March/April 2018

Connecticut CPA

Advocacy. Community. Education.

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Official Notice of the 2018 CTCPA Annual Meeting

In accordance with the bylaws, notice is hereby given that the annual meeting of the Connecticut Society of Certified Public Accountants will be held on Wednesday, May 16, 2018 at Cascade in Hamden. The election and installation of the 2018-2019 Board of Directors will take place at that time.

The report of the Nominating Committee is as follows:

Susan A. Martinelli, President-elect for 2017-2018, will assume the presidency,
Dennis W. Cole for President-elect,
Marie L. Benedetto for Treasurer,
Mitchell R. Insero for Secretary,
Mark R. Torello for Member-at-Large,
Brian P. Reilly for Member-at-Large.

Other nominations may be made in accordance with Section 6.4 of the bylaws.

The 2018-2019 Advisory Council, as appointed by the Nominating Committee, will also be installed at that time. **Michael P. Jordan**, incoming chair of the Advisory Council, will serve as the seventh member of the Board of Directors.

The full proposed leadership slate is available on the CTCPA website at www.ctcpas.org/nominees.

Sincerely,

Edwin R. Muenzner, Secretary

The Connecticut Society of CPAs
716 Brook Street, Suite 100 • Rocky Hill, CT 06067 • 860-258-4800

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Editor's Note

New Tax Law, New Opportunities

The Tax Cuts and Jobs Act has been keeping everyone on their toes in the past few months, whether you've been working to figure out what it all means for your company, your clients, or you and your family.

Here at the CTCPA, the changes brought about many opportunities for our members to showcase their expertise and value to the state's taxpayers as they deal with a fundamentally new tax landscape.

Rep. Elizabeth Esty (left) speaks with with Ed Kindelan (second from right) and Patrick Duffany (right) of CohnReznick about the new federal tax law at a town hall meeting at the Farmington Library.

Media Relations

We worked with several media outlets to help educate taxpayers as well as position CTCPA members as preeminent experts in the tax and financial planning arenas. Executive Director **Bonnie Stewart** was quoted in articles including "Now that it's 2018, here's what you need to know about the new federal tax bill" in *The Day of New London* and "Accounting industry deals with tax overhaul, talent shortage" in the *Hartford Business Journal.* Many members were quoted in and wrote articles as well.

Grassroots Taxpayer Outreach

The CTCPA teamed up with elected officials including Reps. **John Larson**, **Joe Courtney**, and **Elizabeth Esty** to get the word out about the changes. Several members participated in panel discussions to answer taxpayer questions as representatives of the CTCPA.

Education and Resources

Be sure to check out our hub at www.ctcpas.org/fedtaxreform, where we're curating the latest news and updates that matter most to accounting professionals. The hub also features PowerPoint presentations you can brand and use when speaking to clients or community groups and a listing of the classes and webinars you need to keep you in the know.

We were lucky to have tax guru **Walter Nunnallee** visit Connecticut in mid-January, by which time he was able to modify his popular corporate and individual tax workshops to include several hours on the new law. These classes drew more than 1,200 participants in person or via livestream (for the first time!). There are many webinars currently available and more live programs to come to help you get the information you need to continue to best serve your company or your clients.

Patrick Duffany and **Ed Kindelan** (pictured above) and their team at CohnReznick have also provided us with a comprehensive special section on the new law starting on page 12 of this issue.

If there is more we can do to help you as you move forward in this new tax landscape, please don't hesitate to reach out.

See you next issue,

Kirsten

Kirsten Piechota, Managing Editor

2018 CTCPA Annual Meeting

Accounting in Extraordinary Times

How technology advances will make the accounting profession "unrecognizable" in the next 10 years.

Cybersecurity • Blockchain • Artificial Intelligence • Data Analytics

Wednesday, May 16, 2018

Cascade, Hamden

Members: $50, Nonmembers: $65 • CPE credit: 1 hour

5:30 p.m. – Check-in and light refreshments
6:00 p.m. – Business meeting and program
7:30 p.m. – Networking hour with wine, beer, and hot hors d'oeuvres (cash bar available)

Keynote Speaker
Barry Melancon

The accounting profession will be "unrecognizable" in 10 years, according to American Institute of CPAs President and CEO Barry Melancon, CPA, CGMA.

Barry will guide us through some of the technologies that are bringing disruptive change to not only the accounting profession but the entire world as we know it. Cybersecurity, blockchain, artificial intelligence, data analytics, and cognitive technologies are on course to radically alter the way businesses perform compliance, tax, and financial forecasting functions.

Learn how the profession will need to evolve to stay ahead and remain relevant in this new reality.

Learn more and register at
www.ctcpas.org/annualmeeting.

The following companies have already signed on as sponsors. Don't miss out – join them today!

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There's still time – Become a sponsor!

All sponsorships include your company's logo on prominent signage at the event, the evening's agenda and opening slideshow loop, the CTCPA website, and follow-up event coverage in *Connecticut CPA* magazine.

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From the Executive Director

From Planning to Fruition, Our Community Is Growing

Much of my first year as CTCPA Executive Director was spent listening and learning. So many members generously offered their time and expertise to help me learn about the accounting profession – its many strengths, its challenges, its needs.

What's New

One need that came through loud and clear was that you were looking for more ways to come together – to get insight and advice from each other, to tackle tough issues together, to meet face-to-face with people who share your geographic location or your job title.

We identified six new groups that would serve the needs of many segments of the membership. Next came the planning – members helped us conduct surveys, put together focus groups and steering committees, visit potential venues, and hold planning meetings.

And now we've moved on to the best part – the doing. Our Southeastern and Fairfield County chapters have each held two meetings. Our CFO/Controller Roundtable kicked off with a packed house for a discussion of "lean" and its potential impact on streamlining processes within accounting and finance departments led by **Bonnie Del Conte** and **Matin Karbassioon** of CONNSTEP.

Our Business and Industry Roundtable was lucky to land a visit from Connecticut Commission on Fiscal Stability and Economic Growth Vice Chair and former State Representative **Pat Widlitz**, who shared the issue areas that are likely to be included in the commission's March 1 report to the governor and the legislature. (I'd like to point out that, although the Business and Industry Roundtable is designed specifically to meet the needs of members in business and industry, those members who support them in public accounting, law, etc. are also welcome to participate.)

What's Stayed the Same

Don't worry – even though we've added all these new programs, we're continuing to do the things we've always done. Our Not-for-Profit Organizations Interest Group, for example, is as strong as ever. That group took advantage of our close proximity to the Financial Accounting Standards Board in Norwalk and invited Assistant Director – Nonpublic Entities **Jeff Mechanick** to speak at its January meeting.

We're continuing with an eye on the future and plan to rework several of our interest groups in the coming year to bring you increased value and collaboration opportunities.

I'm excited to see our community grow and evolve as more and more members become engaged. Please help us continue to move forward – check out our groups at www.ctcpas.org/groups or on page 8 of this issue. I'm sure you'll find one that would be of value for you. And if you don't, please reach out. We're always looking for our next great idea!

Bonnie

Bonnie Stewart, Executive Director

Inaugural CFO/Controller Roundtable Meeting

Our new CFO/Controller Roundtable is a group exclusively for company CFOs and controllers to meet to discuss issues, share ideas, and hear from experts. Pictured above are (from left) group Chair Brad Hillman, Bonnie, and CTCPA President Brad Kronstat.

Fairfield County Chapter Kick-Off

Our first official Fairfield County chapter meeting, held at the Stamford Sheraton, featured a discussion of the latest cybersecurity attack tactics led by Thomas DeMayo of PKF O'Connor Davies.

Not-for-Profit Organizations Interest Group FASB Update

It was a packed house for the Not-for-Profit Organizations Interest Group's recent update from Jeff Mechanick of the FASB. See page 8 for details on the group's next meeting.

CTCPA Capitol Corner

We've got our eye on happenings at the Capitol! If it will affect you, your company, or your clients, we'll keep you updated.

Read the latest at www ctcpas.org/CapitolCorner.

The 2018 Connecticut legislative session is underway. This year is a short session, running from February 7 to May 9; it will be over before we know it.

One of the great advocacy challenges for our profession is that much of the legislative session takes place right when many CPAs and accounting professionals are facing their busiest times of the year. Things move very quickly during the short session, and often there are only days or hours to react when a proposal comes forward that may have a profound impact on the profession. Therefore, **we ask that you act quickly if we send you a legislative alert and ask you to reach out to your legislators**. Please don't underestimate the impact that your phone calls and emails make in the legislative process.

Here are some key advocacy areas of interest in the next few months:

Federal Tax Reform's Impact in Connecticut

Federal tax reform means that many people in Connecticut will be paying more. In the short session, the bulk of the bills are intended to be of a fiscal nature. The governor was out of the gate early in announcing his budget adjustment plan, which includes measures intended to neutralize the negative impact of the federal tax reform package on Connecticut residents. The state legislature has also indicated an interest in adopting legislation to address similar concerns.

