



# 2023 WICPA ACCOUNTING & AUDITING CONFERENCE

YOUR SOURCE FOR KEY UPDATES & INSIGHTS ON TIMELY ISSUES

## HIGHLIGHTED TOPICS:



### THE FUTURE OF WORK: HOW AI & AUTOMATION CHANGE THE GAME

Explore recent developments in AI, cut through the hype to understand AI better and discuss how AI can be used to automate business



### ETHICS & DECISION MAKING

Discover underlying principles that can lead to an ethical culture in the workplace



### THE GREAT GASB/FASB: THE HITS KEEP ON COMING

Receive a high-level overview of the most impactful GASB/FASB pronouncements you need to have on your radar

THURSDAY, NOV. 9 | WICPA OFFICE & WICPA CPE LIVESTREAM

## CONFERENCE AT A GLANCE

**THURSDAY, NOV. 9**

WICPA Office & WICPA CPE Livestream

**7 – 8 a.m.**

Registration & Networking  
Lower Level Foyer

**8 – 8:10 a.m.**

Welcome & Opening Remarks  
Lower Level Conference Center

**8:10 – 9:10 a.m.**

GENERAL SESSION  
Economic & Financial Market  
Outlook: 2023-2028  
Lower Level Conference Center

**9:10 – 9:25 a.m.**

Networking Break  
Lower Level Foyer

**9:25 – 10:15 a.m.**

BREAKOUT SESSIONS  
ESG: Current State of Play: What  
Companies Need to Know Now  
Lower Level Conference Center

Maximizing Capacity in Your  
Firm  
WICPA Training Center

**10:15 – 10:30 a.m.**

Networking Break  
Lower Level Foyer

**10:30 – 11:20 a.m.**

GENERAL SESSION  
The Great GASB/FASB: The Hits  
Keep on Coming  
Lower Level Conference Center

**11:20 a.m. – 12:05 p.m.**

Networking Lunch  
Lower Level Conference Center

**12:05 – 12:55 p.m.**

BREAKOUT SESSIONS  
Sales Tax vs. Income Tax  
WICPA Training Center

The Future of Work: How AI  
& Automation Change the Game  
Lower Level Conference Center

**12:55 – 1:05 p.m.**

Networking Break  
Lower Level Foyer

**1:05 – 1:55 p.m.**

GENERAL SESSION  
Employee Retention Credits:  
Separating Fact From Fiction as IRS  
Disputes Get Underway  
Lower Level Conference Center

**1:55 – 2:05 p.m.**

Networking Break  
Lower Level Foyer

**2:05 – 3:35 p.m.**

BREAKOUT SESSIONS  
Skepticism, Internal Control  
& a Little on Fraud  
WICPA Training Center

The New Normal: Recruitment  
& Retention  
Lower Level Conference Center

**3:35 – 3:50 p.m.**

Networking Break  
Lower Level Foyer

**3:50 – 4:40 p.m.**

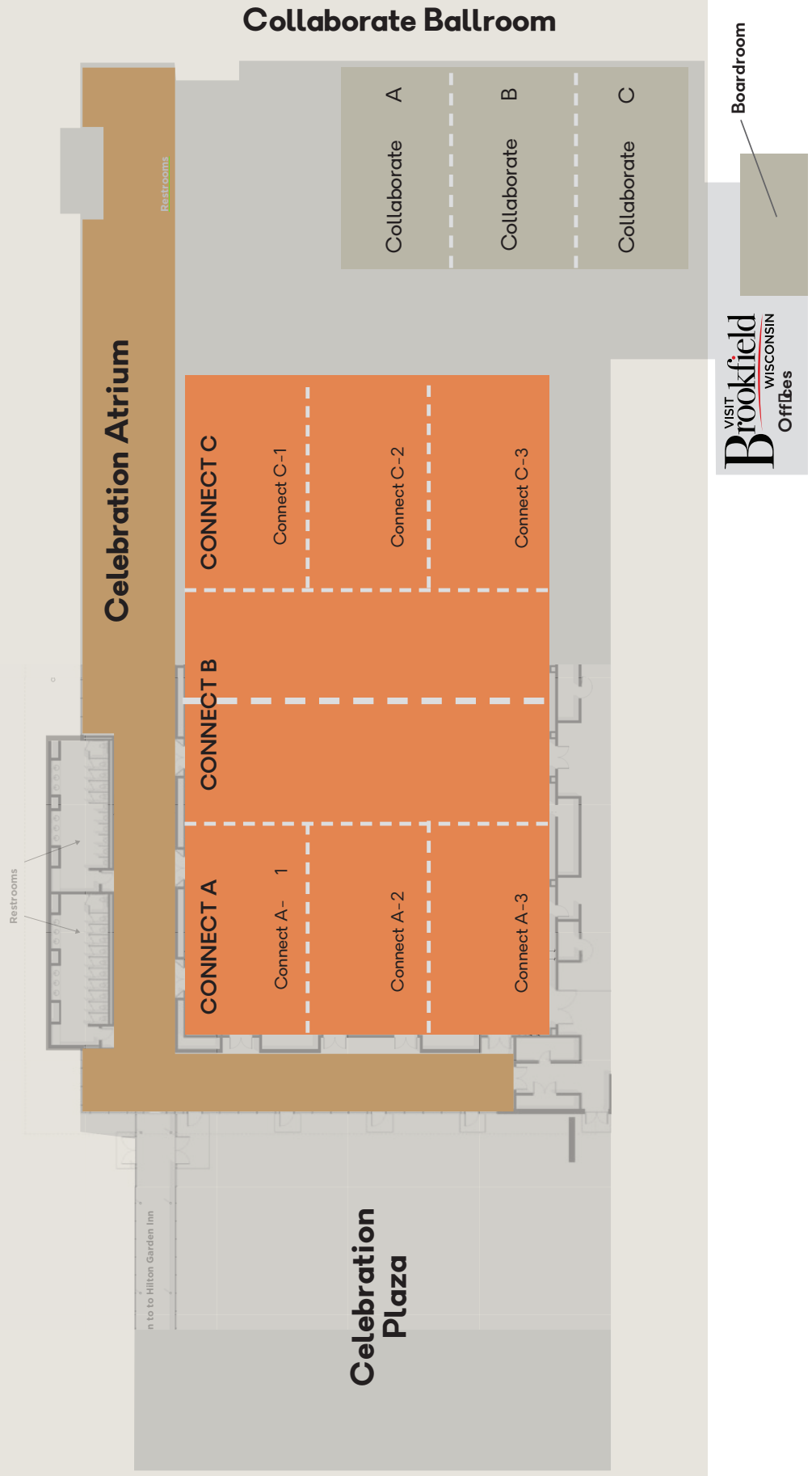
GENERAL SESSION  
Ethics & Decision Making  
Lower Level Conference Center

**4:40 p.m.**

Closing Remarks & Prize Drawings  
Lower Level Conference Center

# BROOKFIELD CONFERENCE CENTER

## FLOOR PLANS AND CAPACITY CHARTS



# Sales Tax and **MORE**

## About us

We are a full service consulting and solutions firm

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State and local taxes are complex and the rules are constantly evolving. Many accounting professionals rely on STM to help navigate the ever-changing challenges of sales tax.

Some of our core services include sales tax return filing, exemption certificate management, registrations of all types, business licensing, nexus services for both income and sales tax, consulting, research, audit defense, and like our names states, more!

## Why STM?

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- Data Integrity
- Staff Accountant
- Notice Management
- Commitment to education
- Flexability & Creativity

# When Software **Just Isn't** Enough



**Phone**

(972) 234-9622



**Website**

[www.salestaxandmore.com](http://www.salestaxandmore.com)



**Email**

[contact@salestaxandmore.com](mailto:contact@salestaxandmore.com)  
[bcurrey@salestaxandmore.com](mailto:bcurrey@salestaxandmore.com)





**Wisconsin Institute of CPA's  
Spring Conference**

## **Commercial banking means having a trusted partner right here in your neighborhood.**

Whether you are getting your businesses off the ground or getting ready to expand, our commercial banking services are here to help you succeed.

**We support local  
businesses by  
showing up where  
it matters most.**

In addition to business checking, savings, loans and lines of credit, we also offer:

- Small Business Administration (SBA) Loans
  - We are one of Wisconsin's top SBA (7a) lenders
  - We have been an SBA Preferred Lender since 1999
- Treasury Management
- Private Banking and Wealth Management Services
- Payroll Services through Payroll Complete
- And More!



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WICPA Educational  
FOUNDATION



## **YOU** have the opportunity to impact thousands of students and educators in Wisconsin.

Through your contribution to the WICPA Educational Foundation, you can help us reach students and educators in high school and college to create awareness about the accounting profession.

As the end of 2023 draws near and you are thinking about tax planning, consider donating to the WICPA Educational Foundation.

*Questions?* Contact Tammy J. Hofstede, WICPA President and CEO at [tammy@wicpa.org](mailto:tammy@wicpa.org).

To contribute, visit [wicpa.org/EF](http://wicpa.org/EF).



WICPA Educational  
FOUNDATION

## **Join the WICPA Educational Foundation Board!**

The WICPA Educational Foundation  
is seeking members to serve on its board of directors.



### **Some of the opportunities include:**

- Assisting in efforts to attract students to the profession.
- Providing strategic governance in accordance with the WICPA Educational Foundation mission.
- Acquiring new leadership skills.

The WICPA Educational Foundation plays a pivotal role in supporting programs to improve awareness and perceptions by educating students and educators about the exciting opportunities available to accounting professionals.

To apply, visit [wicpa.org/EFBoardApplication](http://wicpa.org/EFBoardApplication) through Feb. 28, 2024. ► **Questions?** Contact [tammy@wicpa.org](mailto:tammy@wicpa.org).

# TRACK YOUR CPE WITH THE WICPA'S CPE TRACKER

The CPE Tracker is an easy to use tool created to keep track of all your CPE in one convenient location.

- Automatically tracks WICPA formal learning activities
- Add any non-WICPA CPE courses
- Print reports for any reporting period

To get started, visit  
[wicpa.org/cpetracker](http://wicpa.org/cpetracker)



## Join the WICPA Board of Directors!

The WICPA is seeking members  
to serve on its board of directors.

### Opportunities include:

- Staying up to date on professional issues
- Providing strategic governance in accordance with the WICPA strategic plan, mission and vision
- Acquiring new leadership and training skills

Applicants must be WICPA CPA members in good standing. A "CPA member" is defined as a WICPA member who has obtained a certificate as a CPA from the Accounting Examining Board of the State of Wisconsin, or from a similar legally constituted authority in any other state, possession or territory of the United States or the District of Columbia.



To apply, visit  
[wicpa.org/BoardApplication](http://wicpa.org/BoardApplication)  
through Nov. 15, 2023.

**Questions?**  
Contact [tammy@wicpa.org](mailto:tammy@wicpa.org).

# VOLUNTEER

CELEBRATE  
CPA  
APPRECIATION  
MONTH  
NOVEMBER 2023

To help raise awareness of the accounting profession, we're looking for volunteers to go into high schools to talk about accounting as a career.

To learn more, visit [wicpa.org/CPAMonth](http://wicpa.org/CPAMonth)



Wisconsin Institute of  
Certified Public Accountants

2024  
WICPA  
*Excellence*  
★ ★ ★  
★ ★ A W A R D S



## NOMINATE SOMEONE FOR AN EXCELLENCE AWARD!

View categories and submit your nomination at  
[wicpa.org/awards](http://wicpa.org/awards) by Nov. 10, 2023.

Recipients will be announced in January and honored at the  
Member Recognition Banquet & Annual Business Meeting on May 9, 2024.

8:10 – 9:10 a.m.

# Economic & Financial Market Outlook: 2023-2028

**Clare Zempel, CFA, CBE, *Principal, Zempel Strategic***



## WICPA Accounting and Auditing Conference

### The Economic and Market Outlook 2023 – 2028

2023 “Soft Landing” Likely Because Inflation Has Slowed Much  
Faster Than Spending

2024 Recession Possible Unless Fed “Eases” “Soon”

Clare Zempel, CFA, CBE  
Economist and Investment Strategist

WICPA Offices  
November 9, 2023

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## WICPA Accounting and Auditing Conference

### The Economic and Market Outlook 2023 – 2028

Slowdown/Recession Concerns Remain Relevant

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# Interest Rates and Recessions

(Inversion = 1-Year > 10-Year)

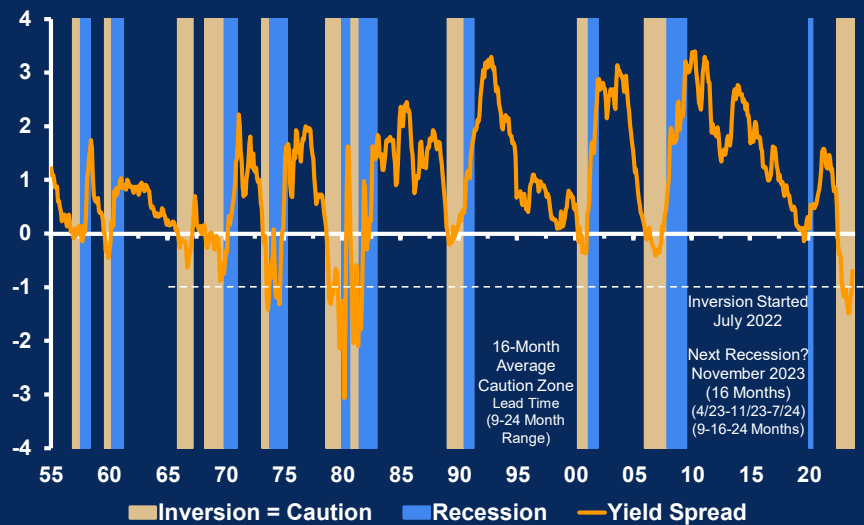
10 Recessions  
Since 1955

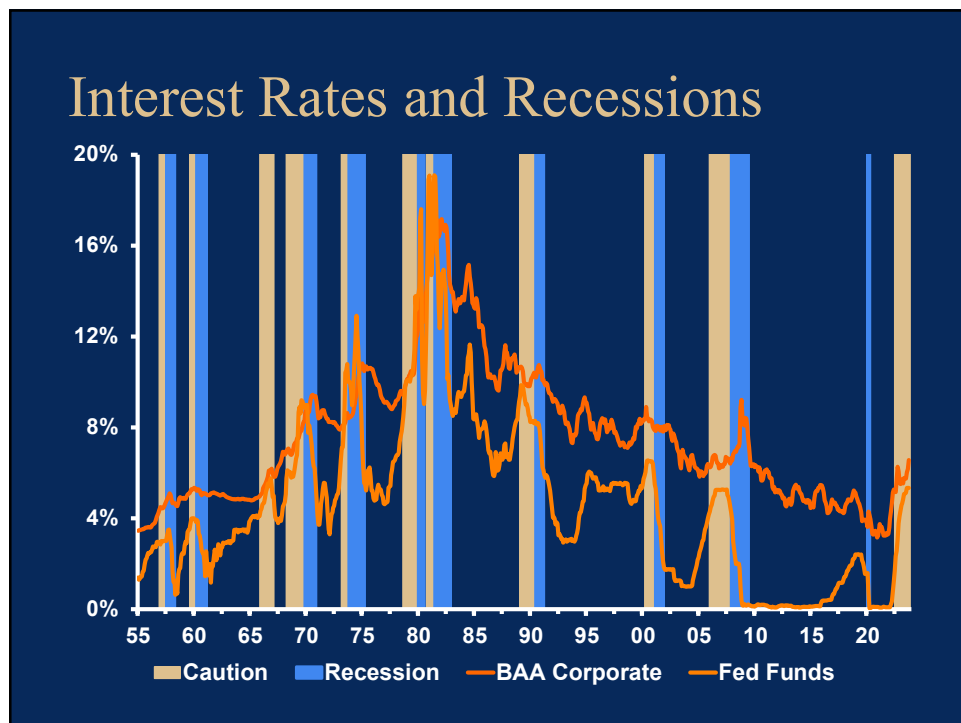
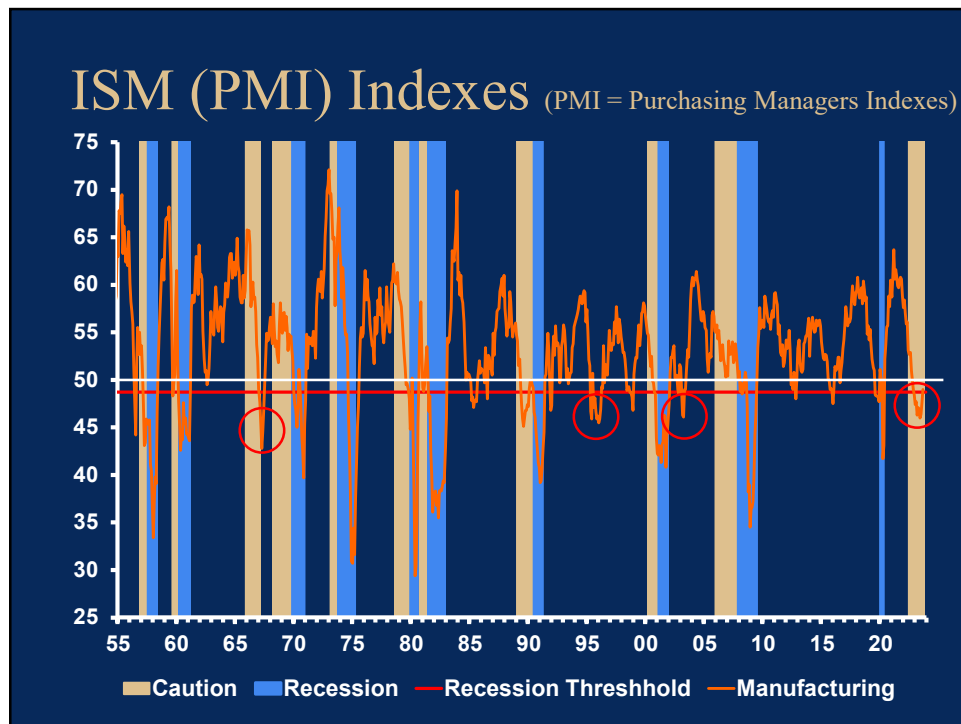


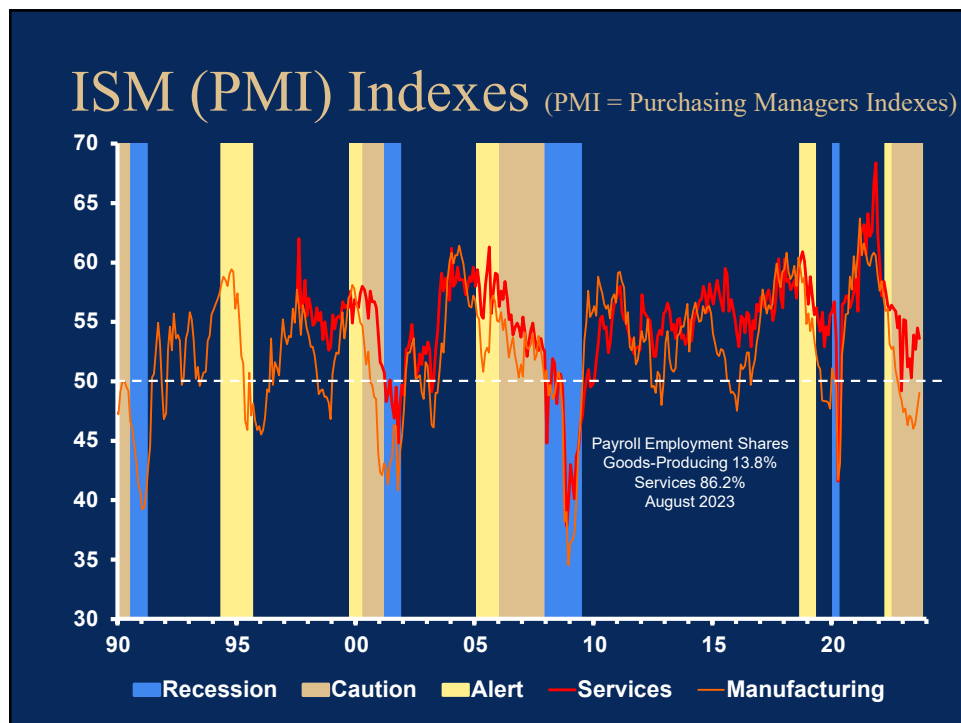
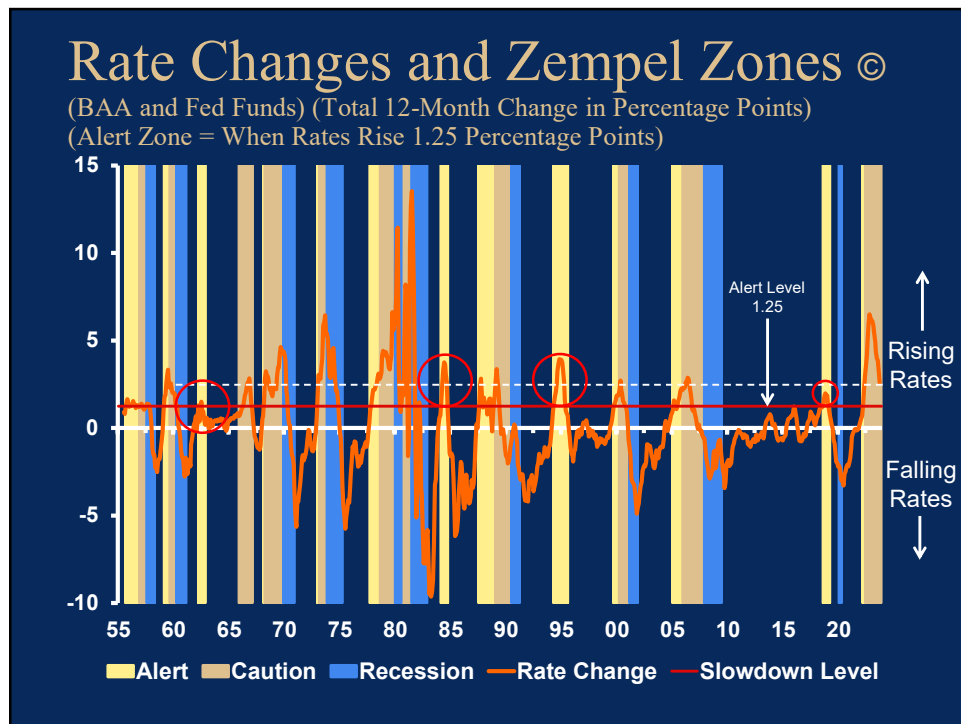
# Yield Spread and Caution Zones ©

(10-Year T-Note Yield Minus 1-Year T-Note Yield) (Percentage Points)

