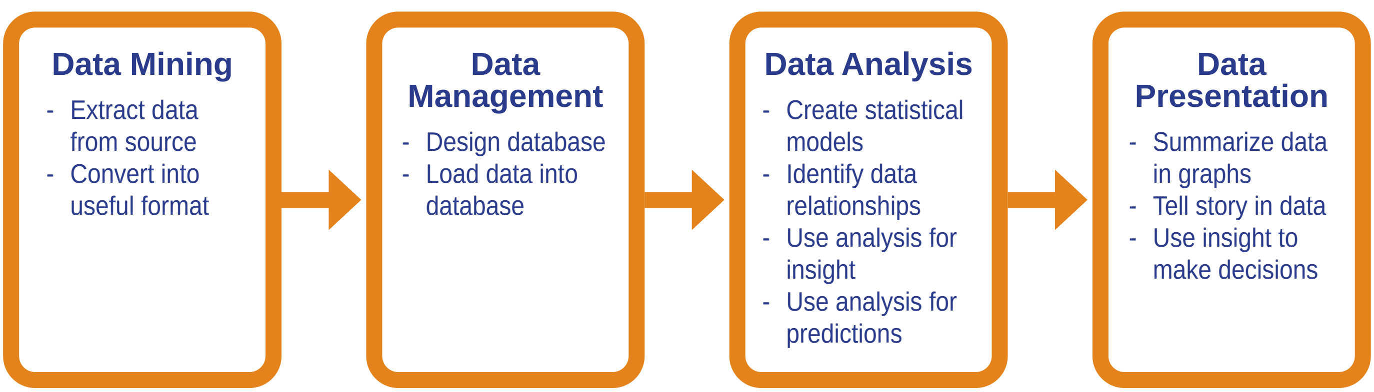
The advances in computing speed and multi-processing have enabled the raw processing power to sift through the vast amounts of data collected. Business intelligence, which was a popular term commonly used in the business community over a decade ago, used data that companies had readily available at the time (financial, marketshare, capacity, etc.) to create an informational dashboard for executives to understand past activity of a business.

While business intelligence was backward looking, data analytics can look backwards and also be forward looking. It does not just summarize data, but strives to understand the underlying trends in the data

According to Lotame: "The term data analytics refers to the process of examining datasets to draw conclusions about the information they contain. Data analytic techniques enable you to take raw data and uncover patterns to extract valuable insights from it."[1]

As shown in Figure 1, the data analytics process can be divided into four steps. The first step is called data mining and involves extracting data from a source and converting it into a useful format.

Figure 1. Data Analytics Steps



The second step is the data management or data warehousing step. This step usually involves designing a way to store the data so that it can be easily managed and retrieved.

The third step is the actual process of analyzing the data for insight and predictability. The final step involves presenting the data, as well as the insight to assist decision-makers in the decision-making process.

The data analysis step of data analytics consists of three main processes, which include:
1) Descriptive Analytics,
2) Advanced Analytics, and
3) Automated Analytics.

Descriptive analytics is very similar to what used to be called business intelligence, in that past activity, such as sales, expenses and product mix, are summarized in charts and graphs to explain what has already happened and tries to identify if there are any patterns.

Advanced analytics uses statistical and other analytical tools to explain either why things have happened in the past or what may happen in the future based on prediction or discovery of trends.

Automated analytics takes the advanced analytical tools and automates the analysis using machine learning techniques.[2] Advanced analytics can be divided as follows:
1) Diagnostic,
2) Predictive, and
3) Prescriptive.

Diagnostic analytics attempts to explain the past behavior of the data being analyzed. Why have sales been higher in some months and lower in others? Have sales gone up when more money has been spent on marketing? Has raising prices in the past reduced sales volume?

Predictive analytics uses the past behavior of the data to predict future outcomes. If marketing expenditures are doubled, sales will increase by x%. If sales price is increased by x%, then sales volume will decrease by y%. If price is discounted by x%, then sales volume will increase by y%. Predictive analytics assists in decision-making by quantifying a decision's impact.

Prescriptive analytics attempts to identify the best course of action based on the data analyzed. Will revenues be maximized by increasing marketing expenditures or using that money to discount the price? Prescriptive analytics allow decision-makers to determine the best course of action in the face of uncertainty.