We'll share the information regarding any proposals that come forward so you will have an opportunity to comment on them as they come before the Finance, Revenue, and Bonding Committee.

CTCPA CPE Reciprocity Legislative Initiative

The CTCPA will be spearheading a **continuing professional education (CPE) reciprocity** measure during this legislative session that is supported by the Connecticut State Board of Accountancy. Given the fact that Connecticut is a small state bordered by three others, we have a number of members who hold multiple state CPA licenses and must comply with various CPE regulations in each state. **This measure would eliminate administrative burdens by requiring CPE reporting only in a CPA's home state**, while still upholding our state's strict licensing standards.

Other Issues to Watch

Members have asked us to pay attention to other measures before the legislature that will impact businesses and the economy. Specific issues we expect to be debated include:

Your CTCPA team at the Capitol on Opening Day of the 2018 session. Pictured (from left) are Communications Manager Kirsten Piechota, Communications Coordinator Caitlin Bailey O'Neill, Executive Director Bonnie Stewart, and Public Affairs Director Mark Zampino.

- **Sales tax on services** – Although this has not been formally proposed as of press time, our sources indicate that sales tax on services may yet again become an issue in this legislative session. Read our informational handout on the detrimental impact this type of tax could pose at www.ctcpas.org/salestaxservices.
- **Employer issues** – We'll be watching developments related to paid family medical leave, private right of action in certain workers' compensation issues, and healthcare and insurance regulations.
- **Transportation funding** – This will be a major issue this year. A number of projects Connecticut has planned are on hold because of the state's fiscal situation. Two funding mechanisms already being discussed at great length are tolls and increasing the gas tax.
- **Economic growth** – The state's economy is on everyone's mind. We will be paying close attention to developments and lend our voice and expertise in areas where we can support initiatives that will help grow Connecticut's economy.

We will share developments on these issues and more as soon as they are available. If you have any questions, please reach out. We're here to help.

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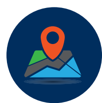
Engage. Connect. Progress.

MEMBER Groups and Meetings

Have questions or want to learn more? Contact **Alicia Strong** • alicias@ctcpas.org • 860-258-0216.

Upcoming Meetings >>

Register and find more meetings at **www.ctcpas.org/membermeetings**.



Southeastern Connecticut Chapter Meeting: Federal Tax Reform

Tuesday, March 6 • 8:30 - 9:30 a.m.
Charter Oak Federal Credit Union, Waterford

Barry Fischman, CPA and **Michael D'Addio**, JD of Marcum walk us through the ins and outs of federal tax reform at the next (free!) meeting of the Southeastern Connecticut Chapter, worth 1 CPE credit.

Technology Breakfast Roundtables:

Office 365 – What CPAs Need to Know

Wednesday, March 21 • 8:00 a.m.
Riverdale Diner, Shelton

Open Discussion

Thursday, April 19 • 8:00 a.m.
New York Pickle Deli, Rocky Hill

This is an informal open forum – we never limit discussion. We have experts on board who can help you with portals, paperless office, IT security, e-filing, and more. There is no need to register – walk-ins are welcome and members purchase their own breakfasts.

Not-for-Profit Organizations Interest Group: FASB Not-for-Profit Accounting Standards Update

Thursday, May 10 • 8:30 - 10:00 a.m.
CTCPA Education Center, Rocky Hill

Join us for a discussion of FASB's *Proposed Accounting Standards Update – Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. [See page 23 of this issue for more on the proposal.]

We have a CTCPA group That's right for you!

Learn more and join these groups at **www.ctcpas.org/groups**.

Learn from industry experts and discuss issues that affect you, your company, and your clients at these expanded and enhanced group meetings.

Specialized Community Groups and Meetings

Business and Industry Roundtable
CFO/Controller Roundtable
Firm Administrators Group *(Coming soon!)*
Friday Focus for Members in Industry Meetings
New and Young Professionals Group
Small Business Group *(Coming soon!)*

Regional Area Groups and Meetings

Easton CONNection Meetings
Fairfield County Chapter
Fairfield County New and Young Professionals Group
Southeastern Connecticut Chapter
Torrington CONNection Meetings

Specialized Interest Groups and Meetings

Accounting and Reporting Standards Interest Group
Employee Benefit Plans Interest Group
Federal Income Taxation Interest Group
Financial Institutions Interest Group
Golf Tournament Interest Group
Governmental Accounting and Auditing Interest Group
Not-for-Profit Organizations Interest Group
Peer Review Committee *(Presidential appointment)*
State Taxation Interest Group
Technology Interest Group and Breakfast Roundtable
Trust, Estate, and Gift Taxation Interest Group
Valuation, Forensic, and Litigation Support Group

CTCPA Holiday Drive Collects Art Supplies for Connecticut Children's Medical Center

Connecticut's accounting community came together this holiday season to collect arts and crafts supplies to support the Connecticut Children's Medical Center's ArtReach program. ArtReach helps patients, siblings, and families create arts and crafts projects so they can relax and focus on something other than illness.

Central Connecticut State University

Crowe Horwath

Fiondella, Milone & LaSaracina

Goldblatt Bokoff

Thank you, participants!

- Beers, Hamerman, Cohen & Burger
- Central Connecticut State University Accounting Students
- Crowe Horwath
- Fiondella, Milone & LaSaracina
- Elizabeth Getrost – United Technologies Corporation
- Goldblatt Bokoff
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- Post University Accounting Students
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- Elizabeth A. Rabbett – Greenhaus, Riordan & Co.
- UHY Advisors N.E.
- University of Saint Joseph Accounting Students
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Hallisey & D'Agostino

Harper & Whitfield

Nicola Yester & Company

PKF O'Connor Davies

Post University

University of Saint Joseph

Big Data, Analytics, AI, and the Finance Professional

Data gathering and accounting's role in it continues to change. A thought leader explores the opportunities.

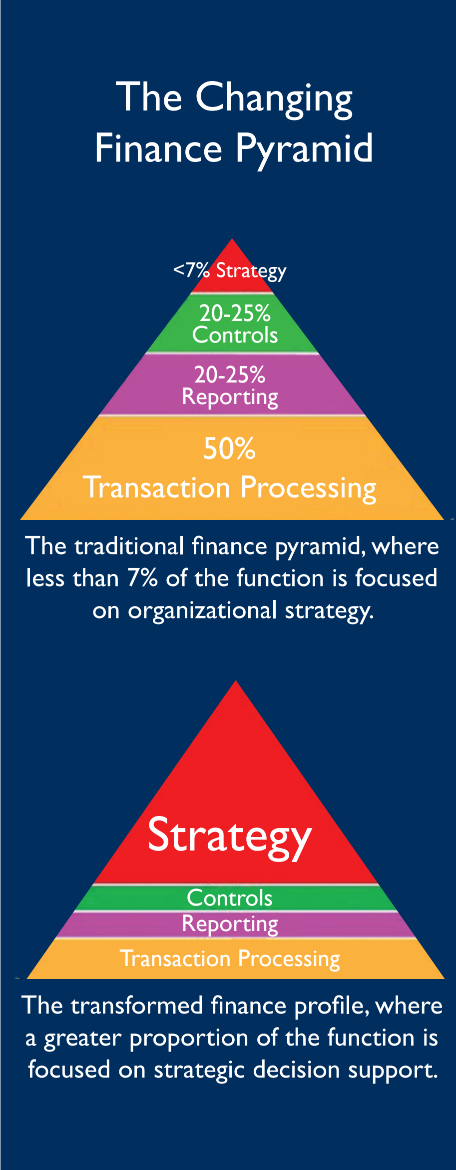
By Aubrey Joachim, FCMA, CGMA, Founder, Leading Edge Change

Artificial intelligence (AI) and robotization will affect many elements of the human endeavor. That includes the way humans interact, how work is done, and what work need not be done by humans.

These advancements present an opportunity for finance professionals, provided they embrace these tools. Businesses will still have roles in which insight, transparency, stewardship, and ethical corporate conduct are valued, and strategic finance professionals can fill these roles. Risks remain, but mainly for those who fail to appreciate the new tools and get left behind.

Finance professionals must live with this changing, disruptive, but opportune environment and explore opportunities whereby the finance function itself can harness the power of big data and analytics to significantly transform itself and the organization.

Transformation can manifest itself in a number of ways across the entire finance spectrum, from the transactional space of the finance pyramid to the top end of knowledge and value generation. The two figures at right contrast the traditional finance function and the emerging future.



The traditional finance pyramid, where less than 7% of the function is focused on organizational strategy.

The transformed finance profile, where a greater proportion of the function is focused on strategic decision support.

In today's age of digitization, there is a major shift in the way transactional data is captured, recorded, verified, and converted into information. All of this is about to change even further with the advent of technologies such as blockchain and distributed ledgers.