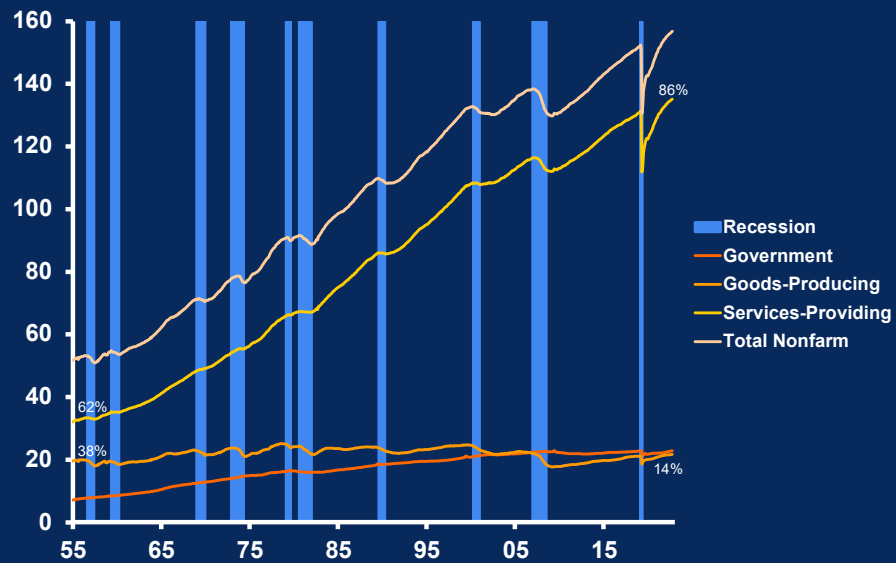
(Inversion = Caution Zone When Fed Funds Rate Is Rising)



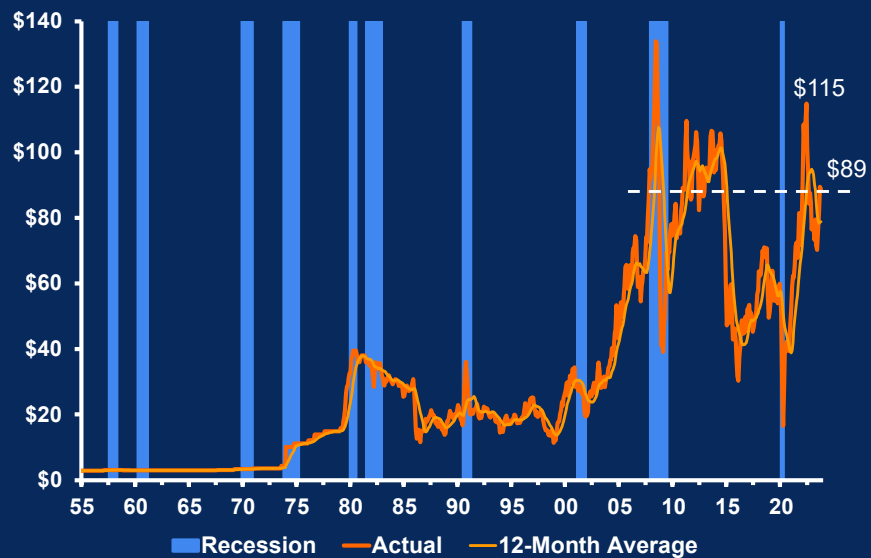




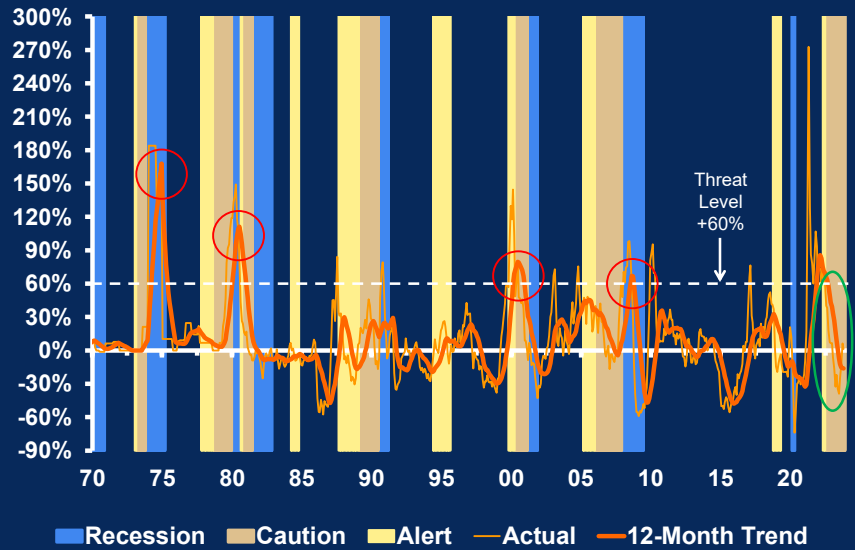
## Nonfarm Employment Levels (Millions)



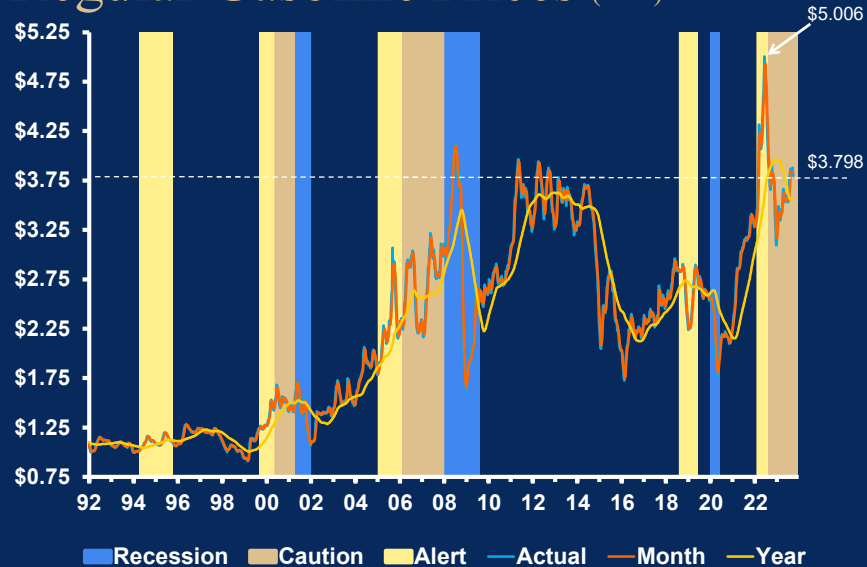
## Oil Prices (WTI Spot)

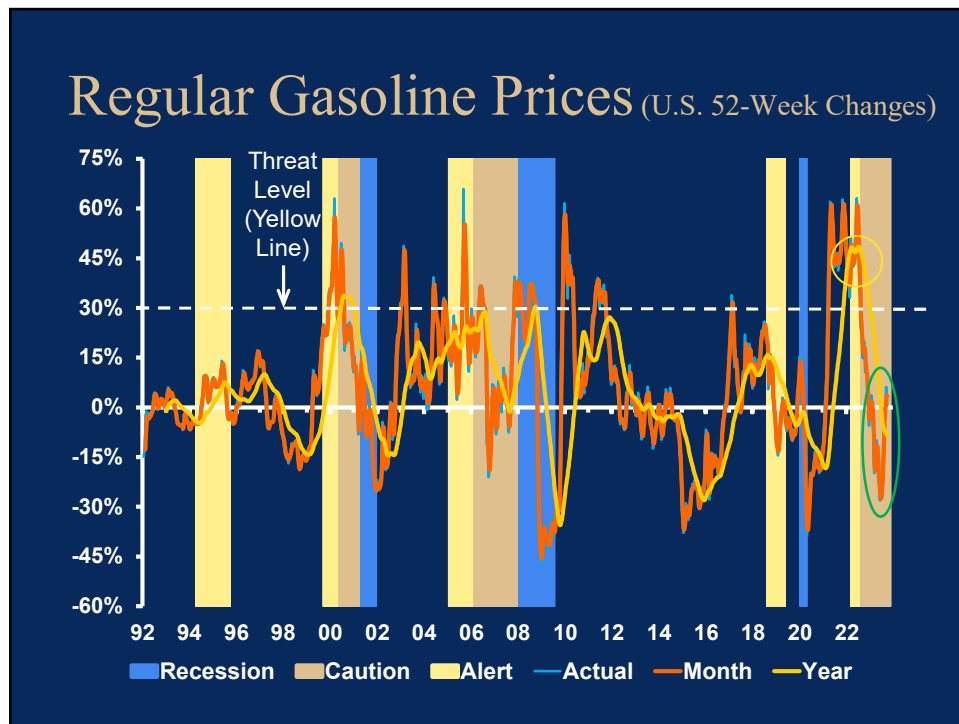



## Oil Prices (WTI Spot) (12-Month Changes)



## Regular Gasoline Prices (U.S.)







## WICPA Accounting and Auditing Conference

### The Economic and Market Outlook 2023 – 2028

What Do “Best Indicators” Predict?

Yield Spread Remains Inverted – Implies Recession Risk  
 Rate-Changes Still High – Implies Sustained Slowdown  
 Energy-Prices Support Economic Expansion

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## WICPA Accounting and Auditing Conference

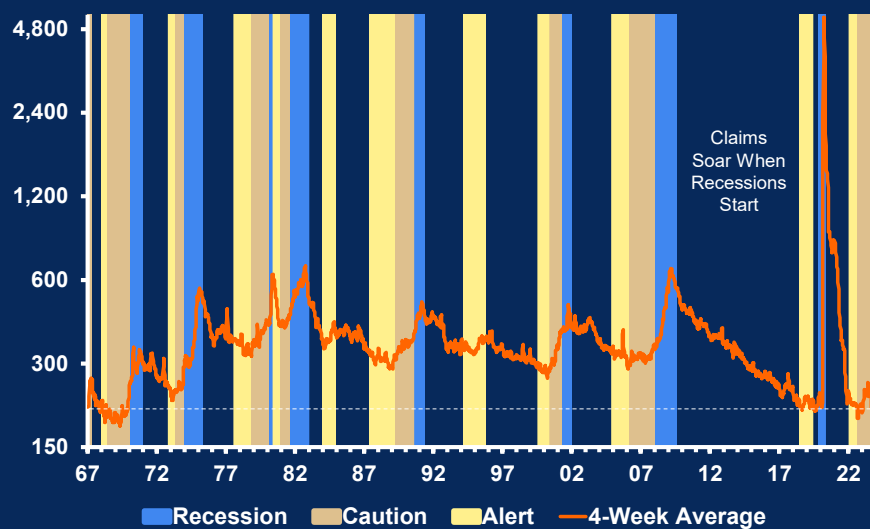
### The Economic and Market Outlook 2023 – 2028

Has Recession Started? No  
Why Not? Inflation Has Fallen Sharply Earlier Than Usual.

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### Jobless Claims and Zempel Zones ©

(Initial Unemployment Insurance Claims) (Log Scale) (Weekly) (Thousands)



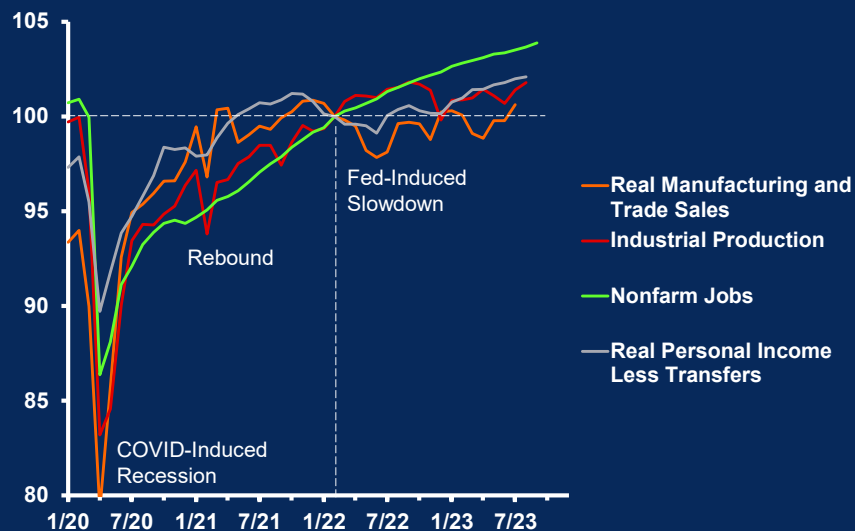
## New York Fed's Weekly Economic Index

<https://www.newyorkfed.org/research/policy/weekly-economic-index#/>



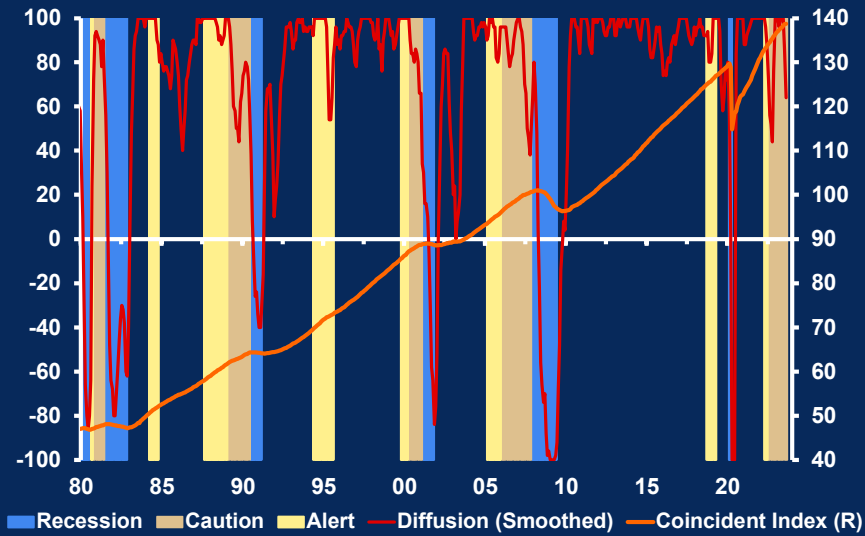
## NBER Recession Watch – Four Key Numbers

(NBER = National Bureau of Economic Research) (February 2022 = 100)

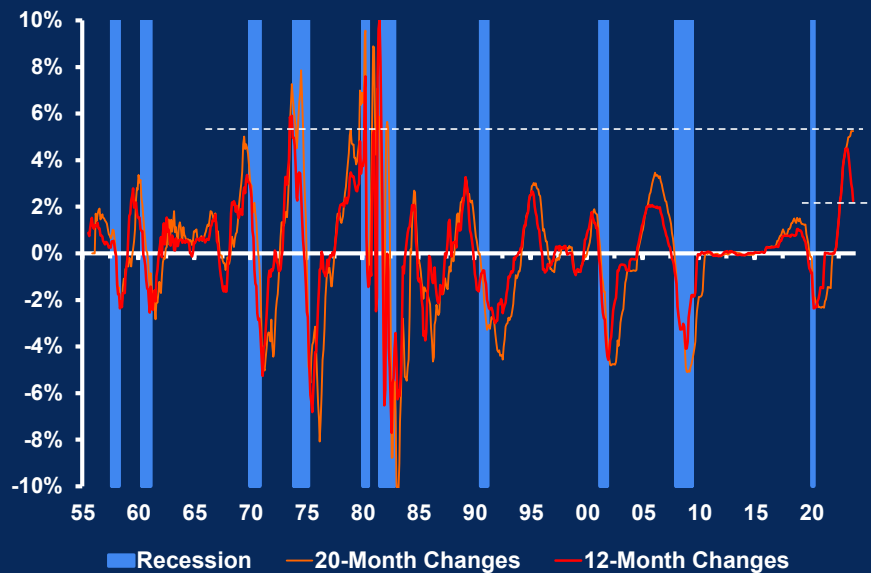


## U.S. Coincident and Diffusion Indexes

(Coincident Economic Activity Index) (Diffusion = States Improving Percentage)

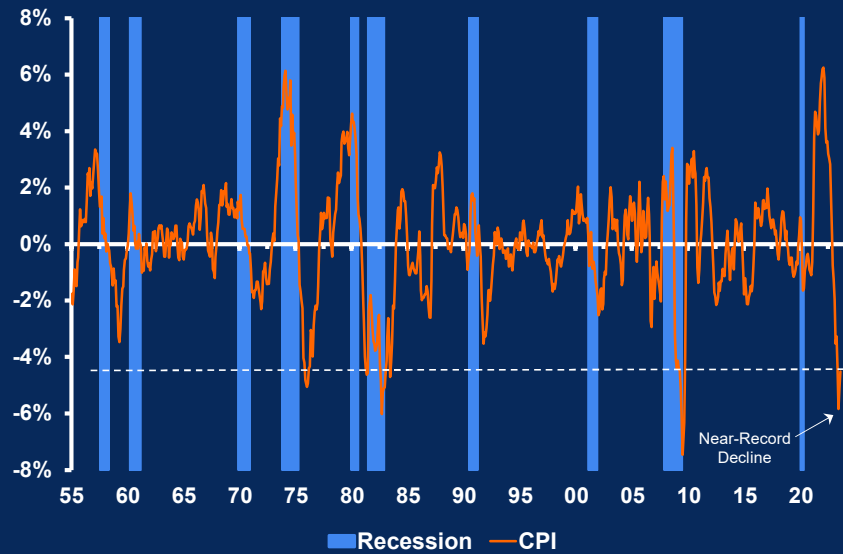


## Fed Funds Changes (Percentage-Points)



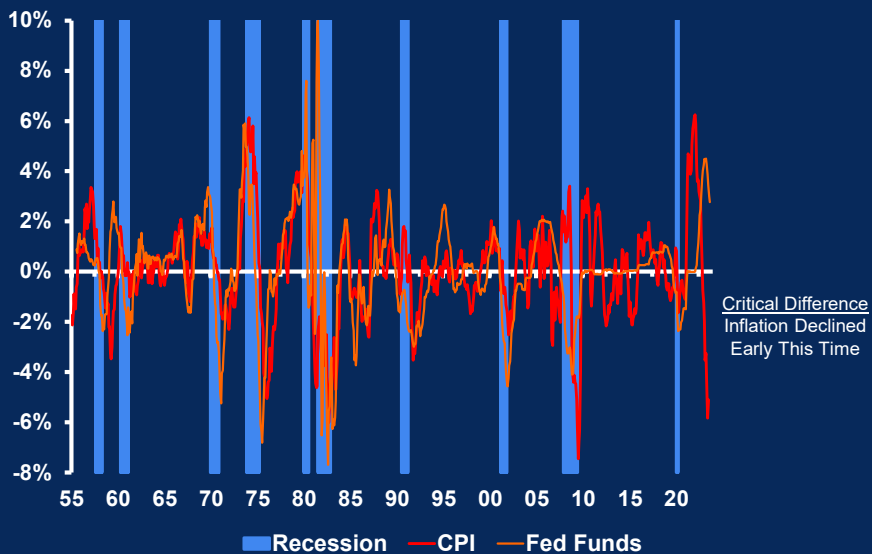
## CPI Inflation Rate Changes

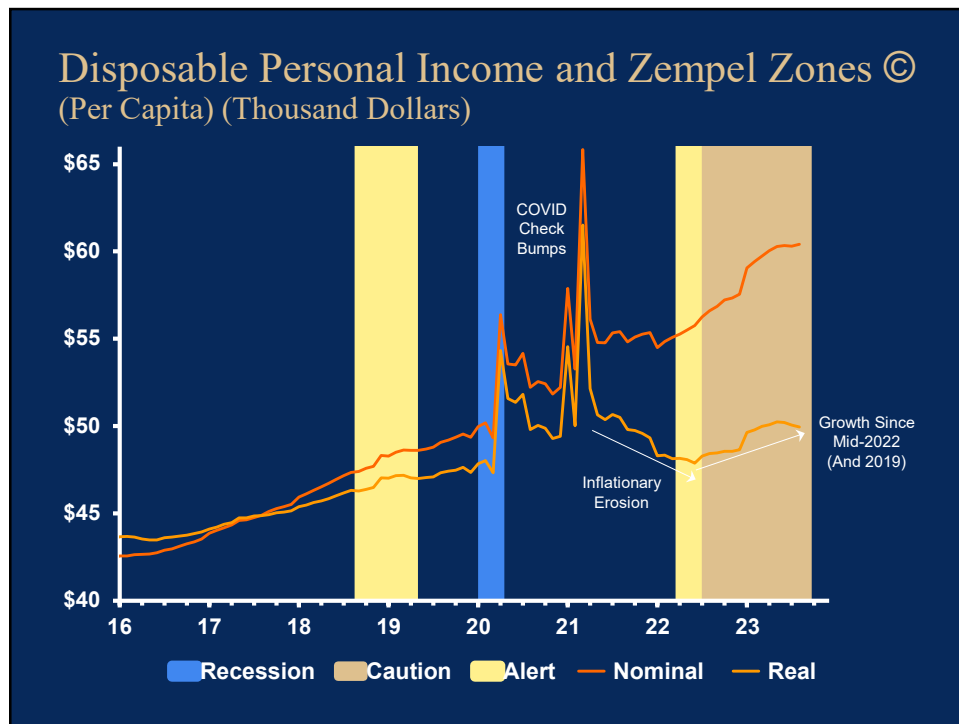
(12-Month Changes) (Percentage-Points)




## Fed Funds and CPI Changes

(12-Month Changes) (Percentage-Points)







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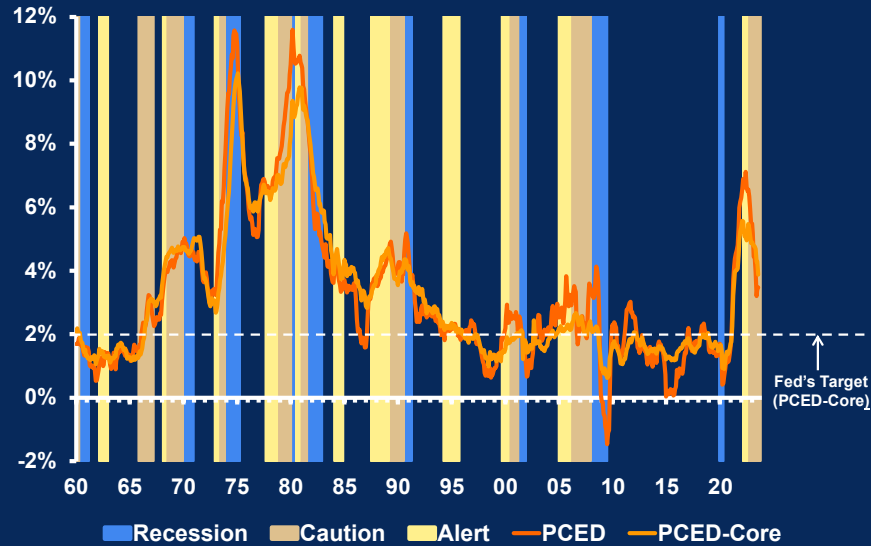
### The Economic and Market Outlook 2023 – 2028

What Causes Inflation?  
Why Did Inflation Peak Early?  
Should Federal Reserve Policy Ease?