Data Analytics' Impact on Business

Data analytics enables businesses to turn the data they have collected from their operation and their customers into information they can use to improve the process of making

TXCPA Annual Meeting

of Members and Board of Directors Meeting

[Kalahari Resorts and Convention](#) | Round Rock, TX
July 1-2, 2022

The 2022 Annual Meeting of Members and Board of Directors Meeting will be held on Friday and Saturday, July 1-2, 2022, in Round Rock at the family friendly Kalahari Resorts and Convention.

There is no need to leave the hotel while at Kalahari Resorts and Convention. The facility has indoor and outdoor waterparks, a luxurious spa, a mega arcade, bowling, an adventure park, restaurants, and diverse shopping! For those who want to experience the area outside of the hotel, there are also many exciting things to do nearby.

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Rate July 2, 3 and 4: $349 + resort fee and tax
Please note: A reduced number of rooms available for July 2-4 due to holiday weekend
Cut off – June 7, 2022
Parking – Valet and self-parking available

2022 Silent Auction – Back by popular demand, TXCPA is hosting a silent auction to raise funds to support the Accounting Education Foundation's scholarship program.

When: July 1-2, 2022
Where: Annual Meeting of Members in Round Rock
Participation: Chapters and members encouraged to donate items that have regional flavor
Deadline to submit donation form: May 31, 2022.

Learn more about the Annual Meeting of Members and silent auction:
Meeting Information
Silent Auction Information
Book Room

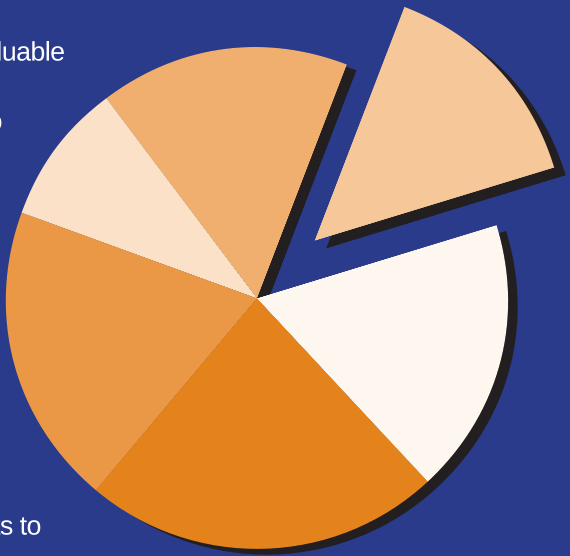
TXCPA thanks our sponsor Goodman Financial

Marketing Analytics

Marketing analytics is useful for companies and CPA firms to not only gain valuable insight into their current and future customers or clients, but can also provide significant growth in the business consulting aspects of the business. The two main types of marketing analytics are sentiment analysis and competitive analysis.

Sentiment analysis attempts to determine the perception that your customers or clients and target audience have of your brand and products. This perception is generally categorized as positive, negative or neutral.

Competitive analysis compares and contrasts the strategies, strengths and weaknesses of competitors and offers valuable insight into improving current products and services or introducing new products and services.[6] Knowing what clients or customers want makes marketing campaigns more customer-oriented and enables firms and companies to customize their marketing efforts to target a segment of their entire client or customer base."[7]



decisions. "It [data analytics] is used in a number of industries to allow the organizations and companies to make better decisions, as well as verify and disprove existing theories or models."[3]

Improved decision-making from data analytics is expected to have a profound impact throughout the departments of businesses. Three areas that will especially have a significant impact are marketing, operations and innovations. "The benefits of using data analytics to drive decisions can impact every aspect of your business, including operations, marketing and product."[4]

Marketing

Marketing is all about making prospective customers aware of the business' products or services and creating an image of that business through branding. Any data that can be used to gain an understanding of that audience will make the marketing efforts that much more effective.

Successful marketing is more than just catching a customer's attention. Studies and data have shown that the most successful marketing efforts stem from building a relationship with customers and creating meaningful brand awareness, which is done by working to understand what customers want to see and hear.[5]

In addition, data analytics can provide the level of detail that would allow a business to better understand their existing customers so that advertisements can be targeted to a specific segment of their customer base.