Inventories and inventory transactions are another case in point. Inventory receipts, issues, stock-takes, and valuations are today automated and digitally tracked using radio frequency identification (RFID), which can be reflected directly as transactions in ledgers and financial statements. Human accountants may not be required at all in this once-major role that they played in organizations.

Add to this mix all the other data – customer, supplier, human resource, as well as myriad external data. The end game is that massive volumes of organizational data can be accurately captured more quickly and much more efficiently. The challenge now is deriving value from all the data.

The era of preparing periodic accounts – month-end, quarter-end, etc. – will be over. An organization's financial position will be quite accurately ascertained instantaneously and at any point in

time. The human accounting involved in the process will also decline.

Reporting will take an entirely different meaning in organizations. A report by definition is a backward look. Self-service reporting, where organizational managers will be taught by their finance business partners how to extract the information they need, will replace the need for defined periodic reports. Instead, smart finance professionals will be required to provide insights into the future.

This is the challenge for next-generation finance professionals. Already in world-class companies, not only has the volume of standard reports produced been significantly reduced, but also, more importantly, a greater proportion of the remaining reports are forward-looking insights.

It must also be said that reports will need to be automated and dynamic, and take the form of intelligent dashboards based on data visualization techniques that engage the audience. Once again the human element of processing reports will decline, but a different human element will be called for. Finance professionals will be called on to play a major role in this reporting shift if they are to retain their influence in organizations.

Finance has traditionally played a significant and sometimes preferred role in respect to organizational controls from simplistic reconciliations to audits, forensics, and even governance. This is perhaps the space that has been impacted the most due to digitization and automation. Processes involving data sharing and distribution from one point to another are digitally verified, and thereby dynamic controls have been embedded. Therefore, the significant involvement of finance professionals in the traditional controls space is disappearing.

Instead, there is a need for finance to shift its focus to dynamic and perhaps preventive controls, as well as risk management, using significantly more sources of data. With this shift, the transformed finance function should be able to play an even more important role in stewardship and governance within organizations.

The top of the pyramid is the space where big data and analytics must play the most significant role in the transformation of the finance function and the shift of the finance professional to the role of a trusted and valued business partner.

The pre-digitization era restricted finance to a narrow window of organizational data – mostly financial – and therefore prevented the finance professional from using the significant management accounting tools and techniques that he or she is taught.

The current era of big data and analytical platforms has opened up an entirely new opportunity in which finance can get involved: strategic decision support. This is perhaps where the future of finance and the finance profession is. Let's explore this role further.

The CFO function has the important prerogative of being able to cut across the entire organization. This opens to the finance professional access to all of the organization's data, not just the financial data. Thus, the opportunities for providing decision support are significant and can lead to more engaging business partnering.

Increasingly, finance professionals are called upon to play an expanding role in organizational strategy as well as integrated reporting. It is in this context that big data and analytics have the most influence. Finance must broaden its perspective to harness all organizational data as well as external data to construct the bigger picture of the organization in its operating environment and, more importantly, to add value.

Thus, budgeting will no longer be a simplistic spreadsheet exercise of transposing a set of sales figures provided by the sales and marketing manager to a financial spreadsheet, but rather will involve working closely with the business managers to add significantly more robustness to operational projections based on multiple sources of internal and external data that has been analyzed and related to drivers that influence the bottom-line outcomes.

Finance professionals should be able to combine their powerful management accounting skills and exploit management accounting tools to convert data into predictive insights. In this way finance can definitively claim that it is influencing the organization's strategic direction.

Further, the traditional simplistic budget-to-actual variance reporting must give way to a much more insightful understanding of organizational performance. Combining the analytics and the AI perspective, such performance management will not only be dynamic but also be customizable in order to influence different parts of the organization.

A number of analytic and data visualization software platforms allow finance professionals to provide the strategic decision support demanded of them. Many other value-adding opportunities can open to finance professionals in this space. The limit is beyond imagination.

The challenges for finance professionals in the fast-shifting era of big data, analytics, and AI are many, the most important being a willingness to keep an open and changing mindset. The other factors are improving and enhancing technical skills in analytical sciences such as statistics as well as in the use of analytic software platforms.

Aubrey Joachim is the founder of Leading Edge Change, a business-partnering firm in Australia. He is a past global president of the Chartered Institute of Management Accountants. This article first appeared in CGMA Magazine. *For more articles, sign up for the daily email update CGMA Advantage at http://bit.ly/2svn2AY.*

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2018 CTCPA Annual Meeting

Wednesday, May 16 • Cascade, Hamden

Don't miss AICPA President & CEO **Barry Melancon** as he discusses the massive changes technology is bringing to the accounting profession at the 2018 CTCPA Annual Meeting.

Details on page 5.

Federal Tax Reform Special Section

A Review of the Tax Cuts and Jobs Act – What You Need to Know Now

By Patrick J. Duffany, CPA, JD, Managing Partner – Tax, CohnReznick and Edmund S. Kindelan, CPA, Regional Managing Partner – New England, CohnReznick

With the passage of the Tax Cuts and Jobs Act ("Act"), there is much concern as well as confusion as to the impact the new legislation has on both businesses and individuals alike.

The tax changes contained in the Act are the most sweeping since the Tax Reform Act of 1986. As with any tax change, there will be winners and losers, but all taxpayers should be familiar with how the new legislation could affect their specific situation.

Below is a summary of the tax changes we believe will be relevant to you, your company, or your clients. (Please be aware that changes will likely result as technical corrections are issued and more guidance is released.)

Individual Taxes

Many individual taxpayers are asking, "How will my tax situation change in light of the new law?" As with any tax matter, the answer will vary greatly depending on the person's specific circumstances. We have summarized below the changes that will affect a large number of taxpayers. (Note that the majority of the individual changes discussed here will expire after 2025 if Congress does not act to extend those provisions.)

Individual rates and brackets have been revised, and overall rates are generally lowered, with the top rate dropping from 39.6% to 37%. These tax cuts are scheduled to expire after 2025, and there is no change to the preferential long-term capital gains tax rate.

For eligible taxpayers, **the child tax credit** is increased from $1,000 to $2,000, and a $500 credit is provided for certain **non-child dependents**.

Mortgage interest deductions for new purchases of first or second homes is capped at $750,000 in mortgage debt for mortgages incurred after December 15, 2017. There are no changes for current mortgages put into place under prior rules. However, home equity loan interest is no longer deductible, even for existing debt.

Changes to **pass-through taxation** are significant. We will need to wait to get more specific as more details are released, but at some point, there may be the opportunity to restructure to take advantage of these lower tax rates. (See the **Business Taxes** discussion in this article for changes that can impact flow-through owners.)

With the doubling of the **lifetime gift exemption** to $11.2 million per person, fewer estates are subject to estate tax. Consideration should be given to making those gifts sooner rather than later to lock in the benefit before it is scheduled to revert back to the lower amounts in 2026.

The **standard deduction** is nearly doubling. For example, for married filing jointly, the standard deduction is increasing from $12,700 to $24,000. That means that if your mortgage interest and charitable contributions (the only two remaining itemized deductions of considerable size) are less than that amount, you should consider bundling your charitable contributions into one year. For example, you could switch from annual to an every-other-year contribution schedule – in one year you would contribute twice the amount you'd usually give and then skip the following year. This would allow you to exceed the standard deduction amount every other year in order to maximize the tax benefit of your charitable contributions.

Alimony relating to any divorce or separation agreement executed or potentially modified after December 31, 2018 is not deductible by the payor spouse and is not included in the income of the payee spouse.

Carried interest – A new three-year holding period is required to qualify for long-term capital gain treatment.

The new tax law retains, but modifies to some degree, the **individual alternative minimum tax (AMT)**. An increase in the income level exemption and elimination of state tax deductions will likely reduce the number of taxpayers subject to AMT.

Distributions from **529 Plans** can be used to fund tuition and various expenses at elementary, secondary, and religious schools. Historically, distributions have been limited to postsecondary education.

Business Taxes

Pass-through businesses such as S corporations, LLCs, partnerships, and sole proprietors receive a new 20% deduction from their income. That benefit is phased out for professional service businesses owned by individuals with taxable income of more than $157,500 (single filers) or $315,000 (joint filers). The deduction is equal to 20% of qualified business income. However, there are several limitations, including a limitation based on W-2 wages and assets relative to the qualified business.

Taxpayers other than corporations may not deduct **excess business losses**. Excess business losses are equal to aggregate deductions for a trade or business minus the sum of business income plus $250,000 (or $500,000 for joint filers). The $250,000 and $500,000 amounts will be indexed for inflation. This rule is applied at the partner (or S-corporation shareholder) level. Essentially, an individual taxpayer with a business loss from a flow-through entity can only use up to $500,000 (if married filing jointly) or $250,000 (if single) of losses from such entity to offset income from other sources (wages, interest, dividends, capital gains, etc.).

The **corporate AMT** is repealed.