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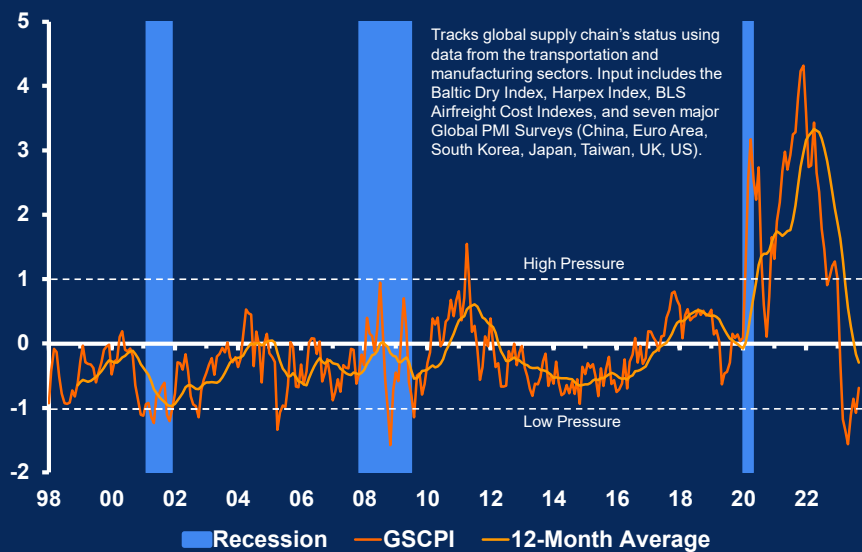
## PCED Inflation and Zempel Zones ©

(PCED = Personal Consumption Expenditure Deflator) (12-Month Changes)



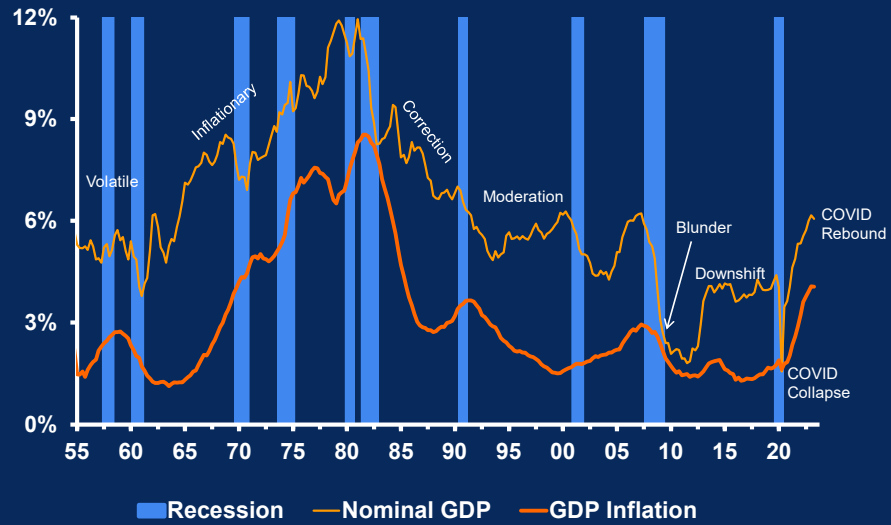
## Global Supply Chain Pressure Index

(GSCPI) (Monthly) (New York Fed)

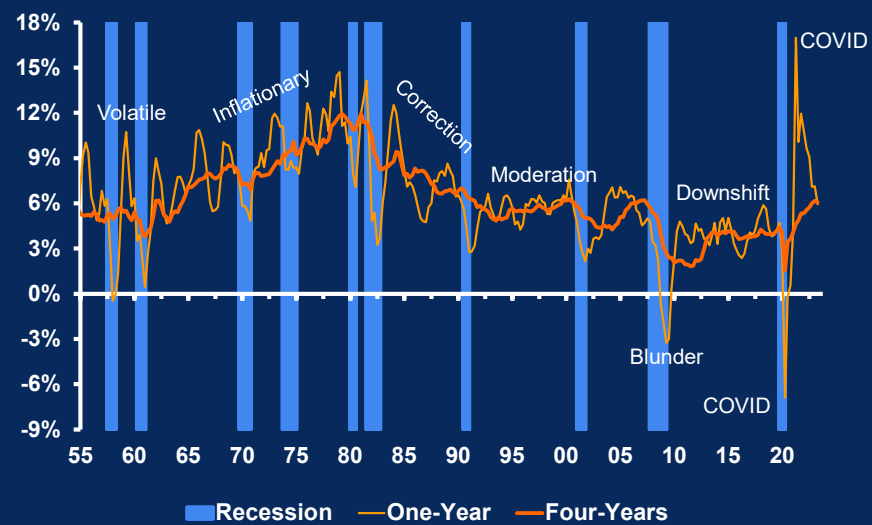


# GDP Growth and Inflation

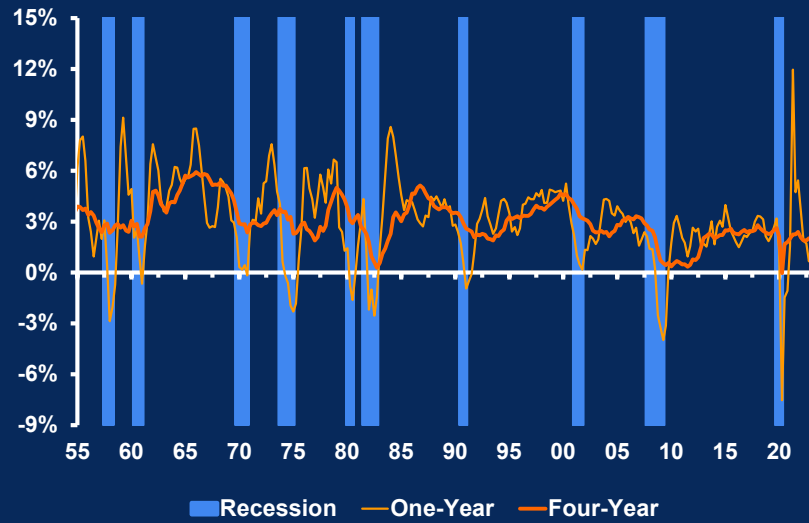
(Four-Year Growth Rates)



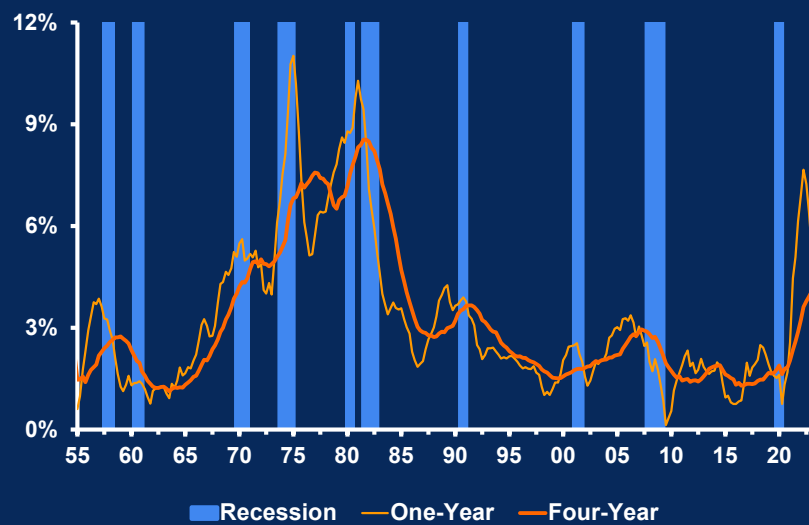
# Nominal GDP Growth Rates



## Real GDP Growth Rates

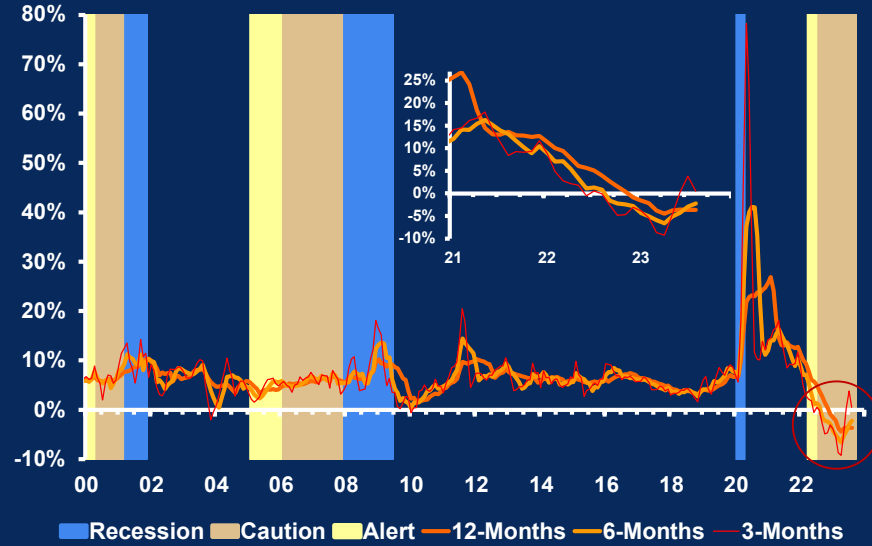


## GDP Inflation Rates



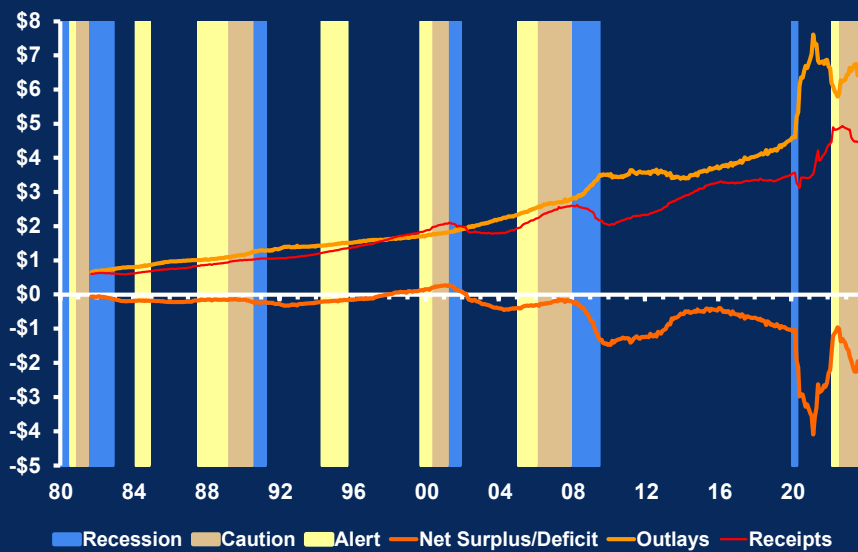
## M2 Growth and Zempel Zones ©

(M2 Money Stock) (Monthly)

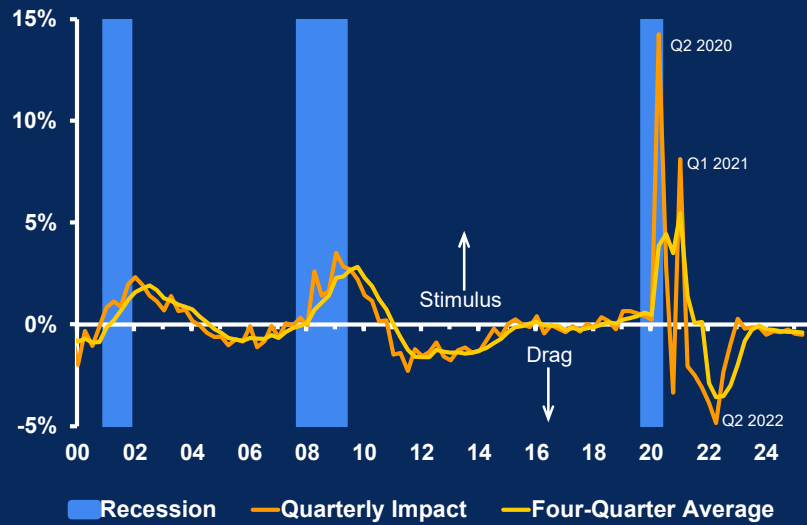


## Federal Budget and Zempel Zones ©

(Trillions) (Monthly) (12-Month Totals)

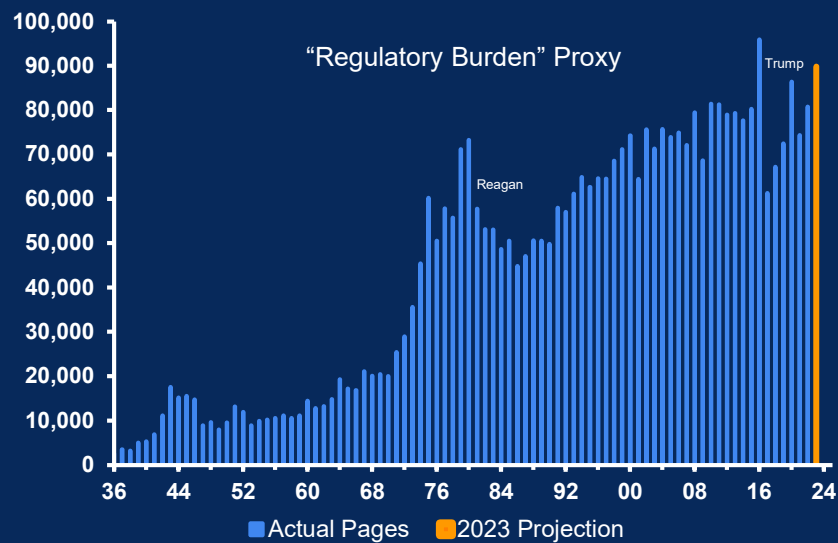


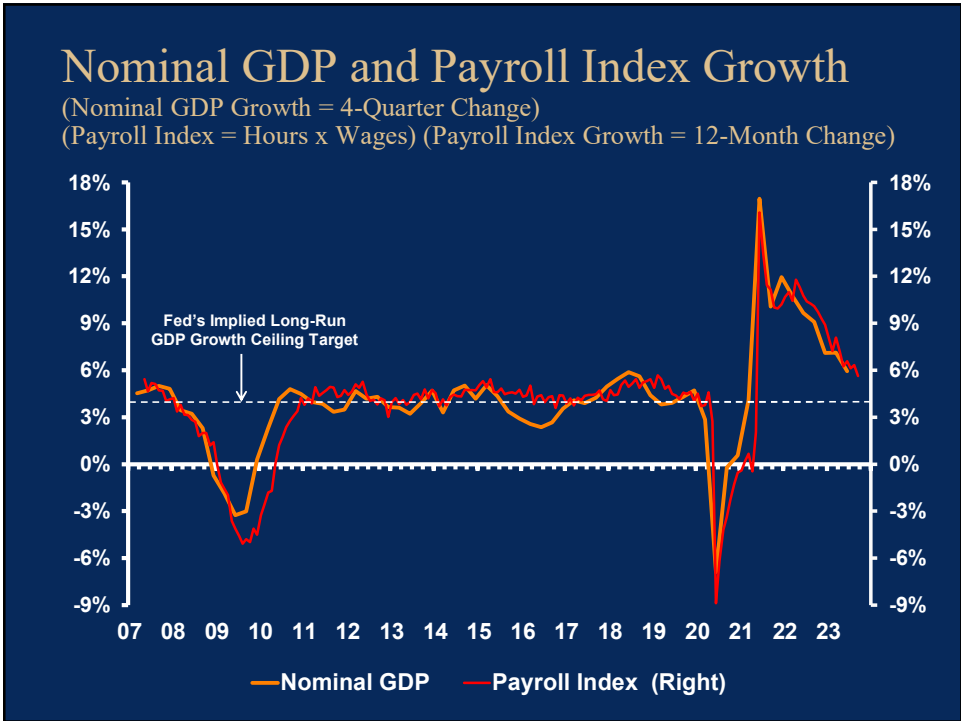
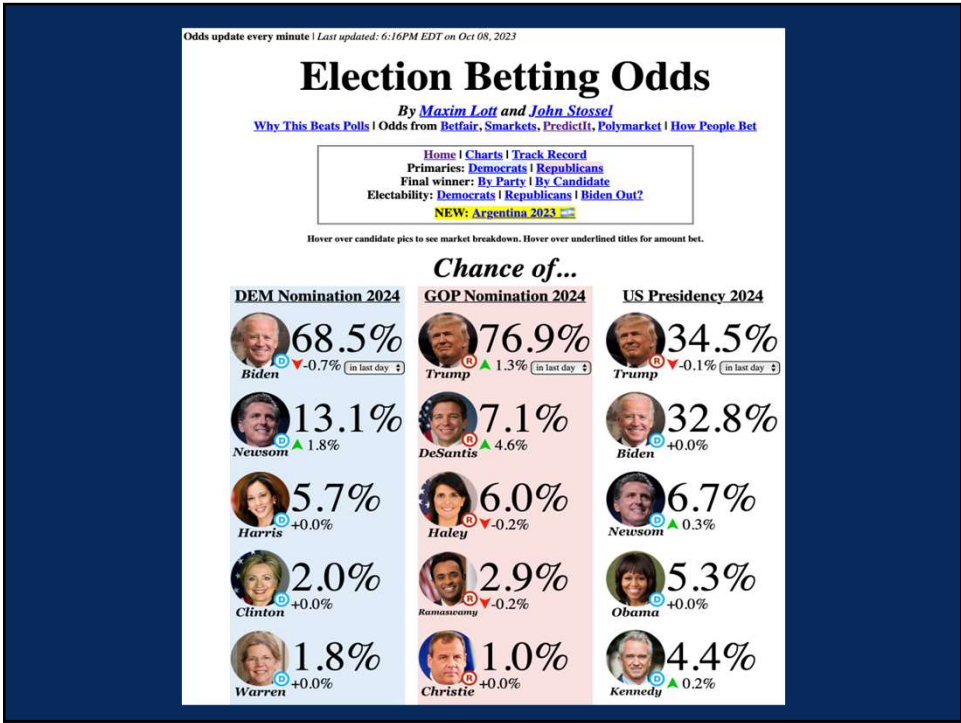
## Hutchins Center Fiscal Impact Measure (GDP Growth Contributions)



## Federal Register Page Count

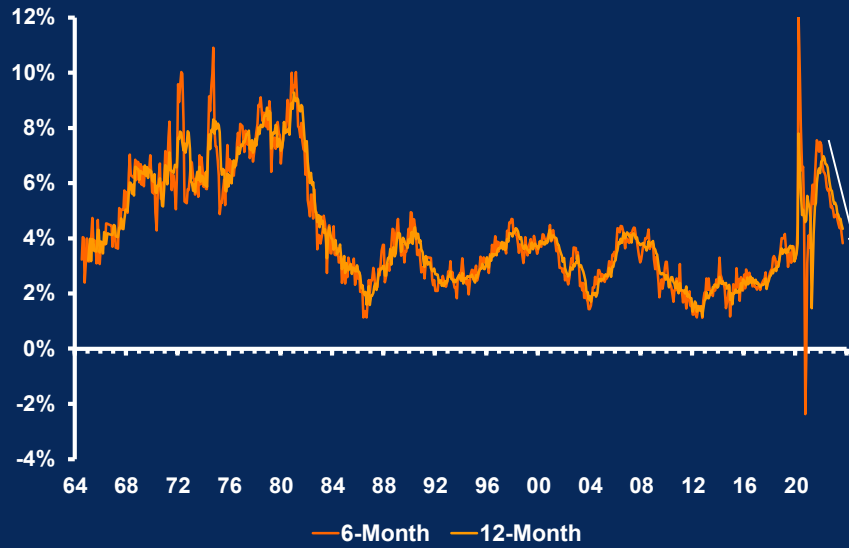
(Actual Annual Totals in 1936-2022)



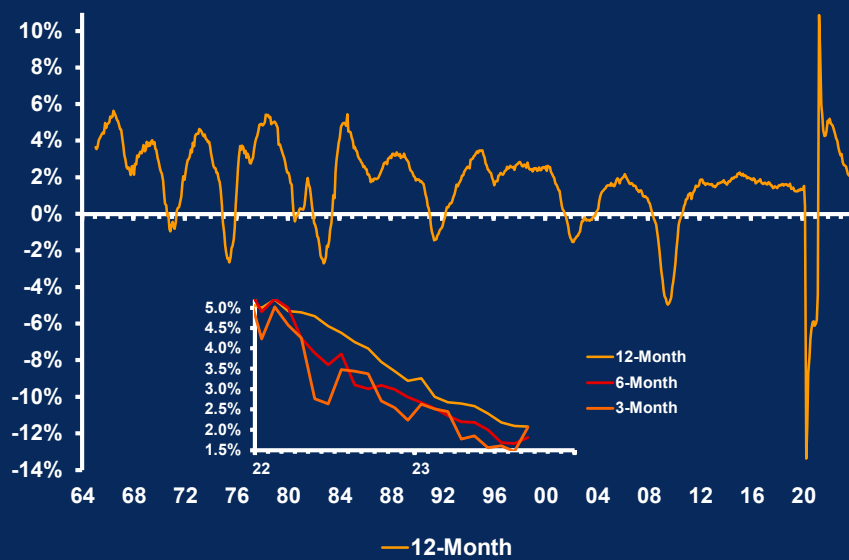


## Average Hourly Earnings Growth

(Private Production and Nonsupervisory Employees)



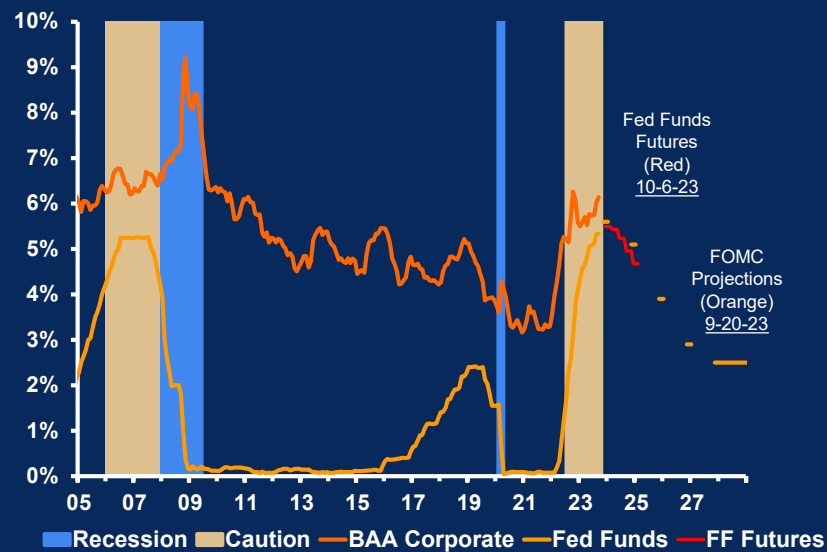
## Nonfarm Employment Growth



## Payroll Index Growth (Payroll Index = Hours x Wages)



## Interest Rate Prospects





## WICPA Accounting and Auditing Conference

### The Economic and Market Outlook 2023 – 2028

Inflation Has Peaked – Fed's Target Achievable Soon  
Monetary Policy Remains Restrictive  
Fiscal Policy Remains Restrictive  
Political Prospects Unpromising  
No Recession If Inflation Falls Further + Fed Eases  
Fed's Rate Hawkishness Risks Recession Next Year

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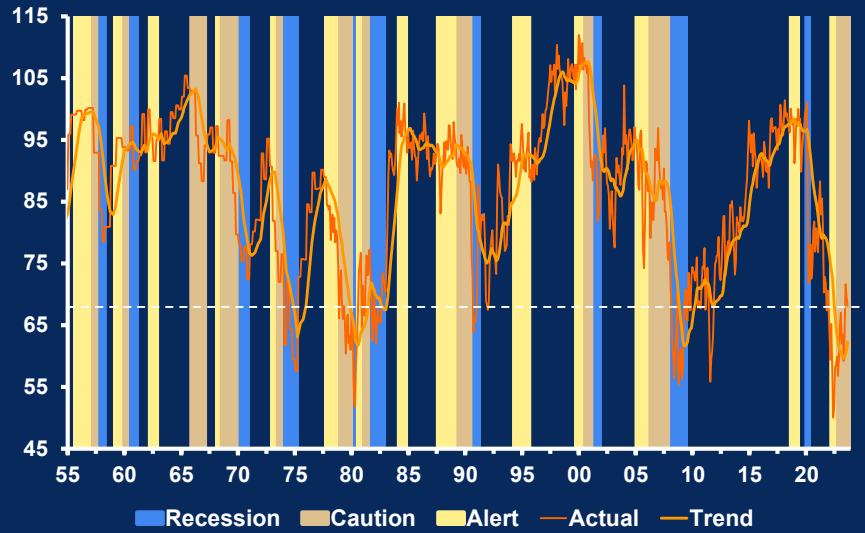
### The Economic and Market Outlook 2023 – 2028