Operations

Data analytics provides businesses with information that enhances their understanding of all aspects of their operations. Data on inventory/warehouse management, logistics, pricing/sales strategies, supply chain, and predicting product demand enable businesses to make decisions that improve operations in a holistic manner that maximizes operational efficiency.

Data analytics can also help identify other potential opportunities to streamline operations or maximize profits. By identifying potential problems, it eliminates the process of waiting for them to occur and then taking actions. This allows companies to see which operations have yielded the best overall results under various conditions, identify which operational areas are error-prone and which areas need to be improved.[8]

UPS used data analytics to reduce fuel consumption for their drivers that resulted in a savings of 10 million gallons of gas.[9]

CPA firms have an opportunity to expand their business consulting services by providing operational analytics to small and medium-size businesses that do not have the resources or staff for analytics that are available to large businesses.

Innovations

Data analytics not only allows businesses to improve the decision-making for the way they are currently conducting business, but also allows businesses to gain insight for delivering new products and services. Using data to drive innovation will transform the business, as well as its products and relationship with customers.

Netflix used data analytics to create content that its customers wanted to watch resulting in sales increasing 36%.

T-Mobile used data analytics to transform its customer relationship and reduce churn by 50%. They matched social media data of their subscribers with CRM software and internal billing to identify loyal subscribers with high-lifetime-value to create a personalized retention campaign.[10]

Data Analytics and Public Accounting

The independent audit function is critical for the smooth functioning of the capital markets because it provides reasonable assurance that the financial statements of a publicly traded corporation are free of material omissions or misstatements. This independent verification on the accuracy of the financial statements reduces the risk exposure for investors and creditors.

Public accounting firms fulfill this function by performing audit procedures based on Generally Accepted Audit Standards that rely on professional judgement and an evaluation of the effectiveness of internal controls. "The traditional audit plan typically entails a series of preordered steps with the objective of addressing a series of audit assertions, relative to the value of assets and flow of resources."[11]

The audit function as it exists today is a reflection of the evolving complexities of financial reporting and past expectations of the capital markets, regulatory entities, and society.

Opportunities and Challenges

As technology continues to evolve, data analytics promotes changes to business models and surprises those who are unprepared. Businesses change their strategies and the way that they operate. New threats and opportunities arise. In an increasingly data-driven world, CPAs need to be able to adapt to these technological disruptions.[12]

The potential impact of data analytics on the audit process is even greater because it can make audits more effective and efficient, and risks easier to assess. Audit data analytics methods can be used in audit planning and in procedures to identify and assess risk by analyzing data to identify patterns, correlations and fluctuations from models. These methods can give auditors new insights about the entity and its risk environment and improve the quality of the analytical procedures in all phases of the audit.[13]

One of the most significant challenges to the audit profession in incorporating data analytics is the audit standards. The audit standards, which have served the profession very well, were developed before data analytics and therefore are not integrated into the audit process. "In general, the auditing profession is governed by standards that were conceived some years ago and that did not contemplate the ability to leverage big data."[14]

The other significant challenge is ensuring that accounting professionals start their careers with a skill set that allows them to effectively incorporate data analytics into their thought process and work requirements as they plan and complete audits.

"The human element of data analytics is the most critical factor," said Roshan Ramlukan, EY principal and global assurance analytics leader. "But it's also the least understood and an impediment to further growth in this area. Leaders must also recognize that analytical skills must be developed in all of their people, not just a few data analysts."[15]

Data Analytics Learning Options

Need to learn more about data analytics? TXCPA CPE programs are available. Go to the Education area of our website.

The Automated Audit

The American Institute of CPAs (AICPA), in its white paper titled "Reimagining Auditing in a Wired World," asked the simple question "How would financial statement audits be designed if auditing were a new service that had just been invented?"[16] The white paper concluded that existing audit standards needed to be modified to incorporate data analytics, auditors should be encouraged to use technologies that increase audit assurance and that the audit process needs to take a "quantum leap" to redesign the audit process away from legacy audit plans and incorporate the latest technologies.

Sample-based testing is one area that is expected to change. Data analytics and big data will allow auditors to incorporate all of the financial data of a company and evaluate it for patterns associated with potential errors and fraud.