There is a **new corporate tax rate** of 21%, replacing the 35% maximum tax rate.

The **dividends received deduction percentages** are reduced. There is an increase in the **Section 179** limit, increasing the maximum deduction from $500,000 to $1 million and increasing the phase-out of such deduction for assets placed in service during the year from $2 million to $2.5 million. Qualified property now also includes Qualified Improvement Property (QIP) and improvements to non-residential rental property placed in service after the property was first placed in service, such as roofs, HVAC, fire protection, and alarm systems. The updated rules are effective for the 2018 tax year.

Small taxpayer provisions – The limitations in **Section 448** (relating to the use of the cash method of accounting) have been modified so that taxpayers with annual average gross receipts under $25 million (historically under $5 million – "Small Taxpayers") are permitted to use the cash method of accounting. Small Taxpayers with inventory are no longer required to apply **uniform capitalization rules (UNICAP)**. Also, Small Taxpayers subject to **Section 460**, utilizing long-term contact accounting methods, would no longer be required to use the percentage of completion method of accounting.

When reviewing **full expensing**, subject to certain limitations, 100% bonus depreciation applies to qualified property acquired and placed in service on or after September 28, 2017. For the 2017 tax year, taxpayers can choose to simplify their bonus depreciation calculation by electing to apply 50% bonus depreciation to all assets placed in service that year in lieu of applying 50% bonus to assets placed in service before September 28, 2017 and 100% bonus to assets placed in service on or after September 28, 2017. Qualified property is expanded to include used property.

Beginning in 2022, **research and development costs** must be capitalized and amortized over five years.

Revenue recognition – Revenue cannot be deferred for tax purposes beyond the time the revenue is recognized for financial statement purposes. The new tax law also codifies a rule similar to the rule set forth in Rev. Proc. 2004-34 for deferred revenue.

Interest expense limitation – Interest expense is limited to business interest income plus 30% of "adjusted taxable income." The Act contains numerous exceptions to this rule, as well as special rules relating to flow-through entities.

Limitation on net operating loss (NOL) usage – NOL usage is limited to 80% of taxable income. Additionally, the new tax law repeals the ability to carry back NOLs (historically a two-year carryback was allowed) and increases the NOL carryforward from 20 years to until the NOL is used.

Like-kind exchange – Section 1031 exchanges are limited to real property only.

Limitation on fringe benefits – Most entertainment expenses are no longer deductible. Business meals are still deductible subject to the existing rules (50% limitation).

Repeal of 199 deduction – The Section 199 (domestic production activities) deduction is repealed.

Carried interest – A new three-year holding period is required to qualify for long-term capital gain treatment. ▶

Technical terminations – Technical terminations are repealed for tax years beginning after December 31, 2017.

Substantial built-in loss in the case of transfer of partnership interest – A reduction in the tax basis of partnership property following a transfer of a partnership interest is now required if the transferee partner would be allocated a loss of $250,000 or more under a hypothetical liquidation immediately after the transfer.

International Tax

Mandatory deemed repatriation – The new tax law requires all U.S. shareholders – U.S. citizens, residents, partnerships, trusts, and corporations – that own 10% or more of the voting shares of a controlled foreign corporation (CFC) to include their pro rata share of all CFC accumulated net earnings and profits (E&P) in their 2017 income. Cash earnings are subject to a 15.5% tax rate, while non-cash earnings are subject to an 8% tax rate. The rates are achieved via a dividends-received deduction, which brings the effective tax rate to these levels.

In addition, corporate shareholders of CFCs can take advantage of a modified foreign tax credit that can reduce the U.S. tax due on the deemed repatriation amount. The Act also retains the special rule for S corporations that are shareholders of CFCs, whereby the S corporation shareholders will not take the deemed repatriation amount into income until certain triggering events occur. It is clear that U.S. shareholders of a CFC must, at a minimum, ensure they have correctly calculated the E&P of their CFC to determine the impact of the deemed repatriation. Likewise, C corporation shareholders must calculate the foreign tax pools available to be credited under the modified foreign tax credit provisions.

Territorial tax system – The Act moves the U.S. to a modified "territorial tax" system, through which U.S. C corporations will not pay U.S. tax on certain profits earned outside the U.S. This change is accomplished by allowing domestic corporations a deduction (similar to the dividends-received deduction) whereby a U.S. C corporation that owns 10% or more of a foreign corporation will not pay any U.S. tax on the foreign source portion of dividends paid by the foreign corporation. The deduction is available for dividends from any foreign corporation other than passive foreign investment companies (PFICs).

Changes to Subpart F – The Act retains existing Subpart F anti-deferral rules and the Section 956 deemed repatriation rules, but makes several changes. Importantly, a new category of Subpart F income will require U.S. shareholders to include the global intangible low taxed income (GILTI) of CFCs in current U.S. taxable income. The mechanics of the GILTI provision are complex, but their effect is to establish a minimum tax regime that applies to U.S. shareholders of certain CFCs with income over a so-called routine return on tangible depreciable business assets.

In addition to navigating the complexity of these calculations, U.S. shareholders must determine the U.S. tax basis of assets held by CFCs, which can be a daunting task. In addition to creation of the GILTI rules, the Subpart F rules are modified so that a larger class of U.S. shareholders of foreign corporations are subject to the Subpart F deemed inclusion rules. This expansion is triggered by expanding the definition of "U.S. shareholder," subject to the Subpart F provisions, to include any U.S. person who owns at least 10% of the vote or value of the CFC, rather than only including those with 10% or more of the voting power. The attribution rules, which can require the application of the Subpart F rules on U.S. persons without a direct interest in a CFC, have also been expanded. U.S. taxpayers may need to reevaluate their exposure to the Subpart F provisions under these expanded definitions.

Base Erosion Anti-Abuse Tax (BEAT) – The BEAT provisions apply to U.S. corporations with an average of $500 million of gross receipts over the past three years that make certain deductible payments to related foreign persons exceeding a threshold defined under these provisions. The goal of these provisions is to restrict U.S. corporations from eroding the U.S. tax base by making deductible payments to offshore affiliates. Any such corporation will pay tax under the BEAT provisions on the excess of 10% of its taxable income (modified for this purpose) over its regular tax liability for the year, reduced by certain credits. Regulated investment companies (RICs), real estate investment trusts (REITs), and S corporations are not subject to the BEAT provisions. The effort to monitor and track the application of BEAT rules is significant. In addition, the new tax law authorizes an expanded Form 5472 to capture additional information on base erosion payments as well as increased penalties ($25,000 per form versus the prior $10,000 per form) for late filed or incomplete Forms 5472.

Compensation and Benefits

Executive Compensation

Elimination of exceptions to public company $1 million compensation deduction limit – With an exception for compensation pursuant to a binding contract in effect on or before November 2, 2017 (and which is not subsequently materially modified), public companies are not able to deduct compensation in excess of $1 million for their principal executive officer, principal financial officer, and three other most highly compensated officers, due to the elimination of the performance-based compensation and commissions compensation exceptions. Public companies that have been relying on these exceptions may face paying

significant amounts of non-deductible compensation to such employees in the future.

Qualified entity stock option and restricted stock unit (RSU) grants – Certain employees of private companies (excluding employees who are 1% and greater owners, the CEO, the CFO, or among the four highest compensated officers) are able to make limited (maximum of five years) compensation deferral elections for income tax purposes in connection with the income taxability of stock options and/or stock-settled RSUs, which are exercised/settled in 2018 or after, if they are granted under an equity compensation plan that provides for grants to at least 80% of the employer's employees.

Widespread use of this deferral election opportunity is not likely due to the 80% coverage requirement, as companies have almost universally limited the grant of stock options and RSUs to members of senior management. Further, the illiquidity of the private company stock that would be received in connection with these grants, combined with the fact that the deferral would be limited to income tax such that, upon exercise or settlement, even where the deferral election is made, the employee may need the funds to meet his or her FICA tax liability, will likely limit the impact of this provision. Perhaps certain smaller and earlier-stage companies that cannot afford to pay significant cash compensation and instead use stock options and/or stock-settled RSUs to attract and compensate their employees may have a greater interest in establishing the plans needed to provide the deferral election opportunity.

IRAs and Tax-Qualified Retirement Plans

ROTH IRA recharacterizations – When an individual converts a traditional IRA (pre-tax) into a ROTH IRA (after-tax), the individual must pay the income taxes generated by the conversion from pre-tax to after-tax. However, individuals have also been able to reverse that decision, undo such a conversion, and consequently not incur the resulting tax liability, provided that the reversal is implemented by the individual's tax return due date, including extensions (by the following October 15). As of 2018, the ability to reverse the conversion of a traditional IRA to a ROTH IRA is eliminated. Consequently, if an individual wishes to reverse the 2017 conversion of a traditional IRA to a ROTH IRA, the reversal must have occurred by the end of 2017 (rather than by October 15, 2018).