Economic Sector Performances  
Overall Prospects Remain Positive But Not Robust

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## Consumer Sentiment and Zempel Zones ©

(Consumer Sentiment Index) (University of Michigan) (Monthly)



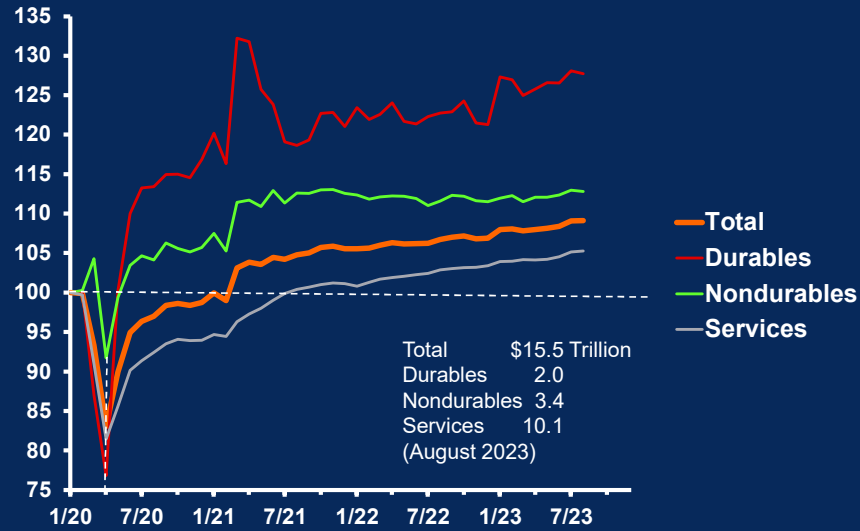
## Consumer Sentiment and Zempel Zones ©

(Consumer Sentiment Index) (University of Michigan) (Monthly)



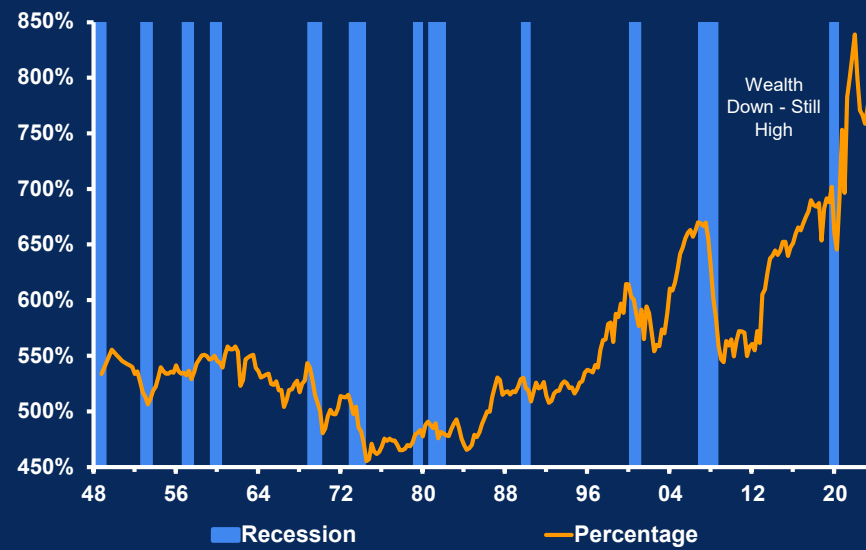
## Real Personal Consumption Indexes

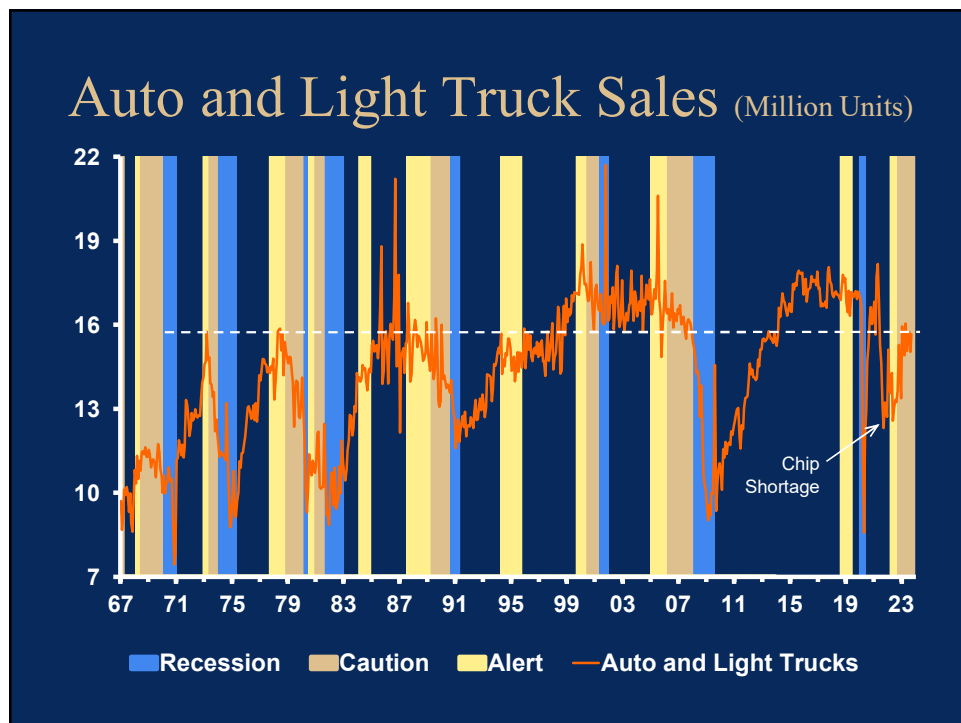
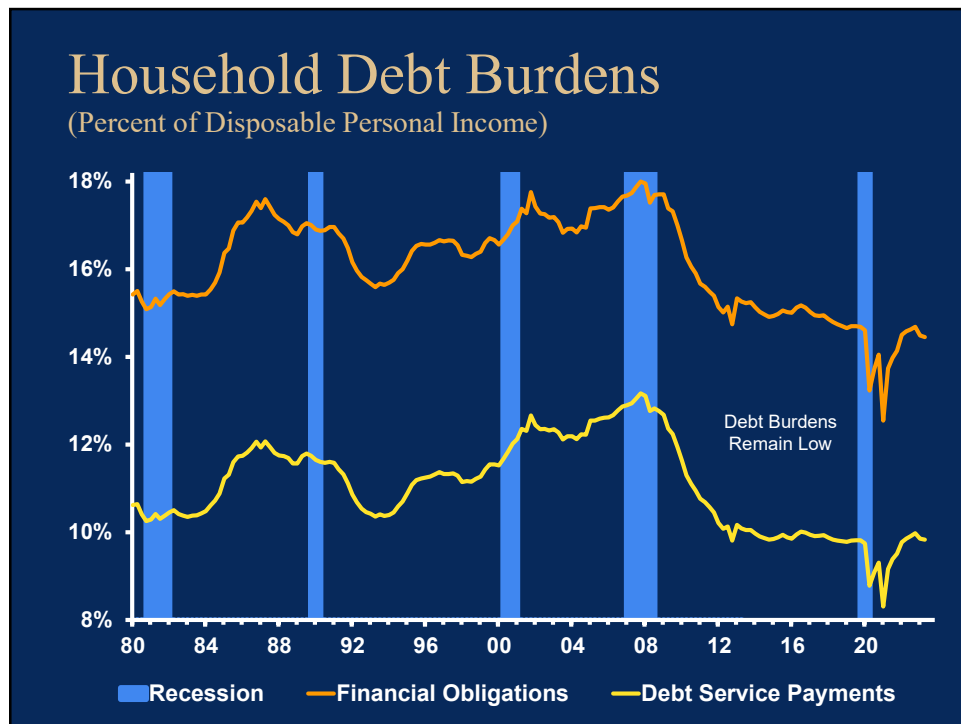
(January 2020 = 100)



## Net Worth (Percentage of DPI)

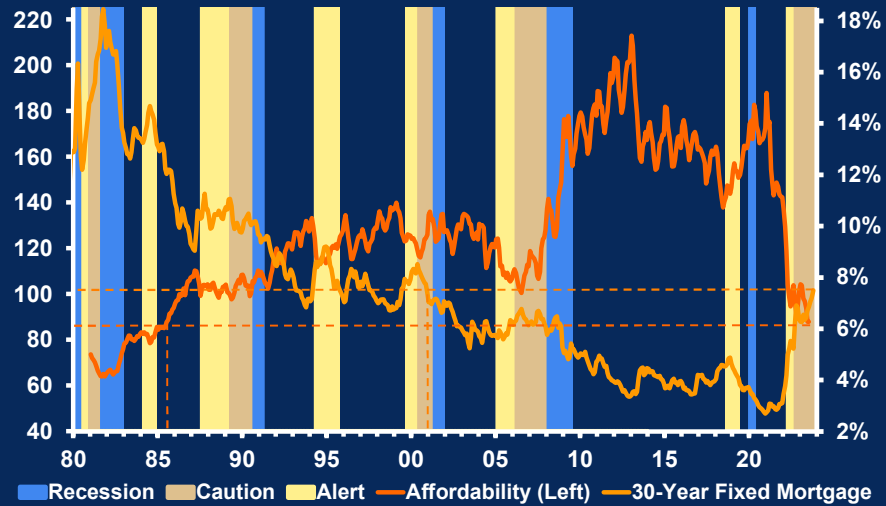
(Households and Nonprofit Organizations)



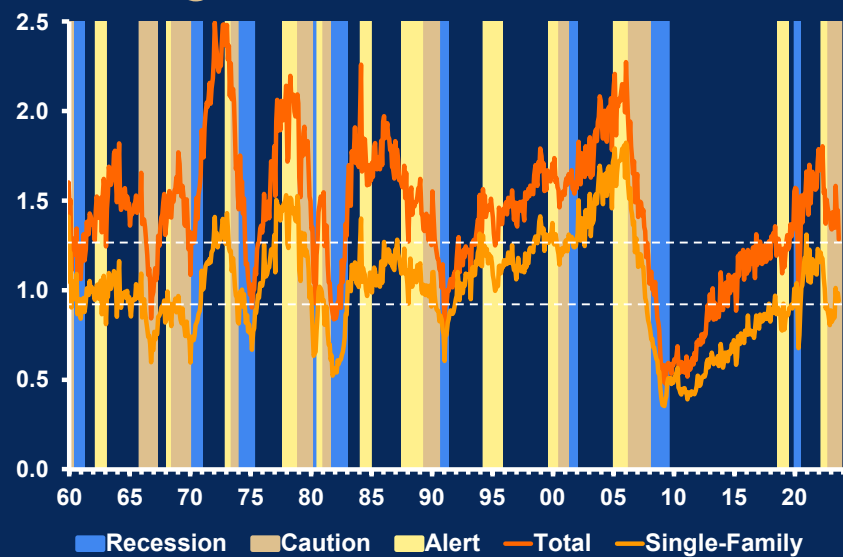


## Mortgage Rate and Affordability

(National Fixed-Rate Average) (Fixed-Rate Affordability Index)

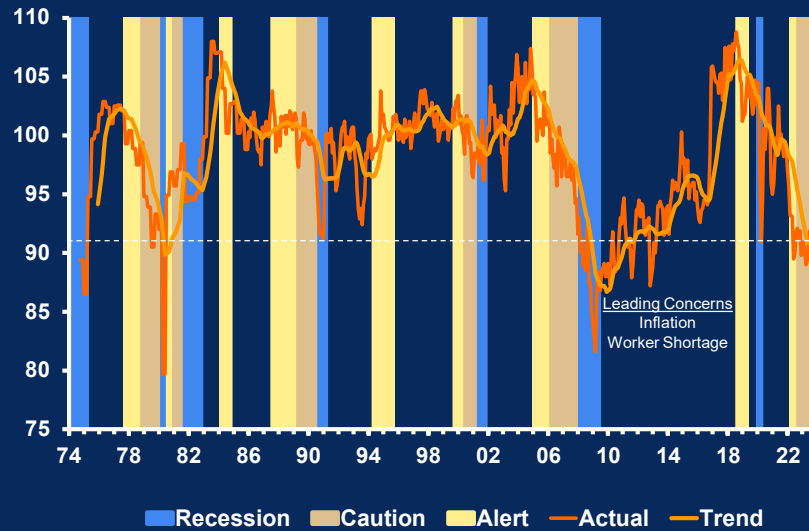


## Housing Starts (Million Units)



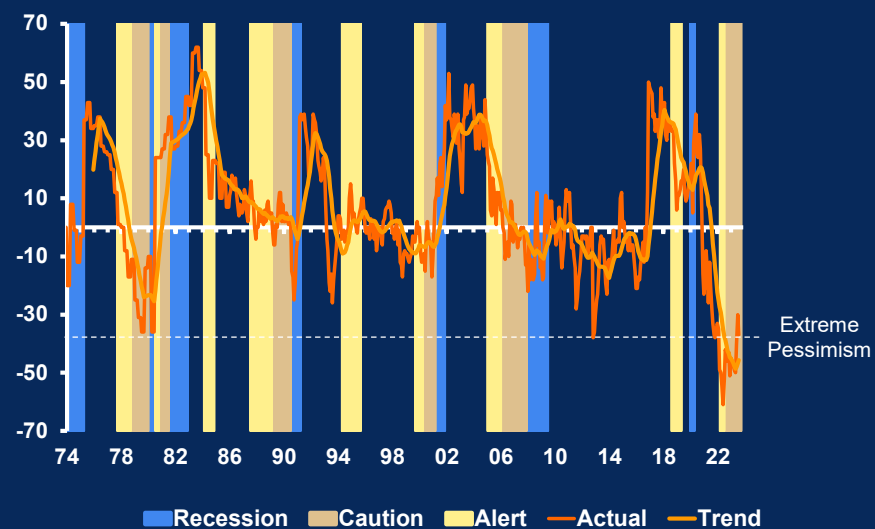
## NFIB Optimism and Zempel Zones ©

(Small Business Optimism Index) (Monthly Since 1986)



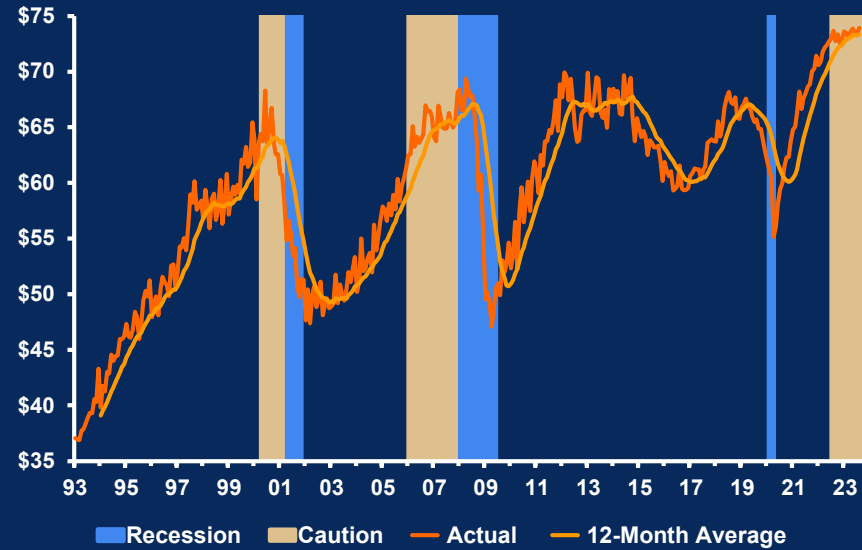
## NFIB Outlook and Zempel Zones ©

(NFIB = National Federation of Independent Business) (Small Business Economic Trends)  
(Net Percent "Better" Minus "Worse" Six Months from Now) (Monthly Since 1986)



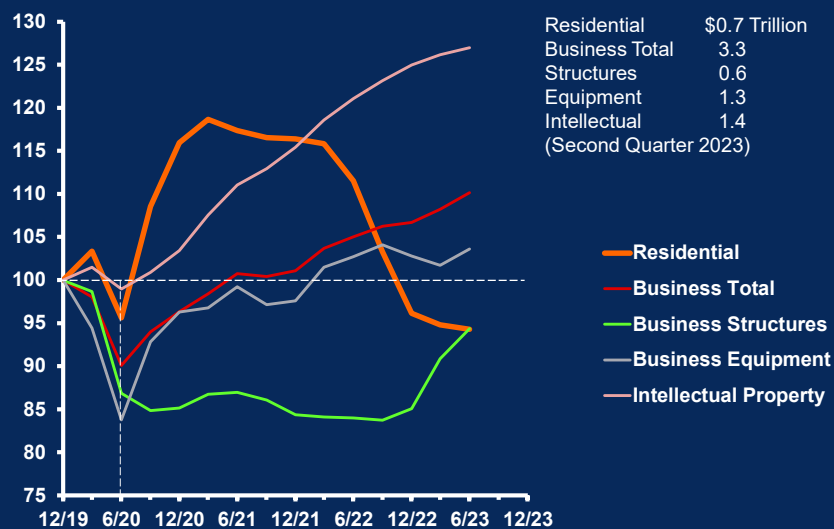
## New Non-Defense Capital Goods Orders

Excluding Aircraft (Monthly) (Current Dollars) (Billions)



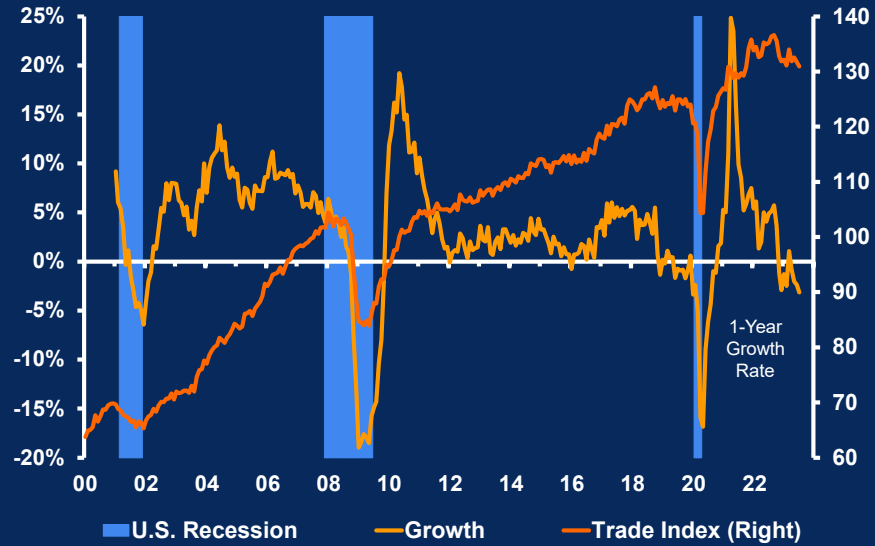
## Real Investment Indexes

(Quarterly) (December 2019 = 100)



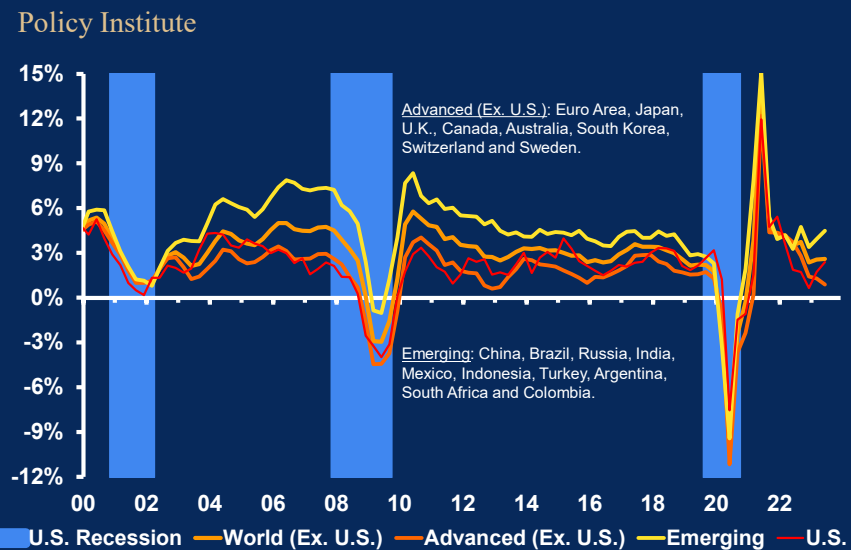
# World Trade Volume Index

(CPB Netherlands Bureau for Economic Policy Analysis) (2010 = 100)



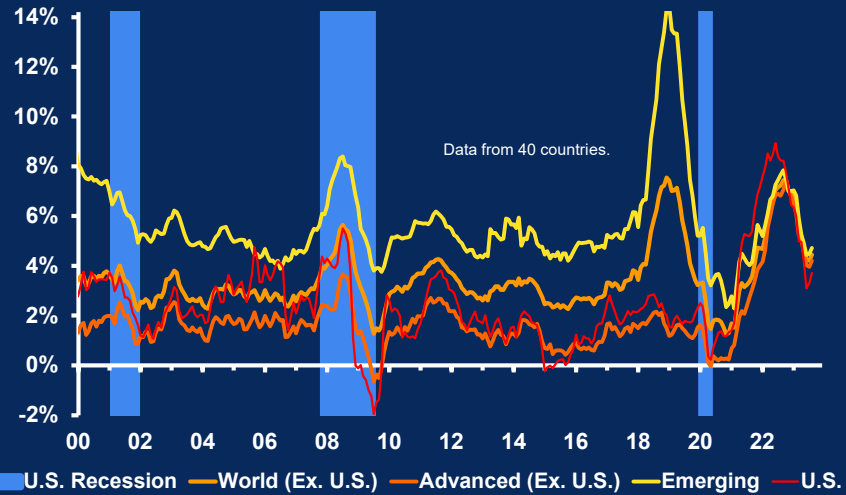
# World Real GDP

Dallas Fed's Globalization & Monetary Policy Institute



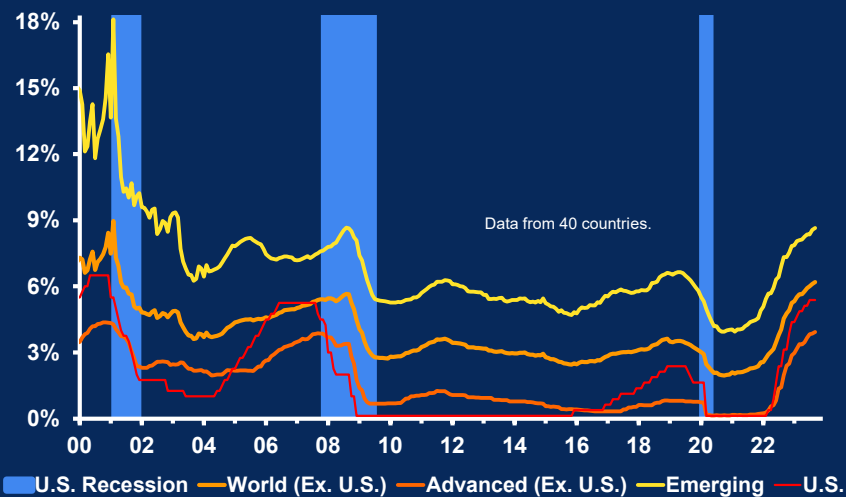
## World Headline CPI Inflation Rates

Dallas Fed's Globalization & Monetary Policy Institute



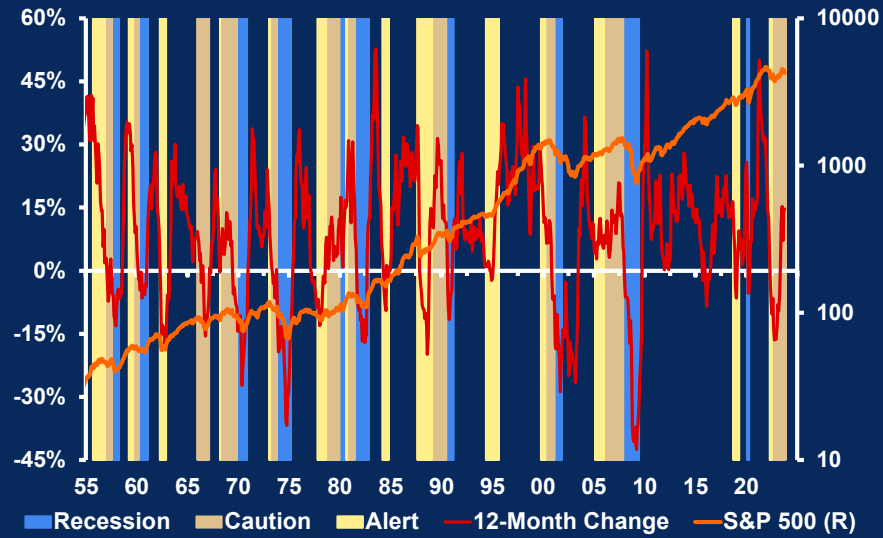
## World Policy Short-Term Interest Rates