Big data is a term used to describe the large volume of data that a business collects in the course of its operation. The transformed audit will expand beyond sample-based testing to include analysis of entire populations of audit-relevant data.[17]

The concept of the automated audit is made possible as a result of data analytics and machine learning. Fundamentally, the automated audit will transform the audit plan into a control program with defined points to enhance the assurance function.

This will result in audits of the future being computer systems focused on extracting data, formatting it and storing it in a way that specialized audit apps will be able to analyze and summarize the data. Please see Figure 2.

"The modular audit, supported by data organized using Audit Data Standards (ADS), will transform the audit plan into a control program that uses a mix of manual methods, automated modules and defined decision points to improve the assurance function in an evolutionary (not revolutionary) path."[18]

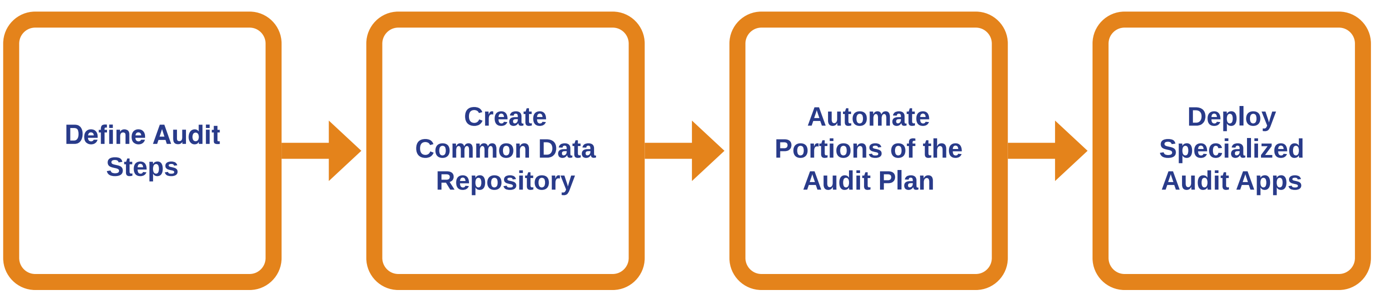
Changing Business Environment

The accounting profession is facing a challenging time as new technologies are changing the business environment. Auditing is a critical function in ensuring the smooth functioning of the capital markets and the economy.

Data analytics is having a significant impact on businesses and consequently it will also have a profound impact on auditing. The profession has taken an active role in adopting new technologies to enhance the audit function. There are many challenges, including updating auditing standards and procedures, as well as ensuring that accounting professionals have the technical knowledge and training to utilize the insight gained from incorporating data analytics into the audit function.

The opportunities for public accounting to deliver better services and greater level of confidence is unparalleled in the history of the profession.

Figure 2. Steps for Developing an Automated Audit



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Footnotes

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CPE ARTICLE

Accounting and Tax Implications of CRYPTO ASSETS

By Josef Rashty

CURRICULUM: Accounting and auditing; tax

LEVEL: Basic

DESIGNED FOR: CPAs in industry and public practice; tax practitioners

OBJECTIVES: Explain some of the accounting and tax implications of crypto assets and familiarize readers with some basic GAAP and IRS concepts

KEY TOPICS: Initial recognition of crypto assets, classification, impairment testing, fair value measurement, tax implications, mining activities for cryptocurrencies, internal controls over financial reporting (ICFR), and disclosures

PREREQUISITES: None

ADVANCED PREPARATION: None

Accounting literature defines cryptocurrencies broadly as digital records, which use cryptography for verification and security purposes on a decentralized distributed ledger (blockchain). The Financial Accounting Standards Board (FASB) does not have any standards on cryptocurrencies; however, Topic 350, *Intangibles—Goodwill and Other*, provides the accounting guidance for cryptocurrencies and thereby accounting literature addresses the common-known cryptocurrencies as crypto assets.

In December 2019, the American Institute of CPAs (AICPA) issued its nonauthoritative practice aid, *Accounting for and Auditing of Digital Assets*. The consensus from the AICPA practice aid is that companies should classify crypto assets, based on Topic 350, on their balance sheets as indefinite-lived intangible assets. (Generally, intangible assets lack physical substance and are not considered financial assets.)