Extension of the **60-day rollover period for tax-qualified retirement plan loan offset distribution amounts** permits the amount treated as an otherwise taxable distribution from a tax-qualified retirement plan, Section 403(b) plan, or governmental Section 457(b) plan as the result of an unpaid plan loan to be rolled over after the previous law's 60-day period. This is provided the deemed distribution occurs after 2017 and the rollover occurs on or prior to the due date (including extensions) for filing the income tax return for the plan participant's tax year in which the amount is treated as distributed.

Tax-qualified retirement plans 2016 disaster relief permits individuals having their principal residence at any time during 2016 located in a "2016 disaster area" (i.e., declared as such by the president) to receive not more than $100,000 of otherwise impermissible in-service distributions from tax-qualified retirement plans, Section 403(b) plans, and governmental Section 457(b) plans, and, if they are younger than age 59 1/2, without imposition of the otherwise applicable 10% early withdrawal tax on those amounts. Individuals receiving such distributions are able to recontribute the amounts back to the plan (or other eligible plan, such as an IRA or the plan of a new employer) within a three-year period without tax. Alternatively, they can pay tax on the unrecontributed amounts as if the distributions were paid ratably over a three-year period. Plan amendments may be required, and affected employers may wish to consult with their attorneys about any necessary plan amendments that should be adopted for this purpose.

Fringe Benefits and Family and Medical Leave Payments

The **employee moving expense deduction** is suspended, with an exception for certain moves by members of the armed forces, for 2018 through 2025.

The **employer deduction** is eliminated for certain expenses, including:

- Entertainment, amusement, or recreation expenses, including facility expenses, even if they are business-related (as of 2018).
- Membership dues to any club organized for business, pleasure, recreation, or other special purposes (as of 2018).
- Providing qualified transportation fringes (certain parking, transit passes, van pools, and bicycle commuting expenses) to employees (as of 2018).
- Except as necessary for ensuring the safety of an employee, the employee's commuting expenses (as of 2018).
- Providing food and beverages to employees through an eating facility that meets the requirements for *de minimis* fringes and for the employer's convenience (after 2025).

Employer reimbursements of moving expenses are fully taxable with an exception for certain moves by members of the armed forces.

Employer credit for compensation paid to employees on paid family and medical leave – For 2018 and 2019 only, an employer with a written policy in effect under which full-time employees can receive not less than two weeks ▶

(as well as a proportionate amount for part-time employees) of annual family and medical leave (under the Family and Medical Leave Act of 1993) is entitled to a general business credit equal to 12.5% of the compensation it pays to certain employees (employed for at least one year and having a rate of compensation not in excess of $72,000 [for 2018]) while they are on such a leave. The 12.5% credit amount is increased by 0.25 percentage points (but not above 25%) for each percentage point by which the rate of payment exceeds 50%.

Trusts and Estates

The Act, effective January 1, 2018, **doubles the amount that can be exempted** from **federal estate tax** to around $11 million per taxpayer (depending upon how inflation adjustments are calculated). This provides taxpayers with an excellent opportunity to accomplish significant asset protection and business succession planning until the provision sunsets at the end of 2025.

Opportunities for planning abound – Because the Act prevents the deduction of state and local income, real estate, and sales tax, some taxpayers may wish to consider setting up incomplete non-grantor trusts in order to shift income out of the reach of state tax authorities. The income would be subject to the highest tax rate at the federal level for all income over $12,500, but it could avoid state income taxes entirely.

Taxpayers may want to consider making gifts to parents (or, better yet, to trusts for their parents). With the doubled exemption, this strategy offers a viable opportunity to accomplish an increase in basis for income tax planning purposes. Life insurance planning will continue to be important for taxpayers not only to provide liquidity to their survivors, but also as a source for tax-free retirement income.

Tax Exempt Organizations

Unrelated business taxable income (UBTI) treatment of entities exempt from tax under Internal Revenue Code Sections 501(a) and 511 – The Act does not include any provision to clarify treatment if an entity has dual tax exempt status, for example, under 501a, 401(a), and 115 of the Code, pertaining to its exposure to Section 511 (UBIT).

Exclusion of research income from UBTI – There were proposed modifications to this exclusion. The final law, however, contains no change to existing provisions.

UBTI separately computed for each trade or business activity – Previously, an organization could determine its unrelated taxable income on an aggregate income and subtract aggregate deductions, thereby allowing offset of multiple trades and businesses. Effective for tax years after December 31, 2017, unrelated business income must first be computed separately with respect to each trade or business, the aggregate of which cannot be less than zero. An NOL is only allowed with respect to a trade or business from which the loss arose. There is a special transition rule for NOLs carried into years beginning after January 1, 2018.

21% excise tax on excessive compensation paid by tax-exempt organizations (Section 4960) – As of the 2018 tax years, tax-exempt employers are liable for an excise tax equal to 21% of the sum of remuneration paid to their "covered employees": (a) in excess of $1 million, plus (b) any amount that would constitute an excess parachute payment under the Golden Parachutes rules (but with respect to the employee's separation from service rather than a change of control of the employer).

The Act does **not** modify:

- Existing provisions of **excise tax of private foundation investment income** or of the **private operating foundation requirement relating to the operation of an art museum**.
- Current provisions regarding the **exception to private foundation excess business holding rules**.
- Current provisions connected to **Section 501(c)(3) on organizations being prohibited from making statements relating to political campaigns**.
- Current provisions regarding **additional reporting requirements for donor-advised funds sponsoring an organization**.

The Act includes **no provision**:

- To repeal **tuition remission or related benefits under Section 117(d)** or to repeal the **exclusion for educational assistance programs under Section 127 from taxable income (up to $5,250)**.
- On the **limitation on exclusion for employer-provided housing under Section 119**.
- On **interest on private activity bonds** issued after December 31, 2017 as gross income of the taxpayer.

The Act:

- Includes a provision repealing the exclusion from gross income for interest on a **bond issued to advance refund another bond**.
- Follows the Senate amendment with modification regarding **excise tax based on investment income of private colleges and universities**. The provision impacts only a small number of colleges and universities, effective after December 31, 2017.

Renewable Energy

While Congress left the **wind production tax credit (PTC)** and the **solar energy investment tax credit (ITC)** intact and unaltered, the tax equity financing sector will likely be impacted by the new tax legislation. Specifically, the **reduction of the overall corporate income tax rate to 21%**, the new **bonus depreciation regime**, the **imposition of the new Border Erosion Anti-Abuse Tax (BEAT)**, the **elimination of the Section 708(b) technical termination rules**, and a host of other **new tax rules for limiting and suspending some business interest deductions** will all impact tax equity renewable energy financing transactions previously negotiated, as well as affect renewable energy project financings currently being negotiated.

In addition, the **elimination of the corporate AMT**, the **modification of the NOL rules**, and the **imposition of less taxpayer-favorable revenue recognition rules** (which may impact the use of pre-paid power purchase agreements [PPAs]) will also impact the renewable industry.

Because most renewable tax equity financings are typically done through legal entities taxed as partnerships for federal income tax purposes, the new law's treatment and special handling of pass-through entities, including the taxation of the partners in those entities, is expected to give rise to complex tax issues for both existing deals and new projects.

On new deals, these changes are expected to impact both the pricing of tax equity and the amount of such equity that renewable energy project sponsors may raise. However, the level of impact to tax equity remains to be seen, especially given the year-by-year, case-by-case nature of the BEAT, as experienced by that segment of the renewable energy tax equity capital markets that generate a BEAT liability against which the PTC and ITC can now only partially offset.

There may also be some opportunities created by the Act; for example, in the area of repowering existing wind energy facilities.

What's Next?

We are certainly living in interesting times! Clearly, the Act has sweeping changes impacting most taxpayers. As they say, "the devil is in the details." As with any legislation of this size, we expect that there will be technical corrections required at some point in time.

Similarly, we expect the Internal Revenue Service to issue regulations and other guidance to provide additional insight on these changes. However, it will be some time before the bulk of such guidance is available.

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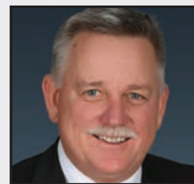

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Make Sure You're Prepared for the **FASB Revenue Recognition Standard**

By Marcus R. Harwood, CPA, MSPA, Partner, BlumShapiro

Several years ago, the Financial Accounting Standards Board (FASB) passed *Accounting Standards Update 2014-09, Revenue from Contracts with Customers* (ASU 2014-09).

The standard replaced existing diverse revenue recognition models with a single five-step analysis that will be used by all companies to determine when to recognize revenue. The standard also contains disclosure requirements that may result in additional quantitative and qualitative discussions about how revenue is recognized.

The impacts of adopting the new standard will be far reaching and, in some cases, will require significant effort by companies to prepare. So, with implementation deadlines fast approaching, it is more important than ever for financial statement preparers to assess the impact of the new rules and put an implementation plan in place.