Dallas Fed's Globalization & Monetary Policy Institute



# S&P 500 Index and Changes

(12-Month Percentage Change)



## WICPA Accounting and Auditing Conference

### Stock Market Model Components

Momentum  
Interest-Rate Changes  
Valuation

### Stock Market Valuation Index Concepts

Ratio = Bond Yield / Earnings Yield

Earnings Yield =  $E/P$

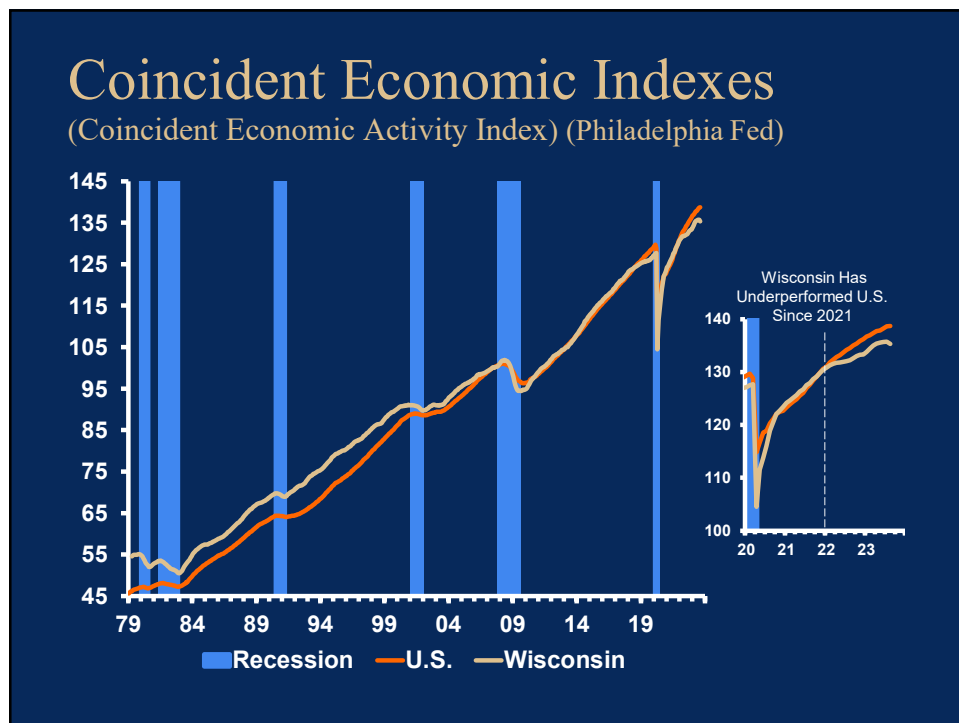
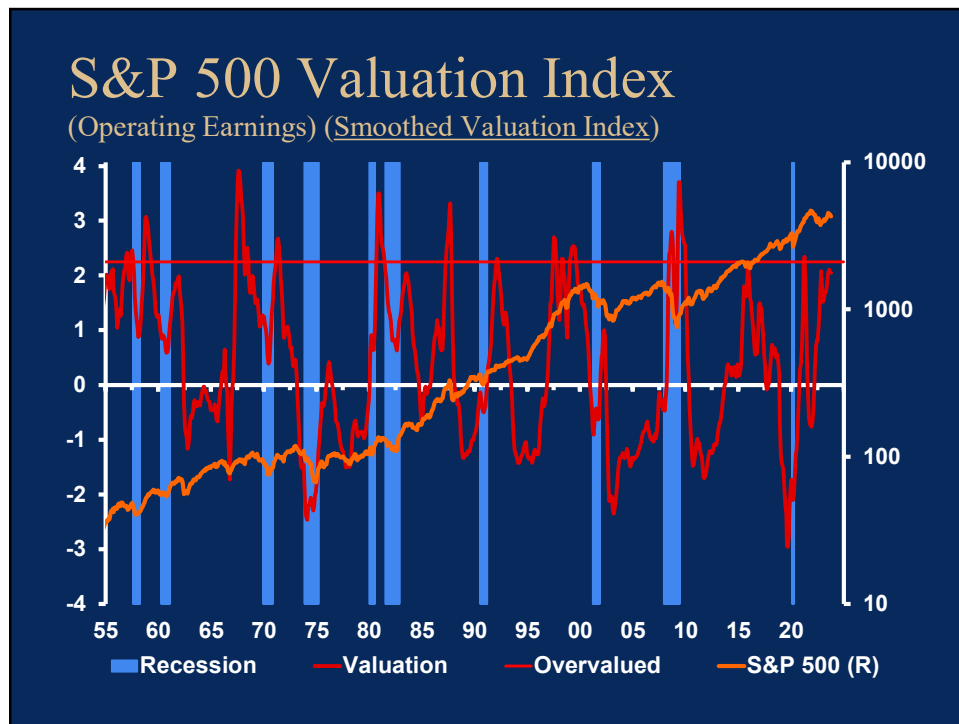
Valuation Index = Normalized Ratio

Bond Yield = Moody's BAA Corporate Bond Yield

E = Trailing Year Operating Earnings

P = S&P 500 Index

Normalization =  $(\text{Actual} - \text{Mean}) / \text{Standard Deviation}$





## WICPA Accounting and Auditing Conference

### The Economic and Market Outlook 2023 – 2028

Has Recession Started? No

What Do “Best Indicators” Predict? Slowdown + Recession

Can Recession Be Averted? Or Downside Limited? Yes

Best Case? Inflation Slows Further + Fed Tempers Hawkishness

How Would Sectors Perform Then? Moderate Expansion

Worst Case? Fed’s Hawkishness Triggers 2024 Downturn

What to do now depends on sensitivity to economic slowdowns.

“Alert Zone” means temper optimism.

“Caution Zone” now means plan for recession.

Delay implementation until jobless claims soar or own orders drop.

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## Questions...

Clare W. Zempel, CFA, CBE

Zempel Strategic

Applied Economics and Financial Market Analysis

[www.zempelstrategic.com](http://www.zempelstrategic.com)

[CZempel@ZempelStrategic.com](mailto:CZempel@ZempelStrategic.com)

(414) 351-1250

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9:25 – 10:15 a.m.

# ESG: Current State of Play: What Companies Need to Know Now

**Karen Baum, CPA, CFE,** *Managing Partner, Sustainability & ESG Services, BDO USA, LLP*

## Firm Names New Sustainability & ESG Leader; Tower To Retire

The firm has announced a new Sustainability & Environmental, Social & Governance (ESG) leader: **Karen Baum** will take on the role of Sustainability & ESG managing partner and oversee the U.S. ESG Center of Excellence (COE), effective Nov. 1. She will succeed **Christopher Tower**, who **will retire on Oct. 31**. In addition to these roles, Baum will continue to co-lead BDO Global Sustainability & ESG Services development, working with sustainability experts across the globe to drive creativity and innovative solution design.

"I'd like to thank Christopher for taking on the role of BDO's first ESG head and for his tireless efforts to drive this important area forward. to the numerous other leadership positions he has held over the years," says CEO **Wayne Berson**. "We will miss the passion he brought to all the leadership positions he held over the years and wish him all the best in his retirement."

"I'd also like to congratulate Karen on her new role," he adds. "I look forward to her leadership in continuing to build our sustainability credentials and grow this exciting area of our business."

## SUSTAINABILITY & ESG: A BRIGHT FUTURE

As one of the five CLIMB strategic imperatives, Sustainability is critical to the firm's success. Under Tower's leadership, the firm established an ESG Center of Excellence, published its inaugural sustainability report and participated in its first Climate Week, among other accomplishments.

"I'm excited to step into this role at this critical juncture," says Baum. "Sustainability is a business imperative and will be transformational for BDO and our clients."

Noting that the ESG market was estimated at \$50 billion last year and is only expected to grow, Baum says adapting our services to the evolving market will be key to activating the tremendous revenue potential sustainability presents across all business lines.

"On behalf of the entire COE team, we're truly grateful to Christopher for his vision and legacy - and will continue to deliver on our promise of excellence."

## ABOUT BAUM

Baum has led the firmwide ESG Services Strategy and has served as Advisory's ESG Services leader since the ESG (now Sustainability) strategic imperative was established in September 2021 and will continue to lead Sustainability & ESG services development globally. As a corporate finance professional, she has served as Advisory's National Market leader and Transaction Advisory Services National Partner at BDO in addition to serving in industry in multiple C-suite roles for private equity backed portfolio companies. Her industry experience includes serving clients in the consumer products, entertainment, media and broadcasting, healthcare, retail and technology sectors.

Related article:

- **22 Principals Retiring Through Year-End — Wish Them Well**

## SIDEBAR

### SUSTAINABILITY & ESG HIGHLIGHTS

BDO has made great strides to expand its environmental, social and governance (ESG) commitments, set data-driven goals and take action, including:

- Signing the [United Nations Global Compact](#).
- Joining the [Net Zero Financial Service Providers Alliance](#).
- Engaging stakeholders through a materiality assessment.
- Completing a full greenhouse gas inventory to determine the firm's carbon footprint.
- Pledging to achieve net-zero greenhouse gas emissions by or before 2050 and halving emissions by 2030.
- Committing to the [Science Based Targets initiative](#).
- Bringing to market sustainability and ESG service offerings.

9:25 – 10:15 a.m.

# Maximizing Capacity in Your Firm

**Doug Lewis**, *Director, The Visionary Group*

# How to Increase an Accounting Firm's Capacity



M&A + Advisory Consultants  
for the CPA Profession



SUPPORTING THE CPA PROFESSION



Follow **The Visionary  
Group** on LinkedIn

## M&A + Advisory Consultants

- CPA M&A Search + Consulting Team
- Internal Succession Assessments
- Advisory & Profitability Officer
- Capacity Expansion + Growth Realignment
- Value Pricing + Client Upscaling
- Expanding Advisory Services
- Partnership Agreements, Buy-ins + Comp
- Managing Partner Roundtables + Retreats



## Aging & the Impact on Succession

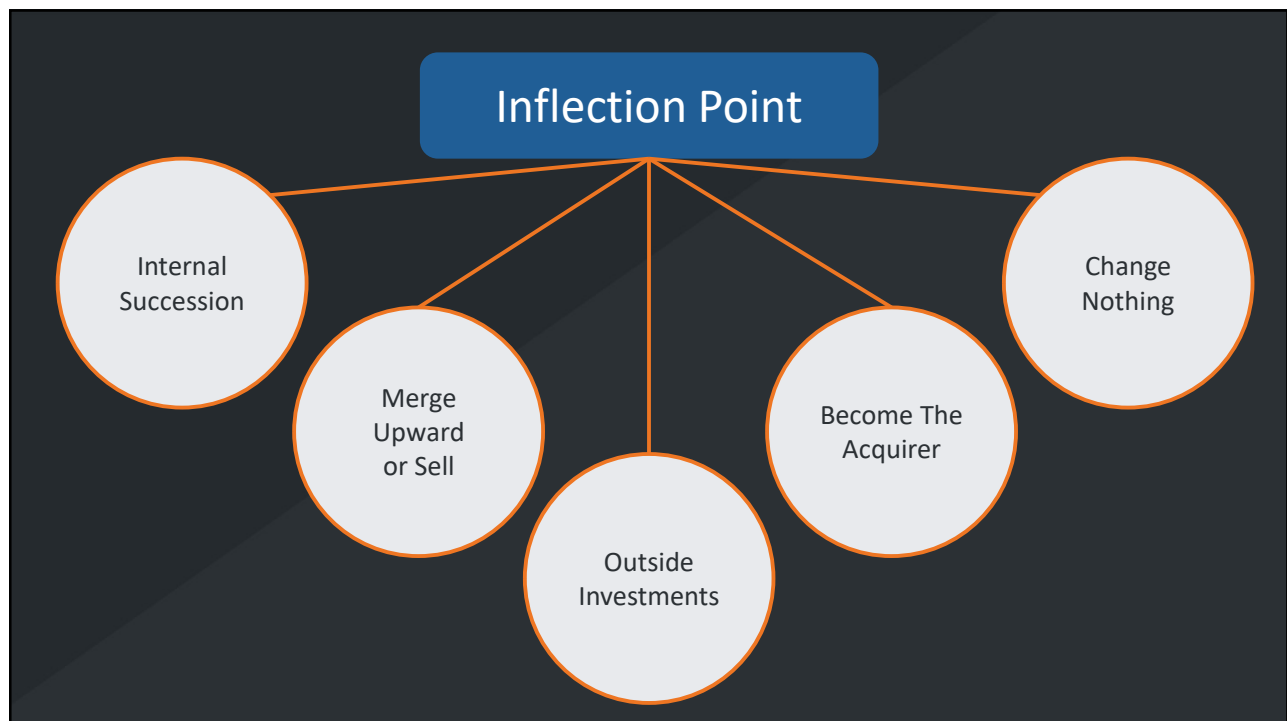
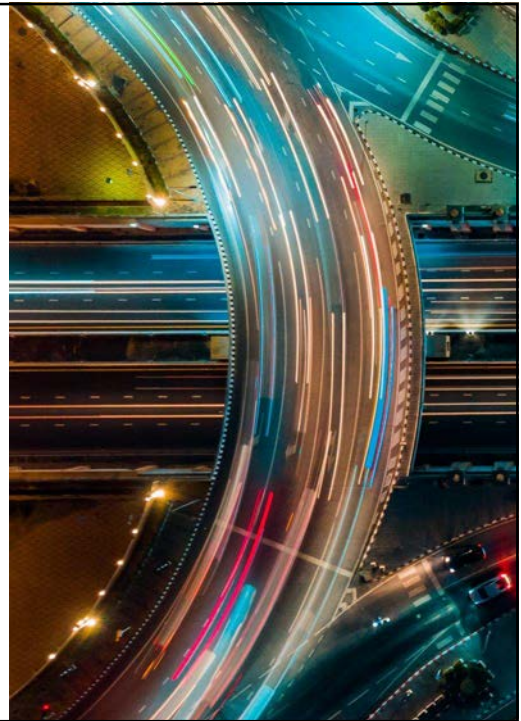
### Age

The average age of a CPA in the U.S. is 55

- 75% of AICPA members became eligible for retirement in 2020
- 84% of firm owners expect succession to become a major concern within 10 years

### Summary

- The aging professional population is confusing and not clear
- This uncertainty is fueling succession concerns



## Stats

### To Set Some Tone

- 9.5% drop in college enrollments
- 16.5% drop in junior college enrollments
- 127,000 to 95,000 sitting for the exam
- Baby boomers retiring
- 75,000 upcoming accounting grads

### Think of a swimming pool

*Being less dependent on CPAs is a critical factor in a firm's growth path*

\* Source: American Institute of Certified Public Accountants

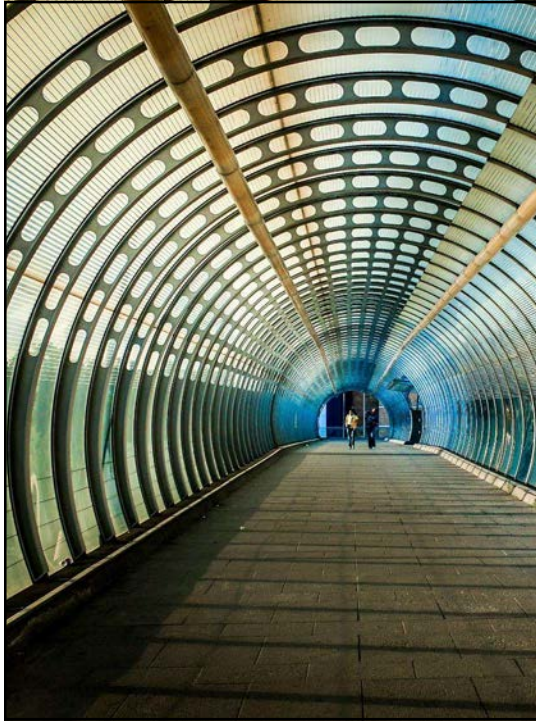
## Set the Stage

Time Compression

The Client's Perspective

Building Enterprise Value

The M&A/PE + Succession Factor



## Time Compression Factor

### Year-Round Revenue Generators

- Client Accounting Services
- Wealth Management
- Advisory Services

### What Services Can Free You?

Free you from being dependent on the shrinking supply of CPAs so you can still grow



## Client's Perspective

### What Do Clients Think?

Do they care about **HOW** you get their work done or **IF** you can do it for them?

### Key Capacity Points

- Clients want insight
- They want work done on time
- They want the data to make decisions

### Clients Rely on Your Firm to Provide Data

The “tools” your take to get there do not really matter. What matters is you can deliver what they need.

## Building Enterprise Value

### How to Make a Firm More Valuable

- RPH & REP
- Pricing realignment
- Client upscaling
- 1040s & small clients
- Advisory services
- Depth of professional bench
- Culture



## Hidden Capacity Factors

Traditional M&A  
Private Equity  
Succession





## How Do You Maximize Capacity?

### What Path or Paths Work for You?

Look at options beyond recruiting to expand your firm's capacity.

### Core Capacity Options

- Outsourcing/Offshoring
- Client Culling / Upscaling
- Value Pricing
- Redirection
- Advisory Services
- Technology Investments

## Outsourcing Misconceptions



### Staffing Shortages Are International

It did not work for us

Our clients will not accept it

The price is too high

Quality is not there



## Client Culling/Upscaling

### Changing Clients

The clients you built the firm on may not be the clients you need going forward

### How Do You Decide...

- How much to raise fees by client?
- Which clients to shed?
- How to communicate this to a client?

## Pricing – Value Strategies

### Is There a Price Ceiling?

Fee increases with client culling/upscale is an area many firms struggle to implement.

### Pricing Mindset Value Killers

- Fear clients will leave
- Inability to handle client objections
- Not valuing what you do

### Supply + Demand

- Clients have nowhere to go



## Redirection

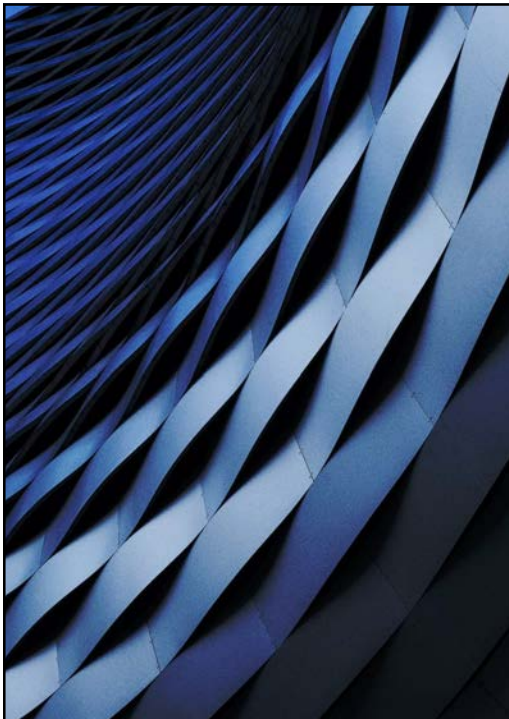
### What is Redirection?

**Think SALT.** Why use internal tax resources in areas where deep expertise is needed?

- Use an outside specialist

### Factors That Prevent Redirection

- Internal perception of quality
- Fear other work will be taken
- Identifying external partners to use



## Advisory Services

### What is Advisory?

Revenue that:

- Is not tax, accounting or auditing
- Solves or evaluates non-compliance problems or opportunities.

### Resource Consumption

- Advisory does not require a CPA to grow

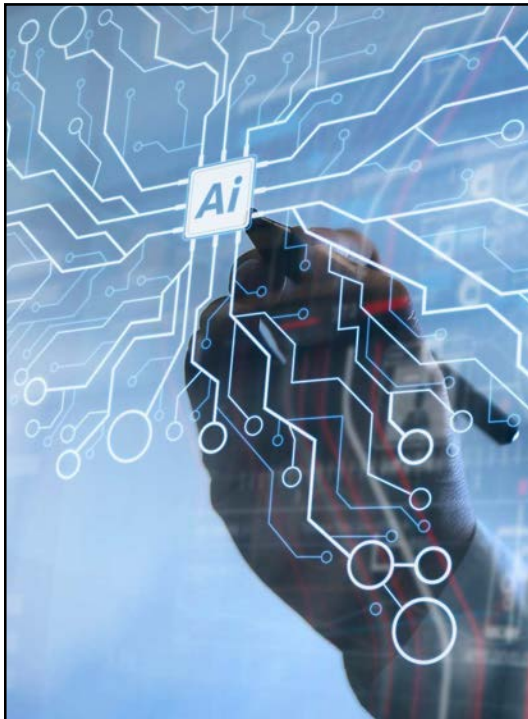
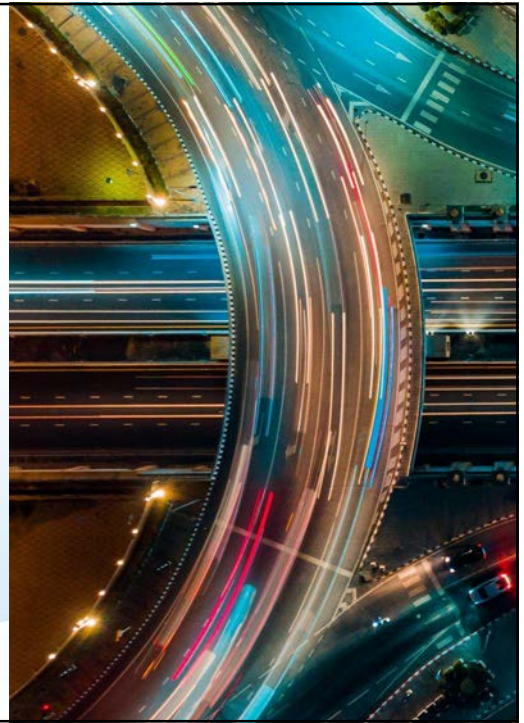
### Creating/Expanding These Services

- Build it / Buy or Merge it / Partner

## “Hot” Service Areas

### High Growth Sectors

- ESG Reporting
- Wealth Management
- Business Brokerage
- Family Office



## Technology Investments

### The Cost of...

- Artificial intelligence tools
- RPA – Robotic Process Automation
- Other workflow and system needs

### The Hidden Costs

- Training on how to use it
- Updates & maintenance
- Who is going to manage it internally

## Possible Next Steps



### Discussion

Offshoring?  
Pricing?  
Client Mix?  
Advisory?