Companies are increasingly accepting crypto assets for their payments, receipts or investments. This article explicates some of the accounting and tax implications of crypto assets. Its goal is not to enumerate a comprehensive list of accounting and tax issues related to crypto assets, but to familiarize readers with some fundamental GAAP and IRS concepts.

Initial Recognition

The schedule in Table 1 represents the initial recognition of crypto assets under several circumstances.

Table 1.

Type of Transaction	Initial Recognition as Intangible Assets
Purchase of crypto assets using cash	The fair value of the currencies that companies pay for acquisition plus any transaction costs represent the cost of crypto assets.
Receipt of crypto assets in exchange for goods and services that companies have provided to customers in the ordinary course of business	These transactions are usually within the scope of ASC 606, *Revenue from Contracts with Customers*. Companies measure any noncash consideration received in a revenue transaction at a fair value, rather than the fair value of what they give up at contract inception (ASC 606-10-32-21). Companies measure the fair value of the crypto assets as transaction price when they have met all the requirements of ASC 606-10-25-1.
Receipt of crypto assets as part of business acquisition or purchase asset transaction	Companies should account for the receipt of crypto assets that they have acquired as part of an acquired business in accordance with ASC 805, *Business Combination*, at their corresponding fair values.
Receipt of crypto assets from a non-customer in an exchange transaction for nonfinancial assets	Companies should account for such exchanges based on ASC 610, *Gains and Losses from the Derecognition of Nonfinancial Assets*, to determine the initial measurement of the acquired crypto assets. ASC 610-20-25-1 requires that companies apply the provisions of ASC 810, *Consolidation*, and ASC 606, *Revenue from Contracts with Customers*, for recognition of such transactions.

Classification

Companies should determine the useful life of their intangible assets as finite or indefinite life. The useful life of an intangible asset is indefinite if no legal, regulatory, contractual, competitive, economic, or other factors limit its useful life to the reporting entity. Crypto assets usually have an indefinite useful life and thereby accounting literature considers them as indefinite-lived intangible assets.

Companies do not amortize the indefinite-lived intangible assets. Instead, they test them for impairment periodically or upon a triggering event that indicates that it is more likely than not that the indefinite-lived intangible asset has been impaired. FASB provides guidance that companies should consider in assessing the impairment of their indefinite-lived intangible assets (ASC 350-30-35-18B).

Impairment

The impairment test under ASC 350 is a one-step test that compares the fair value of crypto assets with their carrying values. If the fair value is less than the carrying value, companies should recognize an impairment charge. Once companies record the impairment, they cannot reverse it even if the fair value of the crypto asset increases in the subsequent periods.

There would have been a different outcome if FASB had identified crypto assets as cryptocurrencies. (FASB requires that the fair value of any non-functional currency be adjusted – favorable or unfavorable – at the end of every reporting period in either other comprehensive income or statement of income depending on circumstances - ASC 830, *Foreign Currency Matters*.)

Companies acquire crypto assets in different transactions at different times. FASB considers each acquisition of a crypto asset as a separate unit of account for impairment testing purposes. Therefore, companies need to maintain different accounts for each acquisition of crypto assets to be able to keep track of their different cost bases. The example in Table 2 illuminates the above concept.

In this illustration, an entity acquires crypto assets in three different transactions in Year 1. These transactions are identified as A, B and C in Table 2 and each transaction is a different unit of account for accounting purposes.

Crypto Asset A: A company records the crypto asset in Year 1 at $100 at the time of acquisition.

It does not record the favorable adjustment of $20 ($120 less $100) at the end of Year 1.

It does not record the favorable adjustment of $30 ($130 less $100) at the end of Year 2.

It records a $10 gain ($110 less $100) when it disposes of the crypto asset in Year 3.

Crypto Asset B: A company records the crypto asset in Year 1 at $110 at the time of acquisition.

Table 2.

Crypto Asset Unit of Account Acquisition	Year 1 Fair Value at the Acquisition of Crypto Asset	End of Year 1 Fair Value	End of Year 2 Fair Value	Year 3 Disposal and Derecognition
A	$100	$120	$130	$110
B	$110	$80	$90	$75
C	$120	$130	$80	Not Applicable

Table 3.