Hopefully at this point, most financial statement preparers recognize the immediacy of the FASB's deadlines. Public companies must apply the new standard for annual reporting periods beginning after December 15, 2017, while nonpublic companies must apply the new standards for annual reporting periods beginning after December 15, 2018.

Any companies that have not already begun the process should certainly make it a priority to understand the potential impact of the new standard and to develop an implementation work plan. Financial statement preparers should keep in mind that, in addition to potential impacts on the timing of revenue recognition, the new standard requires disclosures that may necessitate capturing and disaggregating certain information in new ways.

While the magnitude of the impact will vary from company to company, below are some common indicators of the level of effort that may be required to implement the standard:

	Less Time		More Time
Revenue Streams	Single	↔	Many
Revenue Cycle	Short	↔	Long
Contract Modification	None	↔	Many
Lines of Business	One	↔	Many
Base of Operations	Local	↔	Global
Deliverables	Single	↔	Multiple
ERP Systems	One	↔	Many

While one size may not fit all, companies should consider developing an **implementation workplan** containing the following steps:

1. Identify an implementation steering committee.
The steering committee should have senior management sponsorship and include an appropriate allocation of resources. In addition to accounting and finance personnel, depending on the nature of the entity, the committee may need representatives from tax, sales, and IT.

2. Obtain appropriate training for steering committee members.
The level of training will depend on the baseline accounting knowledge of each committee member and their role in the project. For non-financial management, an overview of the new standard may be appropriate, whereas for financial management, detailed review of the standard and interpretative guidance will be necessary.

3. Prepare an inventory of revenue streams.
The listing of revenue streams will provide the starting point for analysis under the new revenue standard. As such, it is important that each revenue stream is identified early in the process. The identification should be reviewed by sales and executive management for completeness.

4. Analyze each revenue stream under the new revenue standard.
Depending on the number of revenue streams, it may be more practical to break up the analysis for each revenue stream into a separate analysis.

5. Formulate preliminary conclusions regarding:
a. Changes in revenue recognition,
b. Changes to disclosures, and
c. Planned adoption method (full retrospective or modified retrospective) and practical expedients.

6. Conduct an auditor checkpoint.
Discuss analysis and preliminary conclusions with the external auditor, and identify if further analysis or considerations are necessary.

7. Update prior analysis as needed.

8. Identify changes required for internal controls.
Include consideration of training for accounting, finance, sales, and IT employees.

9. Identify changes required for IT systems.

10. Document the impact on stakeholders and create a planned communication approach.
This includes changes for:
a. Shareholders,
b. Lenders,
c. Employees (such as compensation arrangements, etc.), and
d. Income tax reporting.

11. Implement changes.

12. Conduct a post-implementation review.

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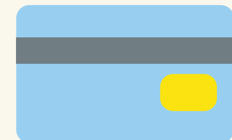

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Cybersecurity Risk Reviews:

A Practical Approach to Protecting Your Organization

By Jarrett Meiers, Director, Strategic IT Services, Blueprint Essential, a Division of Reynolds + Rowella

CPAs have always had a duty to maintain data confidentiality. In the digital age, this duty has taken on a completely new set of risks and threats. Sensitive information no longer exists solely on sheets of paper on desks or in filing cabinets; it is now in multiple locations (many of those digital in the cloud and on servers) across the organization.

Modern technology has made accessing and transferring information so simple that we may be inclined to forget how easy it has become for the wrong people to get their hands on it. All too often files are moved around in an unsafe manner through unencrypted email, flash drives, smartphones, or laptops. These seemingly innocent and convenient data storage and transfer methods can result in major risks for your organization.

Because large company cybersecurity breaches often make news headlines, it is easy to think they are the only ones being targeted. Many global companies do house a tremendous amount of sensitive data (and sometimes still leave much to be desired in their protection practices), but they are certainly not always the ideal target.

Hackers aren't usually looking for a major challenge; they are interested in low-effort, high-reward targets. CPAs and other financial professionals often fit this description because their data is a treasure trove of confidential information that is highly lucrative on the black market. Couple that with the fact that many small to medium-sized businesses have not instituted advanced data-theft prevention methods, and there is a perfect storm of easy prey and high value.

In fact, 43 percent of cyber attacks target small businesses, according to Symantic's *Internet Security Threat Report*.

While there are myriad professional development programs and articles focused on cybersecurity, developing a course of action can be overwhelming. It's easy to let cybersecurity and business continuity plans fall to the back burner while you focus on seemingly more pressing day-to-day business needs.

One thing is certain: there will be more and more cyber attacks in the coming days, weeks, and years. Organizations who face a breach will face harsh consequences.

No business wants to have to inform its customers or clients that their personal

information is for sale on the dark web because of a breach. The U.S. National Cyber Security Alliance estimates that 60 percent of small companies go out of business within six months of a cyber attack.

The good news is there's a simple step you can take to lay a solid foundation for your cybersecurity strategy: get a cybersecurity risk review. A cybersecurity risk review assesses your organization's current ability to safeguard confidential information and provides you with practical ways to reduce risk and protect sensitive data in the future.

These reviews are relatively inexpensive, help demystify cybersecurity, and will provide you with a list of actionable steps to perform as you move forward. A risk review should not focus solely on IT systems and infrastructure. Rather, it should take a holistic approach, examining elements such as regulatory compliance, asset protection, user awareness, liability insurance, business resiliency, policies, procedures, systems, funding and spending levels, and incident response.

> Hackers aren't usually looking for a major challenge; they are interested in low-effort, high-reward targets. CPAs and other financial professionals often fit this description because their data is a treasure trove of confidential information that is highly lucrative on the black market.

At the end of the risk review you will be presented with the findings and a framework that will be used to address the most important cybersecurity planning and protection needs going forward.

If you haven't had an expert review your cybersecurity risks, I encourage you to do so as soon as possible. If you have in the past, I recommend having an updated review at least once a year to ensure you maintain adequate protection in today's fast-changing security environment.

In the meantime, the next page provides you with a practical list of nine cybersecurity steps you can start to implement today to make sure your organization is protected. ▶

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(continued)

9 Practical **Cybersecurity Steps** to Help **Protect Your Organization**

1 Identify critical data.

CPAs are accustomed to working with confidential data. It is important to identify all the areas where critical data exists. This includes confidential client data, employee data, and company financial information.

2 Map the flow of data.

After critical data has been identified, the organization must review all the places that data resides and how it moves through various locations – both inside and outside the organization. Chances are good that critical data flows through multiple storage sites that could be subject to cyberattacks. Also pay special attention to how customer and client communication is handled, including what information is being shared and how.

3 Determine responsibility.

Even if your company is not large enough to employ a full-time security officer, responsibility must rest somewhere. It is important to determine who in the organization will take the lead on protecting assets and implementing security measures. Include any internal and external parties, such as software vendors, support companies, and outside consultants.

4 Assess your information security policies.

Clear, well-written security policies must be in place to set the ground rules for the business and its employees. These policies are dynamic, living documents that must be reviewed and updated frequently. If ambiguities exist, those responsible for security inside the organization must be responsible for clarification of the policy.

5 Increase employee awareness and training.

Your company may have excellent policies, but unless you actively get buy-in from staff, the policies will be ineffective. Implementing an ongoing security awareness program can help educate employees on policies, safeguards, and vulnerabilities, increasing the effectiveness of cybersecurity measures.

6 Have an incident response plan.

The company should have a specific process in place for staff to report potential threats or breaches. This should include the detailed chain of response in place to immediately address security incidents. Conduct drills to verify readiness. Often, this is where disaster recovery/business continuity plans and cybersecurity plans overlap.

7 Have regular cybersecurity reports.

Hold meetings throughout the year to discuss ongoing security efforts within the organization. The agenda should include security incidents, emerging threats, proposed security changes, project updates, and vendor issues. Keeping security top of mind increases the entire organization's vigilance.

8 Control your physical assets.

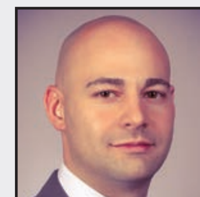
Critical data exists both in physical and digital form, so best practices should be put in place to secure printed copies of sensitive data as well as devices such as laptops, tablets, and flash drives. Keep a strong inventory of your assets. Don't overlook building security safeguards, including locks on server rooms and network closets, visitor controls, and cameras.

9 Stay active.

Continue to keep cybersecurity high on your agenda and provide cybersecurity teams with the resources needed to protect both digital assets and your most valuable assets – your employees and customers. Keep an eye on regulatory developments and breaking news.

In conclusion, having a cybersecurity risk review is one practical approach to protecting your business and will help guide you in the right direction. Even still, cybersecurity isn't a "set it and forget it" project that you can complete and cross off your list. Today's ever-changing environment demands ongoing maintenance, monitoring, patch management, penetration testing, and assessment.