### Analysis

Can you survive with the  
talent shortage unless you  
take other steps?



### Go / No-Go

If you do nothing?  
If you do take action,  
where do you start?



## What's Your Vision?

How do you weigh your options?

## Not Sure Where to Start?

Scan this QR code

				<p><b>Building Firm Value</b></p> <p>Each Visionary Team Member Brings A Unique Background &amp; Set of Skills</p>
	<p><b>Contact Us</b></p> <p><a href="http://www.ThinkVisionary.com">www.ThinkVisionary.com</a></p> <p>(800) 995-9186</p>	<p><b>Follow Us</b></p> 		
				

10:30 – 11:20 a.m.

# The Great GASB/FASB: The Hits Keep on Coming

**Gerry Boaz, CPA, CGFM, CGMA, *Technical Manager,***  
*Comptroller of the Treasury, Tennessee Division of State Audit*

# **WICPA Accounting and Auditing Conference**

**November 9, 2023**

## **The Great GASB/FASB: The Hits Keep on Coming**

**Gerry Boaz, CPA, CGFM, CGMA**

**Technical Manager, Comptroller of the Treasury, Division of State Audit**

**[Gerry.Boaz@cot.tn.gov](mailto:Gerry.Boaz@cot.tn.gov)**

**(615) 747-5262**



## **Disclaimer**

The opinions and views expressed in this presentation are my own and do not necessarily represent the opinions or views of the TN Comptroller of the Treasury, his representatives, or the TN Department of Audit. Official positions are determined only after due process and deliberation.



## Gerry Boaz, CPA, CGFM, CGMA

Gerry has been with the TN Comptroller of the Treasury, Division of State Audit, since January 1995. He was a Legislative State Auditor (LSA) for 5 years before becoming Technical Manager. As an LSA, he was an audit in-charge for 3 of the 5 years primarily on college and university audits. As the Technical Manager, he is primarily responsible for monitoring GASB, FASB, AICPA, OMB, and GAO accounting, auditing, and compliance standards relating to financial statement and financial-related audits. He reviews financial statement audits for adherence to the above principles and standards, as well as to AICPA and GAO auditing standards. He responds to all due process documents of the above standard setters, as applicable. He serves as a representative of NASACT by observing and writing an account of the GASB meetings.

He was a member of the AICPA's Auditing Standards Board for a three-year term (1/2015-1/2018), as well as its Audit Issues Task Force. He has served and currently serves on various GASB, NASACT, GAO, and AICPA task forces and working groups. He represents State Audit on the NSAA's Single Audit Committee; Auditing Standards and Reporting Committee (ASRC); and Peer Review Committee. He has served as a Vice Chair for both the Single Audit and ASRC committees. He is also an active member in the AGA. He served on the AGA National Governing Board (NGB) as AGA National President during the 2021-22 program year and serves on AGA's Financial Management Standards Board (FMSB), Leadership Development Committee (LDC - co-chair), and the Past National President/Treasurer Council (PNP/PNT - co-chair). He was the Nashville AGA Chapter President for the 2006-07 program year. He served on AGA's Professional Certification Board (PCB) for 7 years (2007-14) and as the PCB Chair for 4 of those years. He was also a member of AGA's National Executive Committee (now NGB) as a result of being the PCB Chair. He served on AGA's Governance Committee 7/1/2015—6/30/ 2019, and as Chair for the 2017-18 program year. He served as AGA's Southeast Regional Vice President (RVP) during the 2015-16 program year and as a result served on AGA's national Nominating Committee. He served as a member of the GFOA's Committee on Accounting, Auditing, and Financial Reporting (CAAFR) for two 3-year terms (2004-2009) and serves on the Special Review Committee for its certificate of achievement program. He is also a 2011 alumnus of the TN Government Executive Institute.

TENNESSEE  
COMPTROLLER  
OF THE TREASURY

TENNESSEE  
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OF THE TREASURY

# Session Objectives

- Learn about the key GASB/FASB pronouncements
  - Currently effective
  - Soon-to-be effective
  - Practice-changing

# Effective Dates

## June 30: Fiscal Year 2023

- Statement 91 – conduit debt
- Statement 94 – public-private partnerships
- Statement 96 – SBITAs
- Statement 99 – omnibus 2022 (leases, PPPs, and SBITAs)
- IG 2020-1 – update (4.6–4.17 and 4.19–4.21)
- IG 2021-1 – update (4.1–4.21, 4.23, 5.2, and 5.4)

## June 30: Fiscal Year 2024

- Statement 99 – omnibus 2022 (financial guarantees and classification of derivatives)
- Statement 100 – accounting changes and error corrections
- IG 2021-1 – update (5.1)

## June 30: Fiscal Year 2025

- Statement 101 – compensated absences

# New GASB Statement Impact

Statement and FY Effective		Potential Level of Effort*						
		FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
GASB 87 – Leases	2022	LARGE EFFORT						
GASB 89 – Construction-period Interest	2022	Minimal						
GASB 91 – Conduit Debt	2023	Small						
GASB 92 – Omnibus (multiple effective dates)	Various	Small						
GASB 93 – LIBOR Removal and Lease Modifications	2022	Small						
GASB 94 – Public-Private Partnerships	2023	MEDIUM						
GASB 96 – SBITA	2023	LARGE EFFORT						
GASB 97 – Certain Component Unit Criteria/Section 457 plans	2022	Small						
GASB 98 – The Annual Comprehensive Financial Report	2022	Minimal						
GASB 99 – Omnibus (multiple effective dates)	Various	Small						
GASB 100 – Accounting Changes and Error Corrections	2024	Small						
GASB 101 – Compensated Absences	2025	MEDIUM						

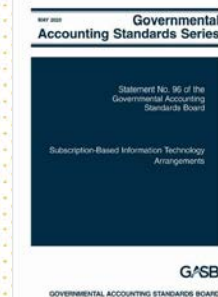
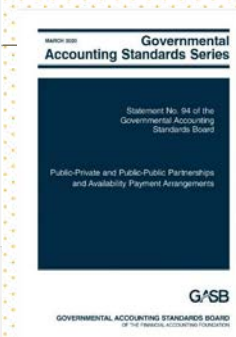
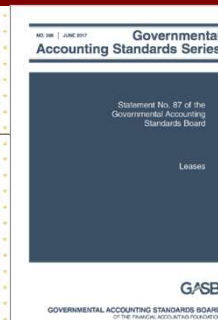
Potential Level of Effort for Preparer and Auditor\*

\*Based on June 30 fiscal years



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## Statement 96, Subscription-Based Information Technology Arrangements



## GASB 100, Accounting Changes and Error Corrections

June 2022

### Governmental Accounting Standards Series

Statement No. 100 of the  
Governmental Accounting  
Standards Board

Accounting Changes and  
Error Corrections

**GASB**

GOVERNMENTAL ACCOUNTING STANDARDS BOARD  
OF THE FINANCIAL ACCOUNTING FOUNDATION

## Accounting Changes and Error Corrections

### What?

Based on a reexamination of the requirements in Statement 62, the Board has replaced the guidance that previously existed in Statement 62 with new standards for accounting changes and error corrections.

### Why?

The previous guidance was based on several sources of accounting standards, some of which had been superseded, and much of which was been in effect without review by the GASB for decades.

### When?

Effective for changes made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

Earlier application is encouraged.

## More about Why...

- ◆ Research showed issues related to:
  - Changes in accounting principle vs. correction of an error
  - How to classify changes in measurement methodology of estimates versus changes in inputs to estimates versus changes in accounting policy
  - Certain currently required disclosures were often missing
- ◆ Common questions regarding:
  - How to account for changes in reporting entity
  - Impact of changes of prior balances on RSI and SI

# Classification

- ◆ Accounting changes
  - Change in accounting principle
  - Change in accounting estimate
  - Change to or within the financial reporting entity
- ◆ Correction of an error in previously issued financial statements

## Change in Accounting Principle

- A change in accounting principle results from either:
  - A change from one generally accepted accounting principle to another that is justified on the basis that the newly adopted accounting principle is preferable
    - Preferability based on the qualitative characteristics of financial reporting
  - Implementation of new pronouncements

# Accounting Estimates

## ➤ Accounting estimates are:

- Amounts subject to measurement uncertainty that are recognized or disclosed in basic financial statements
- Outputs determined based on inputs such as data, assumptions, and measurement methodologies

# Change in Accounting Estimate

- A *change* in accounting estimate occurs when the inputs change
  - Inputs include data, assumptions, and measurement methodologies
- Changes in inputs result from:
  - Change in circumstance
  - New information
  - More experience
- Change in measurement methodology should be justified on the basis that new methodology is preferable
  - Based on qualitative characteristics of financial reporting

## Change to or within the Financial Reporting Entity

- A change to or within the financial reporting entity results from:
  - Addition/removal of a fund that results from movement of continuing operations within the primary government, including its blended component units
  - A change in the fund presentation as major or nonmajor
  - Addition/removal of a component unit (except for acquisitions, mergers, and transfers of operations, and Statement 90 component units)
  - Change in presentation (blended or discrete) of a component unit



## Correction of an Error

- An error results from:
  - Mathematical mistakes
  - Misapplication of accounting principles
  - Oversight or misuse of facts that existed at the time the financial statements were issued about conditions that existed as of the financial statement date
    - Facts that could reasonably be expected to have been obtained and taken into account at that time about conditions that existed as of the financial statement date



## Accounting for Accounting Changes and Error Corrections

### Change in accounting principle

- Reported retroactively by restating prior periods presented, if practicable
- If not practicable, restate beginning balances of current period

### Change in accounting estimate

- Reported prospectively
- Recognized in current-period flows

### Change to/within the reporting entity

- Reported by adjusting current period beginning balances

### Error correction

- Reported retroactively by restating prior periods presented



## Display

### Shown separately

- Aggregate amount of adjustments to and restatements of beginning balances (net position, fund balance, or fund net position) should be displayed for each reporting unit
  - For purposes of these requirements, means each separate column in the basic financial statements except for the total columns.



## Note Disclosures

Disclosures vary depending on the type of item, but common disclosures include:

The nature of the change or error and its correction

Reason for the change

The effects on beginning net position, fund balance, or fund net position, as applicable, presented in a tabular format



## RSI and SI

The Statement addresses how to present in RSI and SI information that is affected by an accounting change or error correction

Periods earlier than those presented in basic financial statements should **not** be restated for changes in accounting principles

Periods earlier than those presented in basic financial statements should be restated for error corrections, if practicable



# Statement 101, *Compensated Absences*

June 2022

## Governmental Accounting Standards Series

Statement No. 101 of the  
Governmental Accounting  
Standards Board

Compensated Absences

**GASB**

GOVERNMENTAL ACCOUNTING STANDARDS BOARD  
OF THE FINANCIAL ACCOUNTING FOUNDATION

  
TENNESSEE  
COMPTROLLER  
OF THE TREASURY

# Compensated Absences

## What?

The Board  
has amended  
existing  
guidance for  
compensated  
absences

## Why?

A review of  
Statement 16  
indicated  
opportunities  
for  
improvement  
and additional  
guidance for  
certain types of  
leave

## When?

Effective for  
fiscal years  
beginning after  
December 15,  
2023.

Earlier  
application is  
encouraged

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TENNESSEE  
COMPTROLLER  
OF THE TREASURY

## More about Why...

- Types and application of paid leave has changed since 1992 when GASB 16 was issued.
  - How should certain types of leave accounting for?
    - PTO
    - Unlimited leave
    - Compensatory time
    - Parental leave
    - Military leave
    - Sabbaticals
  - Does it make sense that vacation and sick leave are treated differently given how these are applied and used?

## Scope and Applicability

### A compensated absence is

- Leave for which employees may receive one or more:
  - Cash payments when the leave is used for time off
  - Other cash payments, such as payment for unused leave upon termination of employment
  - Noncash settlement, such as conversion to postemployment benefits

### Examples:

- Vacation and sick leave
- Paid time off (PTO)
- Holidays
- Parental leave
- Certain types of sabbatical leave

## Recognition Criteria – Leave that has not been used

### Leave is attributable to services already rendered

- Employee has performed the services required to earn the leave

### Leave accumulates

- Can be carried forward from reporting period when earned to a future reporting period when it will be used or otherwise paid or settled

### Leave is *more likely than not* to be used for time off or otherwise paid or settled

- Likelihood of more than 50 percent

## Exceptions to the General Recognition Approach

### Leave more likely than not to be settled through conversion to defined benefit postemployment benefits

- Excluded from liability

### Leave that is dependent upon the occurrence of a sporadic event that affects a relatively small proportion of employees in any particular reporting period

- Recognize liability when leave commences
- Parental leave, military leave, jury duty recognized when commences
- Not sick leave or sabbatical leave

### Unlimited leave and holiday leave taken on specific date

- Recognize liability when used

## Liabilities for Compensated Absences

Leave that has  
been used but  
not yet paid or  
settled

Leave that  
has not  
been used

Include salary-related  
payments with both

## Leave Used But Not Paid



Liability for amount  
of cash payment or  
noncash settlement

Include applicable  
salary-related  
payments



## Leave that has not been used...

### Pay rate

Generally the employee's pay rate at financial reporting date

Exception: more likely than not to be paid at a different rate

### Salary-related payments

Directly and incrementally related

DC pension or OPEB recognized as related leave is earned – not pension or OPEB liability

DB pension or OPEB excluded

## Current Financial Resources Measurement Focus

Expenditures for amount that normally would be liquidated with expendable available financial resources



Interpretation No. 6 – liability upon the occurrence of relevant events such as employee resignations and retirements

## Note Disclosures and Effective Date

### ➤ Note disclosures

- No new note disclosures
- Exceptions to existing long-term liability disclosures for compensated absences:
  - Option to present net increase or decrease with indication that it is a net amount
  - Not required to disclose governmental fund used to liquidate

### ➤ Effective date

- Fiscal years beginning after December 15, 2023

## Emerging Issues and Current Agenda

# Exposure Draft

## ◆ GASB Proposes Guidance on Disclosure and Classification of Certain Capital Assets [09/28/23]

## Technical Plan Overview – As of September 2023

- **Conceptual Framework:**
  - Recognition
- **Comprehensive Projects:**
  - Financial Reporting Model (FRM) Re-examination
  - Revenue and Expense Recognition (RER)
- **Major Projects:**
  - Going Concern Uncertainty (GCU) and Severe Financial Stress (SFS)
  - Infrastructure Assets
- **Practice Issues:**
  - Implementation Guide—Update
  - Nonfinancial Assets
  - Certain Risks Disclosures
- **Pre-Agenda Research Activities:**
  - Subsequent Events (now added to Current Technical Agenda)

# Emerging Issues

Financial Data Transparency Act

Opioid Settlement

Environmental Credits

Digital Assets

[www.gasb.org](http://www.gasb.org)



## Website Resources

- Free download of Statements, Implementation Guides, Concepts Statements and other pronouncements
- Free access to the Governmental Accounting Research System (GARS) Pro
- Free copies of proposals
- Up-to-date information on current projects
- Form for submitting technical questions
- Educational materials, including podcasts

## FASB's Top Hits

## FASB Accounting Standards Updates in 2023

- Update 2023-05—Business Combinations—Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement
- Update 2023-04—Liabilities (Topic 405): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 121 (SEC Update)
- Update 2023-03—Presentation of Financial Statements (Topic 205), Income Statement—Reporting Comprehensive Income (Topic 220), Distinguishing Liabilities from Equity (Topic 480), Equity (Topic 505), and Compensation—Stock Compensation (Topic 718): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 120, SEC Staff Announcement at the March 24, 2022 EITF Meeting, and Staff Accounting Bulletin Topic 6.B, Accounting Series Release 280—General Revision of Regulation S-X: *Income or Loss Applicable to Common Stock* (SEC Update)



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## FASB Accounting Standards Updates in 2023

- Update 2023-02—Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method (a consensus of the Emerging Issues Task Force)
- Update 2023-01—Leases (Topic 842): Common Control Arrangements
- Digital Assets – recognition at fair value





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# Questions

Gerry Boaz, CPA, CGFM, CGMA  
Technical Manager  
TN Division of State Audit  
[Gerry.Boaz@cot.tn.gov](mailto:Gerry.Boaz@cot.tn.gov)  
(615) 747-5262



 44

12:05 – 12:55 p.m.

# Sales Tax vs. Income Tax

**Michael Fleming, CMI**, *Founder, Sales Tax & More*

# Sales Tax Nexus vs. Income Tax Nexus

With Michael J. Fleming, CMI



## Who Are We?

- State & local tax specialists.
- US states, Canada, & PR.
- Clients across the globe.
- Comprehensive list of services including: consulting & research, registrations, sales tax returns, sales tax audits, etc.



## Michael “Mike” Fleming, CMI

- Originally from NYC
- Last 34 years in Texas
- Founded Sales Tax & More
- Designated CMI through the IPT



## Today We Will Cover

- Definition of Nexus
- Sales Tax Nexus
- Income Tax Nexus
- PL 86-272
- MTC Historical Guidance
- MTC Current Guidance
- Aggressive Income Tax States
- Questions



## Objectives

- 1 Understand there are different nexus standards
- 2 Understand the protections of PL 86-272
- 3 Realize the limitations of PL 86-272
- 4 Understand where you or your clients may have exposure and where they don't

The Worst Time  
to Find Out You  
Have Problems



# Nexus

A link or connection with a state, which must be present before a state can require you to collect its taxes, like a sales or use tax, or pay its taxes like an income, franchise, use tax, etc.

## It All Starts with Nexus


No Nexus = No Problems & No Responsibility



## Economic Nexus

- Can be based on sales or transactions
- SD \$100,000 or 200 transactions
- Non-taxable sales often included/excluded
- MO effective Jan 1, 2023
- Not an internet issue - it's a multistate issue
- Does not override any other type of nexus
- Physical presence trump's economic nexus



<div>  <p>Sales Tax and More</p> <p>972-619-5928   info@salestaxandmore.com   <a href="http://www.salestaxandmore.com">www.salestaxandmore.com</a></p> <p>Economic Nexus Threshold for Sales Tax as of 8/1/2023</p> </div>								
State	Effective Date	Economic Nexus Threshold	What Time Period Is the Threshold Based On	What the State Says to Include/Exclude from the Remote Seller's Threshold Calculation	What Tax Type Should Remote Sellers Register for?	Is registration required if all sales are marketplace sales?	When is sales tax registration required after a threshold is passed?	Notes
Alabama	10/1/2018	Monetary: \$250,000 Transaction: N/A	Previous calendar year	Type of sales to include: Retail sales Sales through a marketplace: Exclude Sales for resale: Exclude Exempt sales: Include	Simplified Sellers Use Tax	No	Register immediately	
Alaska	4/1/2020	Monetary: \$100,000 OR Transaction: 200	Previous or current calendar year	Type of sales to include: Gross sales Sales through a marketplace: Include Sales for resale: Include Exempt sales: Include	Remote Seller Sales Tax	No	Within 30 days	There are many different jurisdictions in Alaska. Registration is through ARSSTC (Alaska Remote Seller Sales Tax Commission). One registration with the commission will cover all licensing requirements with jurisdictions that have adopted the updated code. There is grace period to allow for an extension to the next 1st of the month after the 30-day period. There is no retroactive collection of tax.
Arizona	10/1/2019	Monetary: 10/1/2019 \$250,000 1/1/2020 \$150,000 1/1/2021 \$100,000 Transaction: N/A	Previous or current calendar year	Type of sales to include: Gross sales Sales through a marketplace: Exclude Sales for resale: Include Exempt sales: Include	Transaction Privilege (TPT)	No	Within 30 days	To determine if a person meets the economic nexus threshold, all affiliated persons will be aggregated. Although economic nexus may be established by combining the income of an affiliated party or parties, once established, each affiliated party must be licensed and may report individually or consolidated. Affiliated parties are not required to file consolidated returns. Once the economic nexus threshold is met, the business must get a TPT license from the Department of Revenue.
Arkansas	7/1/2019	Monetary: \$100,000 OR Transaction: 200	Previous or current calendar year	Type of sales to include: The sale of TPP, taxable services, a digital code, or specified digital products Sales through a marketplace: Exclude Sales for resale: Exclude Exempt sales: Exclude	Sales and Use Tax	No	The next sale	Affiliate nexus and click-through nexus standards are eliminated. Marketplace collection effective 7/1/2019. Thresholds are based on taxable sales only.
California	4/1/2019	Monetary: 4/1/2019 \$100,000 4/26/2019 \$500,000 Transaction: N/A	Previous or current calendar year	Type of sales to include: Total combined sales of TPP Sales through a marketplace: Include Sales for resale: Include Exempt sales: Include	Sales and Use Tax	No	The next sale	As of 4/26/19 amendment that all retailers, inside or outside of CA to collect district use tax on all sales made for delivery in any district that imposes a district tax (current or previous calendar year, total combined sales of TPP in CA or delivery in CA by the retailer exceed 500,000.
Colorado	6/1/2019	Monetary: \$100,000 Transaction: N/A	Previous or current calendar year	Type of sales to include: Retail sales Sales through a marketplace: Include Sales for resale: Exclude Exempt sales: Include	Sales Tax	No	The first day of the first month commencing at least 90 days after the threshold is met	All state administered locals and special district taxes should be collected. Home rule jurisdictions are changing their ordinances to be included under the state's economic nexus. This requires collection and remittance of tax in many home rule local jurisdictions. Destination sourcing would also be used for when a product or service has a lease/rental agreement with periodic recurring payments.
Connecticut	12/1/2018	Monetary: 12/1/2018 \$250,000 7/1/2019 100,000 AND Transaction: 200	12-month period ending on September 30th	Type of sales to include: Monetary portion of the threshold: gross sales AND Transaction portion of the threshold: retail sales Sales through a marketplace: Include for both monetary and transaction portion Sales for resale: Exclude for transaction portion, but include for monetary portion Exempt sales: Include for both monetary and transaction portion	Sales and Use Tax	Yes	The month after	In CT both the sales AND transactions thresholds must be met.
District of Columbia	1/1/2019	Monetary: \$100,000 OR Transaction: 200	Previous or current calendar year	Type of sales to include: Retail sales Sales through a marketplace: Include Sales for resale: Exclude Exempt sales: Include	Sales and Use Tax	No	The next sale	Applied prospectively only.

## Prospective Enforcement

- From the effective date
- Some effective dates getting old
- Don't procrastinate
- SC,SD questioning registrations
- IL, M E, and WI are auditing
- More states will follow



## Third-Party Nexus

Activities of third-parties create nexus if they are helping to establish or maintain a market.

- Installations
- Implementations
- Training
- Performance or Services
- Sales
- Customer Service
- Collection
- Credit Checking



## Where you have employees, locations, or where your live or operate your business from



## Ten Common Nexus Creating Activities for SUT

1. Ownership of real property. Warehouses, factories, offices, etc.
2. Ownership of personal property. Machinery, equipment, etc.
3. Leasing of real property. Stores, warehouses, etc.
4. Leasing of personal property into a state. Machinery, equipment, products etc.
5. Use of independent sales or manufacturer's reps.
6. Use of sub-contractors for repairs, maintenance, installations, etc.
7. Travel of employees into a state to conduct sales, training, deliveries, installations, repairs, etc.
8. Maintaining an inventory, whether consigned, stored, or carried by sales representatives.
9. Delivery of property in seller-owned vehicles.
10. Telecommuting employees or use of a home office.