Unit of Account	Year 1 Acquisition of Crypto Asset	End of Year 1	End of Year 2	Year 3 Disposal and Derecognition	Gain or (Loss)
A	$100	$100	$100	$110	$10
B	$110	$80	$80	$75	($5)
C	$120	$120	$80	Not Applicable	($40)

It records the unfavorable adjustment of $30 ($110 less $80) in Year 1.

It does not record the favorable adjustment of $10 ($90 less $80) in Year 2.

It records a $5 loss ($75 less $80) when it disposes of the fixed asset in Year 3.

Crypto Asset C: A company records the crypto asset in Year 1 at $120 at the time of acquisition.

It does not record the favorable adjustment of $10 ($130 less $120) in Year 1.

It records the unfavorable adjustment of $40 ($120 less $80) in Year 2.

See Table 3 for the bases of crypto assets at the end of each reporting period.

Fair Value Measurement

ASC 820, *Fair Value Measurement*, establishes a framework for determining fair value. FASB defines fair value as the price that a company may receive selling an asset or pay to transfer a liability in an orderly transaction between the market participants (ASC 820-10-20).

Fair values have the following three-level fair value hierarchy:

Level 1: Quoted prices in active markets for identical assets or liabilities that companies can access at the measurement date.

Level 2: Observable inputs other than Level 1 inputs.

Level 3: Unobservable inputs.

ASC 820 gives precedence to observable over unobservable inputs. In most instances, companies can determine the fair value of crypto assets as Level 1. The *Wall Street Journal* includes market information in its Markets/Market Data/ Currencies section. The information is available online at this link.

Tax Implications

The IRS provides guidance in Notice 2014-21, which was later supplemented by Rev. Rul. 2019-24. This guidance requires that companies treat crypto assets as properties rather than currencies and apply general tax principles applicable to property transactions to crypto assets.

Taxpayers can classify the crypto assets that they hold as business, investments, capital assets, or inventory. Some examples for the tax treatment of crypto assets include:

- Companies that receive crypto assets as payment for the goods and services that they deliver or provide include in their earnings the fair value of the crypto assets upon their receipts.
- Companies that exchange crypto assets for other properties incur gains on the exchange, if their adjusted bases in the crypto assets is less than the fair value of the property received or a loss if it is more.
- Companies that sell crypto assets that they hold generally recognize capital gain or loss upon the sale of their crypto assets.
- Companies that sell crypto assets that they hold as noncapital assets (e.g., inventory) generally recognize ordinary income gain or loss upon the disposition of capital assets.
- Companies that pay their employees' wages in the form of crypto assets should include the fair value of crypto assets for payroll tax withholding purposes.

Mining

Mining is the process of creating new cryptocurrencies and bringing them into circulation by solving complex mathematical problems and it is a fundamental component of blockchain technology.

Cryptocurrency miners often require many sophisticated and powerful computers and the operation consumes a significant amount of electricity. The common belief is that since producing electricity usually relies on the burning of fossil fuels, the mining process has irreversible environmental footprint costs.

Companies that engage in mining activities credit their mining income account and debit the newly generated cryptocurrency assets in their books at fair values. They account for expenses, such as costs of electricity, and depreciation of capital assets, such as computers, throughout the operation. Similarly, for tax purposes, companies should reflect the fair value of the mined crypto assets in their gross income at the date of acquisition.

Controls

Companies should exercise their internal controls over financial reporting (ICFR) for their digital asset holdings similar to other categories of their assets on their balance sheets. However, there are certain peculiarities related to crypto assets that companies should consider on their ICFR for their crypto assets.

Crypto assets usually have an indefinite useful life and thereby accounting literature considers them as indefinite-lived intangible assets.

The peer-to-peer nature of blockchain transactions is designed such that it makes the reversal of transactions very difficult or impossible. This implies that once companies send transactions to a particular wallet address, they can no longer perform any adjusting blockchain entry. Thus, controls over the initiation and authorization of transactions are critical to avoid any erroneous transfer that may lead to the loss of crypto assets.

Digital assets are secured transactions using "private keys." This means that there is an inherent risk that private keys could be stolen or lost. Therefore, companies need to maintain controls for proper storage and safeguard of their private keys.