This high level of consistent vigilance requires time, money, and effort. It may sometimes seem easier to direct these resources at more tangible and seemingly urgent needs. Unfortunately, this could easily prove to be a costly mistake. The stakes are high. Companies that take these threats seriously may survive where others may not. Be sure you're doing everything you can to protect your customers and clients, your employees, and your business.



Jarrett Meiers leads Reynolds + Rowella's IT consulting division, Blueprint Essential. He advises accounting firms and businesses on technology, security, and practice management. He can be reached at jarrettm@reynoldsrowella.com.

FASB Proposes

Not-for-Profit Accounting Standards Update

to Clarify Accounting for Contributions Received and Contributions Made

By Michael J. Rolleri, CPA, Associate Professor of Accounting, University of New Haven and Partner, Whelan Rolleri & DePietro and Robert Wnek, J.D., LL.M., Professor of Taxation and Business Law, University of New Haven

Why Now?

Since the Financial Accounting Standards Board (FASB) issued *Statement of Financial Accounting Standards No. 116 (Accounting for Contributions Received and Contributions Made)* in 1993, there has been diversity in its application. Along came *Revenue from Contracts with Customers* (ASC 606), effective for non-public companies and not-for-profits for periods beginning after December 15, 2018. ASC 606 is widely expected to cause entities disruption in their current revenue collection and reporting practices for contracts with customers.

Last August, FASB proposed an accounting standards update timed to be effective with ASC 606. The proposed change scopes certain transactions between resource providers and not-for-profit entities out of the *Revenue from Contracts with Customers* standard.

The amendments could result in more grants and contracts being accounted for as contributions (often conditional contributions) than under current GAAP.

Proposed Accounting Standards Update – Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* is expected to reduce diversity in practice by clarifying that *non-reciprocal* resources provided (including those received from governmental entities) should be treated as contributions.

According to Topic 958, "The amendments in this proposed update would clarify that some transactions that may be currently considered exchanges should be accounted for as contributions (likely conditional), which is expected to be more relevant and less costly than applying Topic 606 (including the additional disclosure requirements), which is an accounting model that was not developed to address the exchange nature of such grants and contracts."

Exchange transactions result when both the resource provider and the recipient receive commensurate value for assets transferred and follow the guidance under Topic 606 or Topic 842, *Leases*.

Contributions follow the reporting guidance under Topic 958, which amends concepts and terminology in the master glossary. Topic 958 applies to "all entities, including business entities, that receive or make contributions."

Contributions with Donor-Imposed Conditions are contributions with barriers that must be overcome before the recipient is entitled to the assets transferred or promised.

Application

The following items should be considered when deciding if a transfer of assets is an exchange transaction or a contribution:

1. The resource provider must receive direct value from the organization. Indirect benefit received by the public from the transfer of assets does not qualify as direct value. In the past, indirect value received by the public was used as the basis for classifying a transaction as an exchange and not a contribution;
2. Commensurate value does not include cases where payment of resources helps the provider fulfill its mission or gives the provider a feeling of positive sentiment;
3. To qualify as an exchange transaction, the provider and the recipient must exchange goods or services of commensurate value;
4. If the resource provider determines the amount paid to the recipient, the transaction is considered a contribution and not an exchange;
5. If the penalty imposed on the recipient for nonperformance is the return of unspent funds and nothing more, the transaction will not be considered an exchange transaction but a contribution instead. ▶

(continued)

The proposed update also provides some examples of exchange and non-exchange transactions:

- Exchange transaction – A university that conducts cancer research is engaged by a pharmaceutical company to test an experimental cancer drug. The pharmaceutical company specifies the protocol of the testing and requires a report from the university within two months after the tests are completed. This is an exchange transaction because the pharmaceutical company is receiving commensurate value.
- Non-exchange transaction (contribution) – A university receives a government grant to conduct research and must incur qualifying expenses. Any unspent money must be repaid to the government. The university retains rights to the findings and can publish them. This is not considered an exchange transaction because the government doesn't receive commensurate value other than the benefit received by the general public as a result of the findings.

Other examples of exchange transactions occur when an entity receives assets from a third-party payer for an existing reciprocal transaction between the recipient entity and an identified customer and are not subject to the reporting requirements of Topic 958. Examples include Medicare, Medicaid, Pell Grants, and provisions of healthcare or tuition for governmental employees.

Conditional vs. Unconditional Contributions

The new guidance proposes criteria to determine when contributions are considered conditional and when they are considered unconditional. This distinction is important because it affects when the revenue from contributions is recognized.

Revenue is recognized immediately for unconditional contributions. For conditional contributions, revenue is deferred as a liability on the balance sheet. Revenue recognition occurs only when the terms of the condition giving the not-for-profit the right to receive the contribution are met.

The amendments could result in more grants and contracts being accounted for as contributions (often conditional contributions) than under current GAAP.

Conditional contributions and donor restrictions are two distinct issues and must be evaluated separately. Keep in mind that the new (separate) not-for-profit financial statement reporting model will eliminate the distinction of temporarily and permanently restricted net assets, rolling both into one net asset with donor restrictions designation.

Under the new guidance, a contribution would be conditional if the agreement or contract includes a donor-imposed barrier and the donor has either a requirement to return assets previously transferred or a right of release of additional transfers of assets. The barrier must be satisfied in order for the recipient to be entitled to the contribution. The proposed standard provides examples of indicators that would constitute the existence of a barrier. However, the examples provided in the proposal are not an exhaustive list of indicators.

Once a barrier is met, the contribution becomes unconditional and revenue is recognized at that point, either as unrestricted or restricted revenue depending on the resource provider's specifications. The proposal makes it clear that determining whether the contribution revenue is unrestricted or restricted is the second step in the process after the barrier is overcome and the contribution is considered unconditional.

Indicators of Barriers

The proposed amendment discusses measurable performance-related barriers and other measurable barriers. An example of a measurable barrier is when the recipient is entitled to the contribution upon the occurrence of a specified event (for example, a matching requirement).

Think of the public radio station where an individual promises to make a contribution once the station raises a specified amount from other donors. Once the donations are raised, the condition is met and the contribution is considered unconditional.

In a measurable performance-related barrier, the uses for the contributions could include:

- Achieving a specified level of service;
- Achieving a specific output or outcome;
- Matching;
- Occurrence of some outside event.

The stipulation must be related to the purpose of the agreement. Stipulations that are trivial would not be considered barriers.

For a barrier to exist, the recipient must have limited discretion about how the contribution funds will be spent. If the recipient has broad discretion and there are no additional factors that would be considered barriers, the contribution would be considered unconditional.

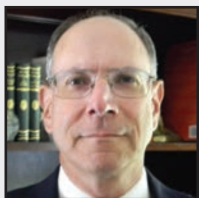
A barrier could require the recipient to undertake additional identified actions that it normally would not have taken. Examples include an expansion in level of services provided or a requirement to provide new types of services.

Determining whether a contribution is conditional or not can be difficult if donor stipulations do not clearly specify whether a barrier exists or whether the right to the contribution depends on meeting barriers. If the terms are unclear, the proposed update indicates that the contribution should be accounted for as a conditional.

A recipient that receives funds before the condition is met should initially record it as a refundable advance – a liability. Once the condition is met, the liability account can be debited and the revenue account credited.

Summary

Proposed Accounting Standards Update – Not-for-Profit Entities (Topic 958) should enhance guidance to resource provider and recipient entities to help distinguish exchange transactions from contributions. Exchange transactions should be recorded in situations where the provider and recipient receive commensurate economic value. When a contribution is unconditional, revenue is recognized immediately. Contributions with barriers imposed by the resource provider are considered conditional (and the revenue deferred) until the terms of the barrier are met. Once contribution revenue is recognized, it will be either unrestricted or restricted depending on the donor's specifications.



Michael J. Rolleri is an associate professor of accounting and accounting department chair at the University of New Haven and a partner with Whelan Rolleri & DePietro in Stratford. He can be reached at MRolleri@newhaven.edu.

Robert Wnek, J.D., LL.M. is a professor of taxation and business law at the University of New Haven. He can be reached at RWnek@newhaven.edu.

Want to learn more?

Attend the next CTCPA

Not-for-Profit Organizations Interest Group meeting.

FASB Not-for-Profit Accounting Standards Update

Thursday, May 10 • 8:30 - 10:00 a.m.

CTCPA Education Center, Rocky Hill

The CTCPA Not-for-Profit Organizations Interest Group meets throughout the year to discuss topics including accounting, auditing, taxes, and financial reporting for not-for-profits.

Join us on May 10 for in-depth discussion of FASB's *Proposed Accounting Standards Update – Not-for-Profit Entities* (Topic 958)*: Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*.

Register at **www.ctcpas.org/groups.**

Learn more about our member groups on page 8 of this issue.

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Company Moves and Promotions

Send your news to **Caitlin Bailey O'Neill** at caitlinb@ctcpas.org.