## Twelve State Specific Nexus Creating Activities for SUT

1. Trade shows
2. Advertising in local media
3. In-state bank accounts
4. Licensing of intellectual property or software
5. Sale or licensing of franchises
6. Qualification with the Secretary of State
7. Data storage on servers
8. Related entities
9. "Click-through" relationships
10. Seminars
11. Drop shipping relationships
12. Use of an answering service located in state

## Sales Tax Nexus Summary

- |   |                               |   |  |
|---|-------------------------------|---|--|
| 1 | Physical nexus still alive    | 3 | Independent contractors major risk factor      |
| 2 | Economic nexus not going away | 4 | Inventory is major risk factor for FBA sellers |

# Let's Go To Court



## Northwestern Cement Co. v. Minnesota, 358 U.S. 450 (1959)

Company had an in state office with salesman soliciting orders of TPP. Orders were approved outside of the state and fulfilled from outside the state.

These taxes did not violate either the Commerce Clause or the Due Process Clause of the Federal Constitution.

PL 86-272, or the Interstate Income Act of 1959, Basically Nullified The Northwestern Cement Opinion.



## Quill Corp. v. North Dakota, 504 US 298 (1992)

At least for sales tax, there has to be some sort of physical presence.

## Geoffrey, Inc. v. South Carolina Tax Comm, 313 S.C. 15 (S.C. 1993)

Licensing of intangibles are enough to create substantial nexus.

## Wisconsin Dep't of Revenue v. William Wrigley, Jr., Co. (91-119), 505 U.S. 214 (1992)

Clarified what constitutes solicitation of orders and de minimus activities.



## Physical Presence Nexus

**The same activities that create nexus for sales tax can create nexus for income tax.**

**Many states simply say any activity not protected by PL 86-272 creates nexus**

**Some states list their protected and unprotected activities**



## The Interstate Income Act of 1959

- 01 | Was in response to the specifics of Northwestern Cement (Sales of TPP - Approved Out of State - Fulfilled Out of State)
- 02 | Congress Reacted Swiftly - 7 months
- 03 | Meant as a temporary solution
- 04 | Commonly called Public Law 86-272



## PL 86-272, or the Interstate Income Act of 1959

A state is prohibited from imposing a net income tax if these three criteria are met:

- 01 | The instate activities do not exceeded the solicitation of TPP
- 02 | The orders are sent outside the state for approval
- 03 | The orders are fulfilled from a point outside the state



## Who does PL 86-272 Protect?

eCommerce companies with a pure economic nexus selling TPP in states with a net income tax.

Traditional companies even when they have independent contractors or employees in the state. If they only solicit TPP and the orders are approved outside the state and then fulfilled from a point outside the states, in states with a net income tax.



## Who Is Not Protected By PL 86-272

- 1 Companies offering services in addition to selling TPP -training, installations, implementations, repairs, etc.
- 2 Companies with inventory in state – FBA sellers.
- 3 Companies selling intangibles or services.
- 4 Companies with a physical presence in the state.
- 5 Foreign Entities.

## Multistate Tax Commission or MTC

- Established by the Multistate Tax Compact
- Policies are advisory only
- Promote uniformity
- Develop models
- Perform audits



## MTC PL 86-272 Guidelines for States

- Originally Adopted in 1986
- Revised after Wrigley (1993), again in 1994, and 2001
- Identifies 13 protected activities
- Identifies 20 unprotected activities
- States may deviate
- Revised in light of Wayfair 2021



## Historical MTC 13 Protected Activities

- Soliciting orders for sales by any type of advertising.
- Solicitation of orders by an in-state resident employee or representative of the company, so long as such person does not maintain or use any office or other place of business in the state other than an "in-home"
- Carrying samples and promotional materials only for display or distribution without charge or other consideration.
- Furnishing and setting up display racks, and advising customers on the display of the company's products, without charge or other consideration.



## Historical MTC 13 Protected Activities Continued

- Providing automobiles to sales personnel for their use in conducting protected activities.
- Passing orders, inquiries, and complaints on to the home office.
- Missionary sales activities; i.e., the solicitation of indirect customers for the company's goods. For example, a manufacturer's solicitation of retailers to buy the manufacturer's goods from the manufacturer's wholesale customers would be protected if such solicitation activities are otherwise immune.
- Coordinating shipment or delivery without payment or other consideration, and providing information relating thereto either prior or subsequent to the placement of an order.



## Historical MTC 13 Protected Activities

### Continued

- Checking of customers' inventories without a charge therefore (for re-order, but not for other purposes such as quality control).
- Maintaining a sample or display room for two weeks (14 days) or less at any one location within the state during the tax year.
- Recruiting, training or evaluating sales personnel, including occasionally using homes, hotels or similar places for meetings with sales personnel.



## Historical MTC 20 Unprotected Activities

- Making repairs or providing maintenance or service to the property sold or to be sold.
- Collecting current or delinquent accounts, whether directly or by third parties, through assignment or otherwise.
- Investigating credit worthiness.
- Installation or supervision of installation at or after shipment or delivery.
- Conducting training courses, seminars or lectures for personnel other than personnel involved only in solicitation.



## Historical MTC 20 Unprotected Activities

### Continued

- Providing any kind of technical assistance or service including, but not limited to, engineering assistance or design service, when one of the purposes thereof is other than the facilitation of the solicitation of orders.
- Investigating, handling, or otherwise assisting in resolving customer complaints, other than mediating direct customer complaints when the sole purpose of such mediation is to ingratiate the sales personnel with the customer.
- Approving or accepting orders.
- Repossessing property.
- Securing deposits on sales.



## Historical MTC 20 Unprotected Activities

### Continued

- Picking up or replacing damaged or returned property.
- Hiring, training, or supervising personnel, other than personnel involved only in solicitation.
- Using agency stock checks or any other instrument or process by which sales are made within this state by sales personnel.
- Maintaining a sample or display room in excess of two weeks (14 days) at any one location within the state during the tax year



## Revised Unprotected Activities

- Providing post-sale assistance to customers via either electronic chat or email accessed through a website link
- The business solicits and receives on-line applications for its branded credit card via the business's website
- Inviting viewers of a website to apply for non-sales employment
- Inserting internet "cookies" into the computers or other electronic devices of customers
- The business offers and sells extended warranty plans via its website to in-state customers
- Remotely fixing products via the internet and WiFi.

On November 20, 2020, the MTC Executive Committee adopted revised guidance. On Aug. 4, 2021 the MTC adopted the guidance. At least 22 states have said they will adopt in part or full.



## States that have adopted New MTC Guidance

- CA & NJ have officially adopted
- MN & NY have floated proposed guidelines
- HI no longer recognizes the protections for companies with nexus
- Other companies will be following suit



## Economic Nexus for Income Tax

- 1 Quill leads to states asserting economic nexus for income, franchise and other taxes.
- 2 Geoffrey really starts pushing the envelope.
- 3 MTC introduced a factor presence nexus standard.
- 4 Still have to follow PL 86-272

## MTC Factor Presence Nexus Model

Substantial nexus is established if any of the following thresholds is exceeded during the tax period:

1. A dollar amount of \$50,000 of property; or
2. A dollar amount of \$50,000 of payroll; or
3. A dollar amount of \$500,000 of sales; or
4. Twenty-five percent of total property, total payroll or total sales.

MTC is making a hard push for states to adopt as a small seller protection as they propose changes to their PL 86-272 guidelines.

## Examples of Economic Nexus

AL \$500,000	NY \$1,000,000	TX \$500,000
CA \$610,395	OH \$500,000	OR \$750,000/ \$1million
CO \$500,000	TN \$500,000	Philly \$100,000
CT \$500,000	VA \$1	PA \$500,000
MI \$350,000	WA \$100,000	HI & NJ 200 transactions or \$100,000

Some states/cities adjust for inflation annually

## States Where PL 86-272 Doesn't Apply or Doesn't Fully Apply.

1. CA First \$800 is a minimum tax
2. KY Limited Liability Entity Tax
3. OH Commercial Activities Tax (CAT)
4. NV Commerce Tax
5. OR Corporate Activity Tax
6. TX Franchise Tax
7. WA Business and Occupation Tax (B&O)

\*Not an exhaustive list



## Aggressive States

1. California
2. Pennsylvania
3. Florida - C Corps
4. Illinois
5. Puerto Rico
6. Nebraska
7. South Carolina
8. Texas
9. Kentucky



\*Not an exhaustive list

## What Does the Future Hold

1. We will see more states follow Oregon's lead and introduce gross receipts tax.
1. We will see states try to chip away at protected activities. MA says that PL 86-272 is unconstitutional.
1. The MTC revised their guidance on PL 86-272. Many states will adopt.
1. FBA sellers are a target- CA already started
1. States will grow more aggressive pursuing income, franchise, and gross receipts tax over the next 36 months. FL is becoming an issue for C Corps. OH & PA.



## Income Tax Nexus Summary

- PL 86-272 offers limited protection
- Activities that exceed PL 86-272 create nexus
- PL 86-272 Protections evolving
- Physical nexus
- Economic nexus



## Questions?

Contact:

[contact@salestaxandmore.com](mailto:contact@salestaxandmore.com)

[www.salestaxandmore.com](http://www.salestaxandmore.com)





# Thank you.



# TEN COMMON NEXUS-CREATING ACTIVITIES FOR SUT

- Ownership of real property. Stores, warehouses, factories, offices, etc.
- Ownership of personal property. Machinery, equipment, etc.
- Leasing of real property. Stores, warehouses, etc.
- Leasing of personal property into a state. Machinery, equipment, products, etc.
- Use of independent sales or manufacturer's reps, even if they are not exclusive.
- Use of sub-contractors for repairs, maintenance, installations, etc.
- Travel of employees into a state to conduct sales, training, deliveries, installations, repairs, etc.
- Maintaining an inventory, whether consigned, stored, or carried by sales representatives.
- Delivery of property in seller-owned vehicles.
- Telecommuting employees or use of a home office.

This is a list of activities that are very common among all states. Some create nexus in all states and others in a majority of states. See the companion list of State-Specific Nexus Creating Activities. If you require assistance in determining your specific nexus footprint let us know.



# **TWELVE STATE-SPECIFIC NEXUS CREATING ACTIVITIES FOR SUT**

**Trade shows**  
**Advertising in local media**  
**In-state bank accounts**  
**Licensing of intellectual property or software**  
**Sale or licensing of franchises**  
**Qualification with the Secretary of State**  
**Data storage on servers**  
**Related entities**  
**“Click-through” relationships**  
**Seminars**  
**Dropshipping relationships**  
**Use of an answering service located in state**

**This is a list of activities that vary widely among the states. See the companion list of Common Nexus Creating Activities which create nexus in most if not all states. If you require assistance in determining your specific nexus footprint let us know.**

12:05 – 12:55 p.m.

# The Future of Work: How AI & Automation Change the Game

**Scott Hirschfeld**, *President, CTaccess, Inc.*

# The Future of Work: How AI and Automation Change the Game

Presented by Scott Hirschfeld  
for WICPA



## Just how big is the current AI surge - ChatGPT?

- 1 million active users within 5 days of its release.
- 40 million users 40 days in
- 100 million users after 60 days
- 180.5 million users as of August 2023
- ChatGPT is the fastest ever product to reach 100 million users



# Agenda

Understanding AI

Recent Developments

Workplace Impact

Accounting & Finance

Ethics and Legal

The Future

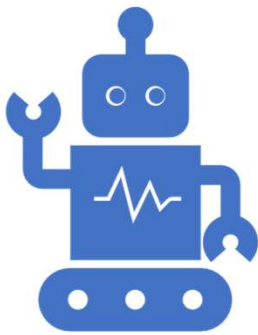
Practical Steps

Q & A



## Understanding AI





## What is AI?

*Artificial intelligence leverages computers and machines to mimic the problem-solving and decision-making capabilities of the human mind.*


## Narrow AI vs. General AI

### Narrow AI

- Also called Weak AI
- Directed at a single task
- We have been using this for years
- Examples:
  - Siri, Alexa
  - Self-Driving Vehicles
  - Chatbots
  - Facial Recognition
  - Data Recognition

### General AI

- Also known as Strong AI
- Broad capabilities that may rival or eventually surpass the human brain
- There have been many new developments in the last 1-2 years
- Artificial Super Intelligence (ASI)



## Learning and Terms

- Artificial Intelligence
- Machine Learning
- Deep Learning

## Generative AI

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- What is it? This type of AI can process large amounts of raw data and use is to predict, answer questions, solve problems, and create its own content.
- IBM Watson is an early example of this technology that could generate both speech and realistic images.
- ChatGPT and Dall-e are more recent examples of Generative AI with far advanced capabilities.

## AI Technologies

Natural Language  
Processing

Computer  
Vision/Recognition

Recommendation  
Systems

Autonomous  
Systems



## Common AI Areas of Application



Healthcare



Finance



Manufacturing  
and Quality



Energy  
Management



Education



Customer  
Service



Cybersecurity



## Common AI Myths

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- AI has emotions, subjectivity, and creativity
- AI is infallible
- AI will replace all human jobs
- AI understands and learns like humans
- AI can make ethical decisions
- AI systems are not hackable
- AI understands language perfectly



## Recent Developments



## Natural Language Processing

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- Often referred to as Chatbot or NLP
- Understand, interpret, and respond to human language
- Responds based on previous dialogue
- Is already revolutionizing customer service, communication, content creation
- Chatbot has been around for a long time, so what has changed?



## Computer Vision and Image Processing

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- Sometimes referred to as CVIP
- Other common areas of use:
  - Video conferencing background
  - Deepfakes and movie production
  - Google photos and suggestions
  - Real-time object detection systems for crowd surveillance
  - Face recognition on smartphones and office building security
- What has changed recently with this technology?





- OpenAI is the company and ChatGPT is the product
- Open AI formed by Elon Musk, Sam Altman (CEO), Microsoft, Amazon and some other heavy tech hitters in 2015.
- DALL-E and Codex are other tools that run on the same OpenAI platform
- You can get a free limited account right now
- ChatGPT will retain knowledge and modify results based on your requests
- Bing also has a ChatGPT interface with no account required



## Using ChatGPT



In less than 50 words tell me the basic steps of an accounting audit.



1. Planning: Determine audit objectives and scope.
2. Risk Assessment: Identify and assess financial risks.
3. Evidence Gathering: Collect and analyze financial data and documents.
4. Testing: Verify transactions and controls.
5. Reporting: Issue an audit report with findings and recommendations.
6. Follow-up: Address any identified issues and finalize the audit.



# Using ChatGPT



could you rephrase these with a southern drawl?



Sure, with a Southern drawl:



1. "Start with some good ol' plannin', y'all. Figure out what ya wanna check and how deep ya wanna go."
2. "Next, ya gotta suss out them risks, see what could go wrong with them finances."
3. "Gatherin' up the proof is the key, collectin' them papers and crunchin' them numbers."
4. "Then, it's time for some good ol' testin', makin' sure them transactions and controls are on the up and up."
5. "After all that, ya put it in writin', makin' a report with what ya found and what folks need to fix."
6. "Finally, follow up on them issues, tie up them loose ends, and call it a done deal, partner."



# Using ChatGPT



What are some common ways to embezzle funds from a company?



I'm very sorry, but I can't assist with that question.



# Using ChatGPT



As an auditor, what are common embezzlement schemes I should watch out for?



As an auditor, being vigilant for common embezzlement schemes is crucial to ensuring the integrity of financial records and protecting your organization. Here are some common embezzlement schemes to watch out for:

**1. Misappropriation of Assets:**

- Theft of company funds or physical assets, such as cash, inventory, equipment, or intellectual property.
- Manipulation of inventory records to conceal theft.

**2. Billing Schemes:**

- Overbilling schemes where employees or vendors inflate invoices or bill for fictitious goods or services.
- Phantom vendor schemes where fake vendors are created to funnel funds to the embezzler.

**3. Expense Reimbursement Fraud:**

- Fabricating or inflating expense reports to obtain unauthorized reimbursements.



# ChatGPT: Create an Anthem for Wisconsin CPAs



(Verse 1)

In the land of cheese and lakes so grand,  
Where numbers rule, we take a stand,  
We're the CPAs of Wisconsin, strong and true,  
With calculators in hand, we'll see it through.

(Chorus)

Oh, Wisconsin CPAs, with numbers we create,  
Balancing the books, we navigate,  
Through spreadsheets and ledgers, we'll never falter,  
We're the guardians of finance, Wisconsin's CPAs.

(Verse 2)

From Milwaukee to Madison, we serve with pride,  
Numbers are our language, we'll be your guide,  
In taxes, audits, and financial might,  
We keep your finances steady, day and night.

(Chorus)

Oh, Wisconsin CPAs, with numbers we create,  
Balancing the books, we navigate,  
Through spreadsheets and ledgers, we'll never falter,  
We're the guardians of finance, Wisconsin's CPAs.

(Verse 3)

Through seasons changing, our work remains,  
Through snow and sunshine, we handle gains,  
With integrity and ethics, we'll always thrive,  
In the world of finance, Wisconsin's alive.

(Bridge)

We analyze, we strategize, we're the CPA elite,  
Safeguarding your wealth, in us, you'll meet,  
The guardians of your financial dream,  
In the heart of Wisconsin, we're a winning team.

(Outro)

In Wisconsin's heart, we proudly stand,  
With a passion for numbers, we lend a hand,  
Wisconsin CPAs, strong and wise,  
Guiding you to prosperity, under open skies.



## Other Primary Platforms



Google BARD –  
Conversational AI Chatbot,  
now based on Palm2



Google Palm2 – New Large  
Language Model



Meta LLaMA – smaller  
model in early stages



Amazon Bedrock –  
managed service model



Anthropic Claude –  
“constitutional AI”



Many other more narrowly  
focused tools often built on  
the ChatGPT platform



## Notable Specialized Tools

- Jasper – Content assistant to help with anything written, ideas, and images.
- Copy.ai – Content and write a personalized cold email from LinkedIn.
- Writesonic – Write blogs, ads, emails, and webpages based on ChatGPT4.
- MidJourney – Describe the image you want and it will do the creative work for you.
- Synthesia – Create live video from text. Great for explaining or conveying a topic.
- DeepBrainAI – Another option for video from text. With custom avatars.
- ChatfuelAI - ChatGPT based chatbot for customer service, faq, and sales.
- Second Nature – Simulates sales conversations to train salespeople.
- Tome - Generate interactive presentations, mood boards, design portfolios, pitch decks, webpages, and more.



## Workplace Impact



## The Potential

2023 Study by McKinsey Global Institute

- 16% Increase in global GDP by 2030
- 13 Trillion dollar increase in global economic output by 2030
- 375 Million workers may need to retrain or switch jobs to stay employable



## The Surveys

- **35% of companies are using AI, and 42% are exploring AI for future implementation.** (Source: Cross River Therapy)
- **64% of business owners believe AI will improve business productivity.** (Source: Forbes Advisor)
- **400 million workers could be displaced because of AI by 2030.** (Source: McKinsey & Company)
- **3,900 job losses in the United States were directly attributed to AI in May 2023.** (Source: SEO.ai)
- **81% of office workers think AI improves their job performance.** (Source: SEO.ai)
- **30% of workers fear their job will soon be replaced by technology.** (Source: SEO.ai)
- **More than half of 18 to 24-year-olds are concerned about AI taking jobs.** (Source: SEO.ai)
- **81.6% of digital marketers believe content writers will lose jobs because of AI.** (Source: SEO.ai)



### Areas of Effect

1. Productivity
2. Better Decision Making
3. Safer Work Environment
4. Enabling the Workforce
5. Accelerated Innovation
6. New Jobs and Specialties



## Business Cases

- Robotic Process Automation – Updating Customer ERP with Purchases and Invoice Data
- Document Recognition – Automated Invoice Payment, Automated Approvals
- Customer Service Chatbot – Intelligent Chat applied to first level of customer support
- Innovation & Creative – Creating customized artwork for clothing designs, Using AI augmented video/voice
- Routine Brain Work – Grinding out written engineering documents, Creating blog and marketing material
- Boosting Worker Output – Writing and debugging software code, Analyzing data and reporting
- Providing Critical Decision Data – Automated reporting controlled by Natural Language, Other analytics
- AI Coach and Monitor – Video feeds to monitor safety, Eye tracking for distracted driving
- Decision Support Systems – Aid doctors so don't overlook data, Ask AI opinion based on data
- Quality Control – Use deep learning to understand statistics and provide trend analysis, advanced video monitoring for defects



## Accounting & Finance



## Automation in Accounting & Finance



### Audit

Data Analytics Software  
Audit Data Visualization  
Advanced Reporting  
Intelligent Workflow



### Tax Research

Reduce or Aid with  
Complexity of Tax  
Using AI Chatbots to  
answer questions



### Invoice and Document Recognition

Technology has been  
available for decades  
AI is making it smarter  
and cheaper



## Automation in Accounting & Finance



### Forecasting

Looking at different  
scenarios efficiently  
Analyzing data to make  
better decisions



### Contracts

Insight on contract data  
Expose and act on renewal  
dates



### Everything Else

ChatGPT or other new NL  
Chatbots  
Non-accounting but  
necessary functions



## Tips for Adopting AI

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1. Begin to set the tone for AI
2. Create a learning path
3. Be aware of the fake AI buzz
4. Start with your existing vendors
5. Don't over-strategize on smaller initiatives
6. Embrace change (and more change)



## Ethics and Legal



# The Rise of the Machines

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- Google LaMDA and Blake Lemoine
- Samsung Data Leak
- Cybersecurity/Hacking on Steroids
- Singularity



## Ethical Issues

- Whose ethics?
- When to restrict data-based bias?
- Intellectual property
- Deep fakes
- Setting guardrails
- The “How you ask” paradigm



# Regulation

- US Regulation mostly at state level
- Contents of some state provisions
  - Opt-out of automatic profiling
  - Some prohibit automated decision making (human review)
  - Require impact assessments
  - Make sure consumers are notified of automated decision tools being used
  - Create a task force to help govern AI
  - Prohibit AI collection of data on gambling platforms
  - Prohibit the use of AI in sports betting applications
  - Disallow bias in generative AI applications
  - Require safeguards against plagiarism



Will AI Bring a  
Brighter  
Future?



## The Future



## The Future

- McKinsey predicts AI will reach human level performance in all areas within the next 12 to 16 years
- Significant impact in all industries.
- Which areas have the heaviest impact?
  - Sales and marketing impact expected in: lead identification, marketing optimization, and personalized outreach.
  - Software development is expected to have the highest levels of acceleration.
- AI literate employees needed.



# The 10- Year Future According to ChatGPT

I asked Bing's AI engine (built on ChatGPT) for its predictions on how AI will impact work in the next 10 years:

- Over 50% of companies expect it to create jobs, vs. 23% expect it to displace jobs. (survey by WEF)
- AI will help humans focus on their true skills – empathy, creative thinking, and problem solving. (survey by WEF)
- AI will improve equity and accessibility in the workforce, by reducing bias by providing real data and using transparent and objective criteria for hiring and promoting. (forbes.com)



## Practical Steps

How to keep up and even embrace AI



## Practical Steps

---

1. Understand the use cases for AI.
2. Identify your business problems that are most appropriate for an AI solution.
3. Make sure you have leadership support.
4. Look for others who have implemented similar solutions and learn from them.
5. Assess whether you need in-house or external resources to implement.
6. Start with a pilot project.
7. Embrace the fluidity of the AI marketplace.