Disclosures

Companies include general disclosures in their notes to financial statements for their crypto asset policies based on ASC 235, *Notes to Financial Statements*, and disclose risks and uncertainties associated with their crypto assets based on ASC 275, *Risks and Uncertainties*.

Furthermore, companies disclose the impairment of their crypto assets based on ASC 350, *Intangibles–Goodwill and Other*). Finally, the Securities and Exchange Commission (SEC) has additional considerations for registrants in its Regulation S-X for disclosures and

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subsequent events (also see ASC 855, *Subsequent Events*) that may apply to crypto assets.

Summary

FASB has not issued any guidance to address crypto assets' accounting per se. However, based on existing GAAP guidance and AICPA's non-authoritative literature, the prevalent practice is to consider crypto assets as indefinite-lived intangible assets.

Similarly, the IRS has treated crypto assets as properties and has made them subject to its rules for transaction of properties.

Companies that deal with crypto assets should provide accounting processes and systems to properly account for them as indefinite-lived intangible assets.

Furthermore, companies need to provide adequate controls to account for the safekeeping and proper use of their crypto assets to enable their board of directors to perform proper oversight. Companies also need to provide relevant disclosures in their financial statements.

The use of cryptocurrencies has been expanding at a rapid pace, and more and more companies accept them in their normal course of business. Therefore, the author believes that relegating the accounting issues on this subject to some existing standards may no longer suffice to convey the complexities of accounting and disclosure issues surrounding digital assets.

FASB and the SEC will eventually address the cryptocurrencies more comprehensively and will issue more specific guidance to provide a substratum to deal with the specific and emerging accounting issues of digital assets.

About the Author: Josef Rashty, CPA, Ph.D. (Candidate) is a member of the Texas Society of CPAs and provides consulting services in Silicon Valley, California. He can be reached at jrashty@josefrashty.com.

Please note that when registration is complete, a confirmation email will be sent and provide a hyperlink to access the quiz.

CPE ARTICLE: ACCOUNTING AND TAX IMPLICATIONS OF CRYPTO ASSETS

By Josef Rashty

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

1. The consensus of the AICPA practice aid is that crypto assets should be classified as one of the following:
a. Foreign currency
b. Indefinite-lived intangible assets
c. Cash and cash equivalent
d. None of the above

2. Companies measure any noncash consideration received in a revenue transaction at:
a. A fair value
b. The fair value of what they give up at contract inception
c. Either a or b
d. Management discretion

3. Crypto assets usually have a (an):
a. Limited useful life
b. Variable useful life
c. Estimable useful life
d. Indefinite useful life

4. Once companies record an impairment, they _______________ it even if the fair value of the crypto asset increases in the subsequent periods.
a. Can reverse
b. Can evaluate
c. Cannot reverse
d. Can adjust

5. For impairment testing purposes, FASB considers:
a. Each acquisition of crypto asset as a separate unit of account
b. Acquisition of all crypto assets collectively
c. Application of management judgment
d. The IRS guidance

6. The IRS' Notice 2014-21, which was later supplemented by Rev. Rul. 2019-24, requires that companies treat crypto assets as:
a. U.S. dollar
b. Properties
c. Euros
d. Precious metals (such as gold and silver)

7. Cryptocurrency miners often require:
a. Support of government
b. Public acceptance
c. Many sophisticated and powerful computers
d. All of the above

8. For tax purposes, companies should reflect the fair value of the mined crypto assets:
a. As a write off
b. As a gift
c. As a disaster recovery cost
d. In their gross income at the date of acquisition

9. The peer-to-peer nature of blockchain transactions is designed such that it makes the reversal of transactions:
a. Very difficult or impossible
b. Transparent
c. Traceable
d. All of the above

10. The use of cryptocurrencies has been _______________.
a. Stopped by the IRS
b. Expanding at a rapid pace
c. Eliminated by FASB
d. Shrinking slowly

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$449,000 gross. Heart of Texas CPA firm. 80% tax (78% inv., 13% bus., 9% other), 11% bkkpng, 9% audits/reviews, cash flow around 43%, staff in place, owner available to stay on as employee after sale if needed. TXC1078

$1,789,085 gross. Austin CPA firm. 75% tax with 52% from businesses. Steadily growing firm in desirable business hub. Solid cash flow to owner of 37%+. TXC1079

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