Erum Randhawa

BlumShapiro elected **Erum Randhawa** to partner. She will lead the firm's Forensic Accounting and Bankruptcy practices.

BlumShapiro announced a merger with **Premier Accounting Group** of Marlborough. The merged firm will retain the BlumShapiro name and will remain based out of its existing offices in Marlborough.

Student member **Emily Ballard** is serving as a tax season intern in MahoneySabol's Glastonbury office. She is an undergraduate student at Central Connecticut State University.

Berlin-based **CzepigaDalyPope** will now be known as **Czepiga Daly Pope & Perri**. The firm has also opened an office in Madison, added a second office in Berlin, and expanded its Simsbury office.

Jeffrey Peloquin

Peloquin and Company, LLC in Danielson welcomed **Jeffrey G. Peloquin** as senior tax director. Jeff will be responsible for a wide range of tax and accounting services.

Tessa Jordan

Nicola Yester & Company, P.C. elected **Tessa M. Jordan** as a firm partner. Tessa focuses on accounting and auditing services for privately held businesses.

Dawne Ware

Dawne Ware joined Marcum LLP as a director. She is a finance and operations executive with experience in the property casualty insurance and reinsurance industries.

Joe Pieksza

Rick Buggy

Joe Pieksza was named office managing partner for the Hartford and Burlington, VT offices of Crowe Horwath LLP. Joe replaces **Rick Buggy**, who will continue to grow the firm's presence along the East Coast, serving healthcare, insurance, and nonprofit clients.

Michael Jodon

Michael P. Jodon joined CironeFriedberg, LLP as a partner. Mike focuses in the tax area, managing relationships with middle market-privately held and family-owned businesses as well as high-net-worth individuals.

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We're pleased to welcome the following individuals to CTCPA membership:

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Allison C. Cavanaugh, CPA
Guilmartin, DiPiro & Sokolowski, LLC

William T. Conron, CPA
Citrin Cooperman & Company LLP

Daniel C. Crawford, CPA
Stanley Black & Decker

Chris Duignan, CPA
New York Genome Center

Charles A. Giamattei, CPA
CohnReznick LLP

Laura Grandieri, CPA
Anne Arundel Medical Center

Brian Hickey, CPA
CohnReznick LLP

Jason Hirth, CPA
O'Connell, Pace & Company, P.C.

Peter S. Kopcha, CPA
Peter S. Kopcha, CPA

Lionel P. LaSalle II, CPA
Lionel LaSalle II, CPA

Michael Mowel, CPA
Allied World Assurance Company

George Panayotidis, CPA
KPMG

Stephen Pelliccia, CPA
Bailey Scarano, LLC

Rebecca Rust, CPA
S & S Worldwide Inc.

Edward J. Schechter, CPA
Berkow Schechter & Company LLP

Daniel J. Thibodeau, CPA
Daniel Thibodeau, CPA

Rodika Vergules, CPA
AIG Financial Products Corp.

Dawne Ware, CPA
Marcum LLP

Danielle Wellington, CPA
Aetna Inc.

New Associate Members

Charles T. Bellanfante
Budwitz & Meyerjack, P.C.

Meaghan Daly
Filomeno & Company, P.C., CPAs

Giancarlo Davila Cruz
Maletta & Company

Cortnei Dolan
Bailey Scarano, LLC

Nathan M. Fall
BlumShapiro

Joseph A. Gioielli
BlumShapiro

Kenneth D. Horton
Venman & Co. LLC

Mark F. Hull, EA
Hull and Hull, Inc.

Shanice C. Lundy
Shein, Cohen, Palmer & Co., LLC, CPAs

Nicholas S. Mazzotta
Guilmartin, DiPiro & Sokolowski, LLC

Anthony E. Parent, Esq.
Parent & Parent LLP

Gia Paturzo
Bailey Scarano, LLC

Dean Piterski
Fiondella, Milone & LaSaracina LLP

Karen M. Purslow
Paquette Giantonio & Company, LLC

Jonathan Rudowsky
Budwitz & Meyerjack, P.C.

Damian Smith
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CTCPA Dues Renewal Time Is Coming!

Are there multiple members at your firm or business? Streamline the renewal process – request a company invoice.

We'll list all the members at a single location on one convenient invoice and give you the opportunity to indicate any members who have joined or left your company. Contact Membership Coordinator **Liz Frazza** at lizf@ctcpas.org or 860-258-0220.

Member News

Send your news to **Caitlin Bailey O'Neill** at caitlinb@ctcpas.org.

Bonnie Stewart

CTCPA Executive Director **Bonnie Stewart** was quoted in articles including "Now that it's 2018, here's what you need to know about the new federal tax bill" in *The Day of New London* and "Accounting industry deals with tax overhaul, talent shortage" in the *Hartford Business Journal.* Bonnie also had a letter to the editor published in the *Hartford Courant* in response to an article entitled "People 'Lining Up' for Accountants."

Collene Torres

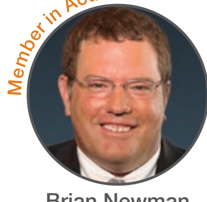
Collene Torres, a supervisor with Reynolds + Rowella in the New Canaan office, earned the Certified Valuation Analyst (CVA) designation.

Camille Murphy

The *Guilford Courier* and www.zip06.com featured CTCPA Past President **Camille Murphy**, partner at Murphy & Company, LLC in Branford, as its "Person of the Week" with its article "Camille Murphy: Volunteering a Wealth of Valuable Community Commitments." In January, Camille was elected chairman of the board of the Shoreline Chamber of Commerce and also became a member of the board of the Guilford Savings Bank.

Ed Pratesi

Ed Pratesi, managing director of UHY Advisors N.E., was a guest on Fox 61's *The Stan Simpson Show* to discuss the new tax law.



Brian Newman

Brian Newman, a tax partner with CohnReznick, wrote "How federal tax reform will impact your business" for the *Hartford Business Journal.*

Brenden Healy

Brenden Healy, a partner at Whittlesey in Hartford, was interviewed for the *CT Mirror* article "Pressing question for CT: A state tax break for private school tuition?".

Ross Riskin

Ross Riskin, managing member of Riskin Advisory LLC, vice president of Riskin & Riskin PC, and director of finance programs and assistant professor of accounting and finance at Albertus Magnus College, wrote "Help clients balance retirement and education planning" for the *Journal of Accountancy*.

Robert Lally

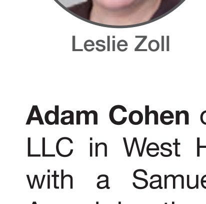
Robert Lally, a partner with Federman, Lally & Remis in Farmington, wrote "Connecticut: Not So Bad for Business, Companies Doing Well" for the *Hartford Courant.*

Daniel Kusaila

Daniel Kusaila, a partner with Crowe Horwath, was named among the top 50 "most powerful and influential individuals" in the captive insurance industry by *Captive Review.*

Leslie Zoll

Leslie A. Zoll, a principal with BlumShapiro, wrote "Inspiring young workers to enter public service" for the *Hartford Business Journal.*



Adam Cohen of Adam P. Cohen CPA, LLC in West Hartford was presented with a Samuel Clemens "Sammie" Award by the Mark Twain House & Museum at its annual meeting. Adam serves on the organization's investment committee and volunteered a special philanthropy project.

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Member Snapshots

We're looking for **your** snapshots!

Does your organization volunteer in the community, enjoy fun tax season treats, or run races for charity? Show us what you're up to! Submit your photos to **Kirsten Piechota** at kirstenp@ctcpas.org.

UHY Supports FoodShare

In lieu of a company holiday party this year, the West Hartford UHY team spent a morning volunteering at FoodShare in Hartford.

CohnReznick Fulfills Wishes for Angel Tree Program

Continuing a tradition started more than 15 years ago, CohnReznick team members fulfilled wishes for children and adults served by the Salvation Army through its Angel Tree program. A firm favorite, the tags readily disappear with team members selecting one or multiple tags to purchase the perfect gift for the holidays.

Marcum Participates in Dodgeball Tournament

Marcum was one of eight teams battling it out at the Connecticut Chapter of Healthcare Financial Management Association (HFMA) dodgeball tournament in January at Nomads in South Windsor. Team Marcum took the second-place spot!

Crowe Horwath Supports Charitable Organizations

The Crowe Horwath Simsbury office completed its annual Operation Christmas Child efforts through the Samaritan's Purse International Relief organization, packing 54 shoe boxes for children in need around the world. Pictured above is the employee packing party, where employees and their families joined in to pack each box with school supplies, hygiene items, toys, and more.

Crowe Horwath also partnered with the Boys & Girls Club of Bristol to adopt their 18 remaining children needing a secret Santa this year. The firm held an office wrapping party where their elves listened to holiday music while wrapping and adding ribbons, bows, ornaments, and personal gift tags to each gift. All the children, ages ranging from 2 to 10 years old, received a new toy and a new book off their wish lists in plenty of time for Christmas.

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