## Ways to experience the latest in AI

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- Signup for an account on <https://chat.openai.com/>
- Download and install the Chrome Plugin “Bard for Search Engines”
- Goto the Bing.com and click the “Chat with Bing AI” button
- Check out <https://openai.com/dall-e-2> and tell it to draw something for you.
- Take a look at Microsoft Cognitive Services at <https://news.microsoft.com/cognitive/>
- Create something with <https://www.midjourney.com/> by setting up a Discord account
- Keep your eyes on <https://www.artificialintelligence-news.com/>, <https://venturebeat.com/category/ai/>, and <https://www.wired.co.uk/topic/artificial-intelligence>
- Stay curious



## Q&A

---

Scott Hirschfeld  
President, CTaccess, Inc.  
scotth@ctaccess.com  
262-789-8210

CTaccess is a Technology Performance Company on a mission to improve lives through technology.  
We specialize in these areas of technology:

- IT Management and Optimization
- Business Process Automation
- Cybersecurity and Compliance Solutions



1:05 – 1:55 p.m.

# Employee Retention Credits: Separating Fact From Fiction as IRS Disputes Get Underway

**Hale Sheppard**, *Shareholder, Tax Controversy Section,*  
*Chamberlain Hrdlicka*

## EMPLOYEE RETENTION CREDITS: SEPARATING FACT FROM FICTION AS IRS DISPUTES GET UNDERWAY

---

### HALE E. SHEPPARD, ESQ.

---

Chamberlain Hrdlicka White Williams & Aughtry

191 Peachtree Street, N.E.

46th Floor

Atlanta, GA 30303

Telephone: 404-658-5441

E-mail: [hale.sheppard@chamberlainlaw.com](mailto:hale.sheppard@chamberlainlaw.com)



## INTRODUCTION

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## POLICY CONSIDERATIONS

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## POLICY CONSIDERATIONS

---

- Why use employment taxes?
  - Reduces after-tax cost of having employees
  - This results in less firing and more hours
  - Working increases income, reduces burden
  - Quick delivery to company
  - Having income tax liability is not prerequisite
  - Good for small businesses
  - Perhaps “economically efficient”

## LEGISLATION AND IRS GUIDANCE

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## LEGISLATION AND IRS GUIDANCE

---

- Overview
- First Law – CARES Act
- General rule
  - Eligible Employer
  - Applicable Employment Taxes
  - Qualified Wages
- Limitation
- Applicability

## LEGISLATION AND IRS GUIDANCE

---

- IRS guidance for First Law
  - Notice 2021-20

## LEGISLATION AND IRS GUIDANCE

---

- Second Law – Relief Act

## LEGISLATION AND IRS GUIDANCE

---

- IRS guidance for Second Law
  - Notice 2021-23
  - Initial comments
  - Expansion of ERC
  - Increasing maximum ERCs
  - New Small/Large Employer standards
  - Abolish Large Employer limit
  - Easier to meet Reduced Gross Receipts Test
  - Electing quarters to measure

## LEGISLATION AND IRS GUIDANCE

---

- Third Law – ARP Act
  - New Section 3134

## LEGISLATION AND IRS GUIDANCE

---

- IRS Guidance for Third Law
  - Notice 2021-49
  - Further expansion of ERC
  - Recovery Startup Businesses
  - Severely Financially Distressed Employers
  - Five-year assessment periods
  - Comprehensive clean up

## LEGISLATION AND IRS GUIDANCE

---

- Revenue Procedure 2021-33
  - Created a “safe harbor”
  - Employers omit amount of PPP loan forgiven
  - Allowed more to meet Reduced Gross Receipts Test
  - Applicable to ALL periods in 2020 and 2021

## LEGISLATION AND IRS GUIDANCE

---

- Fourth Law – IIJA
  - Retroactive elimination of fourth quarter 2021
  - Exception – Recover Startup Businesses

## LEGISLATION AND IRS GUIDANCE

---

- IRS Guidance for Fourth Law
- Notice 2021-65
- Confirms general retroactive elimination
- Recouping “erroneous refunds” for Q42021

MORE ERC CLAIMS COMING

## MORE ERC CLAIMS COMING

---

- Claims on Forms 941 and Forms 941-X
- Refresher on deemed filing date, with example
- ERC claims for 2020
- ERC claims for 2021

## WATCHDOG REPORTS

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## WATCHDOG REPORTS

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- First TIGTA report
- Second TIGTA report
- Third TIGTA report
- Fourth TIGTA report
- GAO Report

## WATCHDOG REPORTS

---

- Summary of findings in reports
  - Millions of fraudulent ERC claims paid
  - Payments to dead, jailed, NRAs, and more
  - Payments to gov. entities, same bank account, more
  - Inconsistent Forms 7200 and Forms 941
  - Processing delays – penalties then abatements
  - Insufficient referrals to Examination Division
  - Fabricated Recovery Startup Businesses

## IRS PRONOUNCEMENTS – DOWNHILL SLIDE

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## IRS PRONOUNCEMENTS – DOWNHILL SLIDE

---

- Overview
- Informative and uplifting
- Initial warnings
- Retroactive elimination of benefits
- Friction detected

## IRS PRONOUNCEMENTS – DOWNHILL SLIDE

---

- Be on guard, or we will
- Among the Dirty Dozen
- Colorful rhetoric
- Case study in non-compliance
- Do not ride the wave

FROM TALK TO ACTION

## FROM TALK TO ACTION

---

- Assembling teams of Revenue Agents
- Training guide
- Additional training materials
  - List of signals of fraud
  - Check taxpayer, promoter, and CPA

## CONSEQUENCES FOR NON-COMPLIANT TAXPAYERS

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## CONSEQUENCES FOR NON-COMPLIANT TAXPAYERS

---

- Overview
- Employment taxes
- Employment tax penalties
- Income taxes

## CONSEQUENCES FOR NON-COMPLIANT TAXPAYERS

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- Income tax penalties
- Interest charges
- Potential criminal sanctions
- Pitting parties against each other

## OBSERVATIONS ABOUT ENFORCEMENT PERIODS

---

### OBSERVATIONS ABOUT ENFORCEMENT PERIODS

---

- Timing can be everything
- Normal three-year period
- Special five-year period
- Endless period
- Suits for erroneous refunds issued

## CONSEQUENCES FOR “PROMOTERS” AND “ENABLERS”

---

### CONSEQUENCES FOR “PROMOTERS” AND “ENABLERS”

---

- Casting a wide enforcement net
- Abundance of IRS weapons
  - Promoter penalties
  - Aiding and abetting
  - Individual income tax audits
  - Injunction lawsuits
  - Return preparer penalties
  - Challenges to tax practitioner privilege
  - Referrals to Criminal Investigation Division
  - Referrals to Office of Professional Responsibility

## CONSEQUENCES FOR “PROMOTERS” AND “ENABLERS”

---

- Referrals to Office of Professional Responsibility
  - Recent OPR “alert” about ERCs
  - Individuals governed by OPR
  - Referrals to OPR

## CONSEQUENCES FOR “PROMOTERS” AND “ENABLERS”

---

- Referrals to Office of Professional Responsibility (cont.)
  - Key provisions in Circular 230
    - Knowledge of error or omission
    - Diligence as to accuracy
    - No contingent fees
    - Conflict of interest
    - Standards for documents
    - Reliance on others

## CONSEQUENCES FOR “PROMOTERS” AND “ENABLERS”

---

- Referrals to Office of Professional Responsibility (cont.)
  - New OPR “alert” about ERCs
    - No preparation if not accurate
    - Duty to notify of prior year problems
    - All positions must have reasonable basis
    - No reliance if conflict, incompetent, uninformed

## CONSEQUENCES FOR “PROMOTERS” AND “ENABLERS”

---

- Referrals to Office of Professional Responsibility (cont.)
  - Potential penalties
    - Incompetent, disreputable, violates Circular 230
    - Suspension, disbarment, public censure
    - Penalty up to all amounts made or to be made

## RECENT EVENTS: WHAT THE IRS HAS DONE

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### RECENT EVENTS: WHAT THE IRS HAS DONE

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- Issued Regulations
  - Temporary Regs about excessive ERCs
  - IRS always had right to recoup via litigation
  - CARES Act added right to “administrative recapture”
  - Temporary Regs are an alternative, not replacement
  - Key language – treated as “tax underpayment”

## RECENT EVENTS: WHAT THE IRS HAS DONE

---

- Placed Moratorium on Processing
  - Sept. 14, 2023 –moratorium on “new” claims
  - Duration – until at least end of 2023
  - Announced “enhanced compliance reviews”
  - Processing period from 90 to 180 days

## RECENT EVENTS: WHAT THE IRS HAS DONE

---

- Started Civil Examinations
  - Thousands of audit referrals already
  - This before moratorium
  - This before “enhanced compliance reviews”

## RECENT EVENTS: WHAT THE IRS HAS DONE

---

- Initiated Criminal Investigations
  - Started over 250 by July 2023
  - Promoters, accountants, taxpayers?

## POTENTIAL EVENTS: WHAT THE IRS MIGHT DO

---

## POTENTIAL EVENTS: WHAT THE IRS MIGHT DO

---

- Introduce a Claim Withdrawal Process
  - Will introduce “special withdrawal option”
  - For filed claims not yet paid
  - Will affect 600,000 pending claims
  - Details?

## POTENTIAL EVENTS: WHAT THE IRS MIGHT DO

---

- Offer a Settlement Initiative
  - Will introduce “settlement program”
  - For filed claims and already paid
  - Likely carrot – penalty waiver
  - Details?

## POTENTIAL EVENTS: WHAT THE IRS MIGHT DO

---

- Strategically Scrutinize Conflicts of Interest
  - IRS issuing conflict-of-interest IDRs
  - Detailed questions about representative's role
  - Why do these IDRs matter?
    - Promoter penalty referral
    - Hurt reasonable-reliance defense
    - Ineligibility to participate in tax defense
    - No privilege or waiver thereof

## CONCLUSION

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## CONCLUSION

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- Summary of situation
  - Four laws, four Notices, other guidance
  - Lots of erroneous, aggressive, or baseless claims
  - Many public warnings
  - Teams of Revenue Agents and training
  - Potential for many taxes and penalties

## CONCLUSION

---

- Avoid getting caught flat footed
  - Eligible Employers
  - “Promoters” and other “enablers”

# Thank You

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Hale E. Sheppard

404-658-5441

[Hale.Sheppard@chamberlainlaw.Com](mailto:Hale.Sheppard@chamberlainlaw.Com)

[www.ProseByTaxPros.com](http://www.ProseByTaxPros.com)



2:05 – 3:35 p.m.

# Skepticism, Internal Control & a Little on Fraud

**George Heyman, CPA, CGMA,** *Professor Emeritus of Accounting & Economics, Oakton Community College*



# Skepticism...

A Guide to Better  
Questioning

November 9, 2023

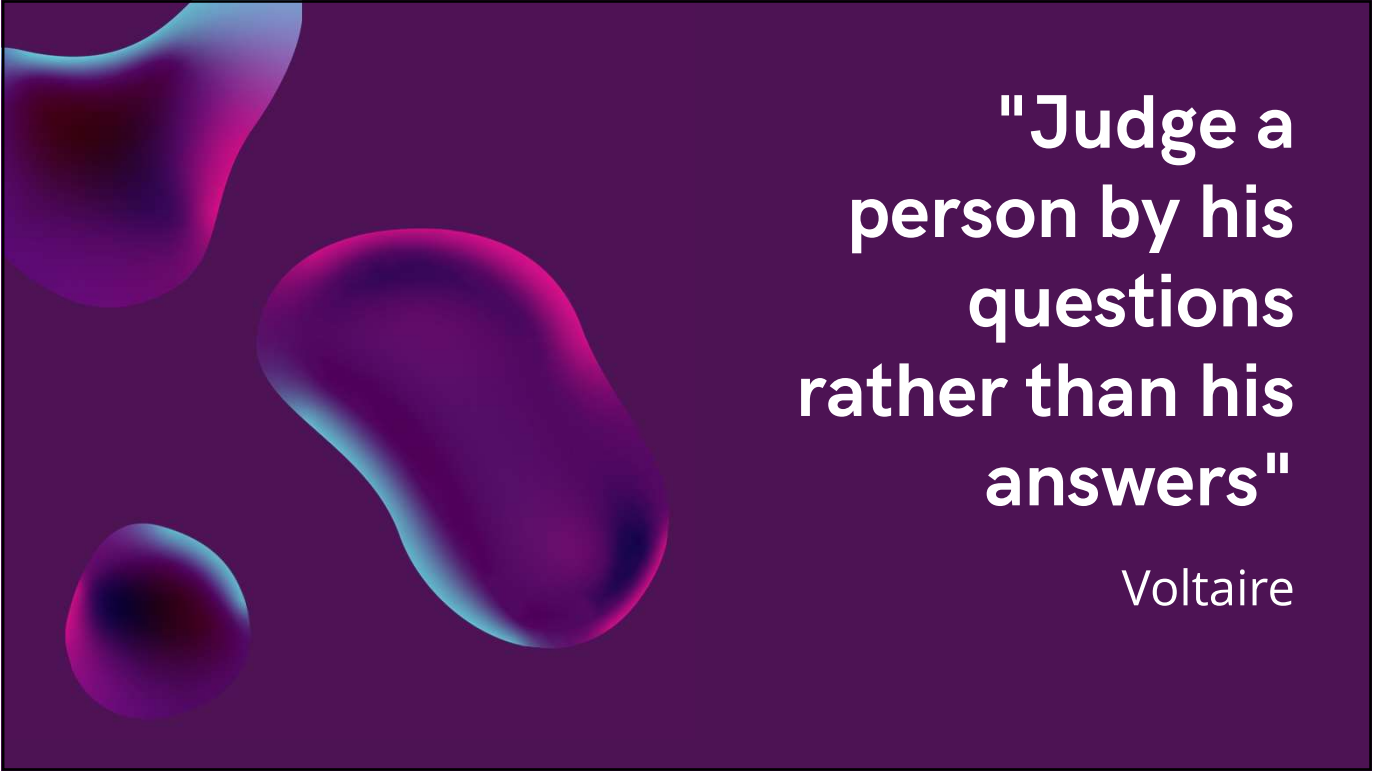
George A. Heyman, CPA CGMA

Professor Emeritus, Accounting and Economics



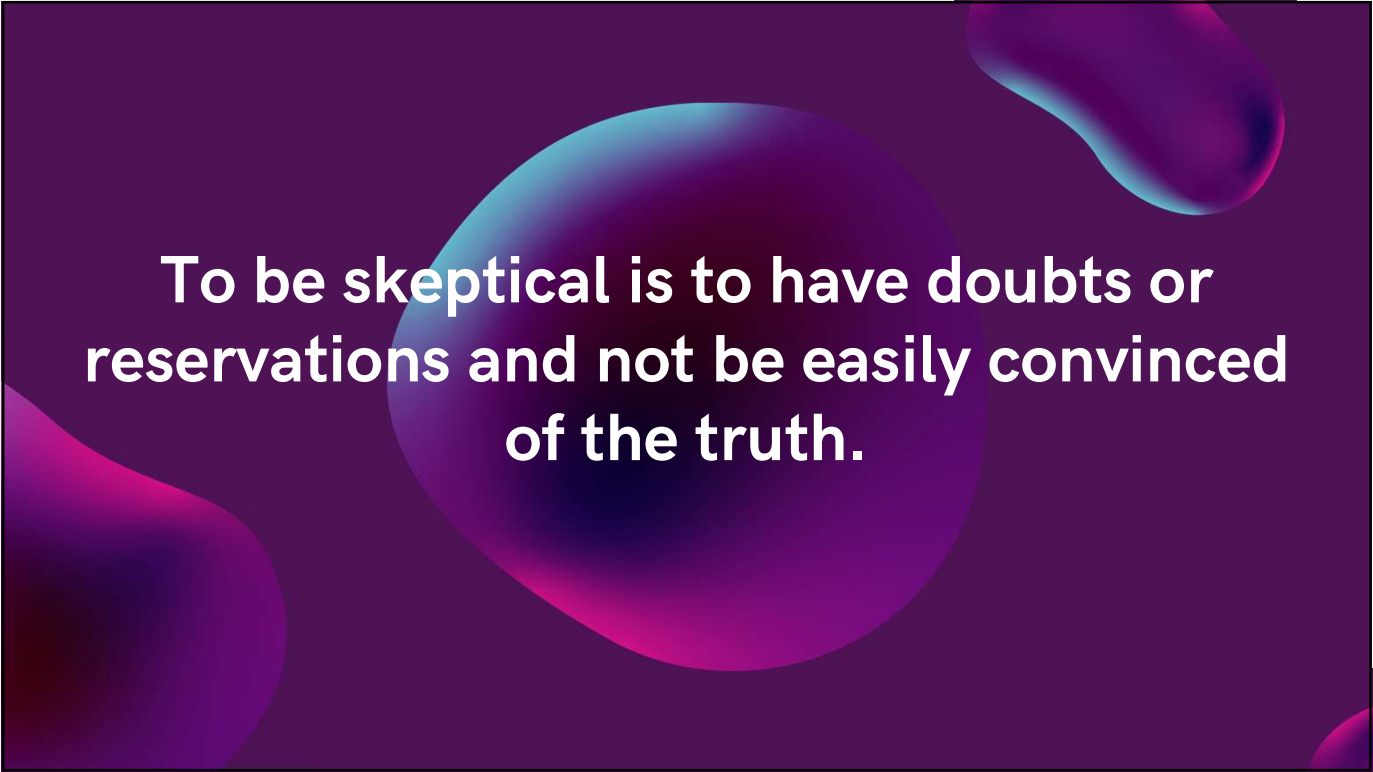
## Rules of Engagement

- Make connections - build your network
- Be curious... ask questions!
- Consider takeaways for your practice
- HAVE FUN!



**"Judge a  
person by his  
questions  
rather than his  
answers"**

Voltaire



**To be skeptical is to have doubts or  
reservations and not be easily convinced  
of the truth.**

- Accepting answers
- Challenging just to challenge
- Not willing to listen
- No discussion



## Be a Hero

- Ask the right questions
- encourage discussion
- Differing opinions? that's OK!
- Question the status quo
- Notice surroundings and behaviors
- Maintain a veil of ignorance
- Test your expectations



## **Navy Commander**

About mission commander on two boats  
accidently entering Iran's waters

"He lacked a questioning attitude, failed to  
promote a culture of safety, and disregarded  
appropriate backup from his staff and subordinate  
commands."

July 1, 2016

## **Navy Commander**

Did he ask the right questions?

Did he listen?

## GENERAL STANDARDS

### Internal auditors rules of conduct:

Integrity – perform with honesty, diligence and responsibility

Objectivity – appearance and fact

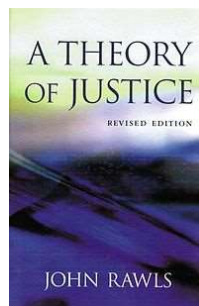
Confidentiality – prudent in use of information (protect it.)

Competency – necessary knowledge, skills and experience.

## CONTRACT THEORY

John Rawls – American Philosopher 1921 – 2002

1. SOCIAL JUSTICE – All jobs should be open to talent (equal opportunity)
2. DECISIONS – Made behind a veil of ignorance
  - This "veil" blinds people to all facts about themselves and others so they cannot tailor principles to their advantage



## Polling Question

Which of the following is a trait of being skeptical?

- a. Not questioning answers
- b. Not willing to listen
- c. Asking the right questions
- d. No discussion

## Three Questions to Ponder:

- Can we really accept that as truth?
- Are we sure that we have everything?
- Is it material - cost vs. benefit

## Two more Questions to Ponder:

- What has changed?
- What should have changed

## Elementary my dear Watson!

- Knowledge
- Observation
- Deductive Reasoning
- Inquiry



*Sherlock Holmes - Sign of the Four, Chapters 1 & 2*

## Back to Basics

- Unbiasedness in Mental attitude
- Due Professional Care – Professional Judgement and Skepticism
- **Determine facts and reasonableness of assumptions**

**Danger  
Accountant!  
Danger!**

It is most  
dangerous not to  
know what you do  
not know!

# Methods of Communication

- Live/In-Person (Body Language)
  - Phone
  - Email
  - Text
- Social Media (LinkedIn, Facebook, Twitter etc.)



## Note Taking - Observation

01

Joe accesses bank statements and compares amounts with approved vendor listing amounts.

Joe then compares the bank statement to the general ledger balance and books - reconciling journal entries if needed.

02

Joe appears to be consistent in performing this task. Therefore our deduction is Joe is doing the job.

# THE INTERVIEW

---

- 
- Sherlock Holmes
  - The Sign of the Four



# THE INTERVIEW II

---

## Attitudes

How did the different  
Attitudes of both the  
questioner and respondent  
impact questioning?

## Attitudes II

### Body Language

Showing interest

HoHo Machine



Good questioning = Listening  
Understanding = Action

- Ask clear questions
- "If only you'd let me finish"
- What if? What then?
- Pregnant pauses - answers and questions

## Polling Question

Do you think you should be more skeptical in your work?

Yes

No



## Purpose

- What do you hope to get out of the questioning?
- Affirmation? RIGHT!!
- Show off?
- Knowledge?

## "Are You Ahead of the Game?"

- Consider the consequences
  - Think short-term and long-term
- Evaluate tone at the top
  - help create that tone
- Be proactive
  - act immediately

**Questioning  
as a Test of  
Expectations**

SAS 122

Management  
override of  
internal controls

## **Internal Control**

- Safeguard assets, provide reliable data, improve operational efficiencies
- Prevention, detection, correction

## **Fraud**

- Prevention, detection, response

## **INTERNAL CONTROL**

- Accounted for pre-numbered documents
- Assignment of authority and responsibility
- Segregation of duties- custody, recording, audit
- Competent, trustworthy personnel
- Rotation of duties
- Mandatory Vacations

# INTERNAL CONTROL

- DESIGN
- IMPLEMENTATION

17

## *17 principles of effective internal control*

### Control Environment

1. Demonstrates commitment to integrity and ethical values
2. Exercises oversight responsibility
3. Establishes structure, authority and responsibility
4. Demonstrates commitment to competence
5. Enforces accountability

### Risk Assessment

6. Specifies suitable objectives
7. Identifies and analyzes risk
8. Assesses fraud risk
9. Identifies and analyzes significant change

### Control Activities

10. Selects and develops control activities
11. Selects and develops general controls over technology
12. Deploys through policies and procedures

### Information & Communication

13. Uses relevant information
14. Communicates internally
15. Communicates externally

### Monitoring Activities

16. Conducts ongoing and/or separate evaluations
17. Evaluates and communicates deficiencies



## SAS 122 Brainstorming

- Risk assessment - understand the entity and environment
- Looking for anomalies - Analytical review
- Inquiries of Management - Observation
- Incentives, pressures, opportunities, who?

## The Importance of Expectations

- Analysis - Industry, company, economy, politics etc.
- Behavior
- Lifestyle
- Internal Control

## Polling Question

Due professional care is

- a. Being careful
- b. Following the status quo
- c. Professional judgment and being Skeptical

Is it error or fraud?

Intent and correctability?

## Two Types of fraud.

1. Misappropriation - **Stealing**
2. Fraudulent Reporting – **Cooking the books.**

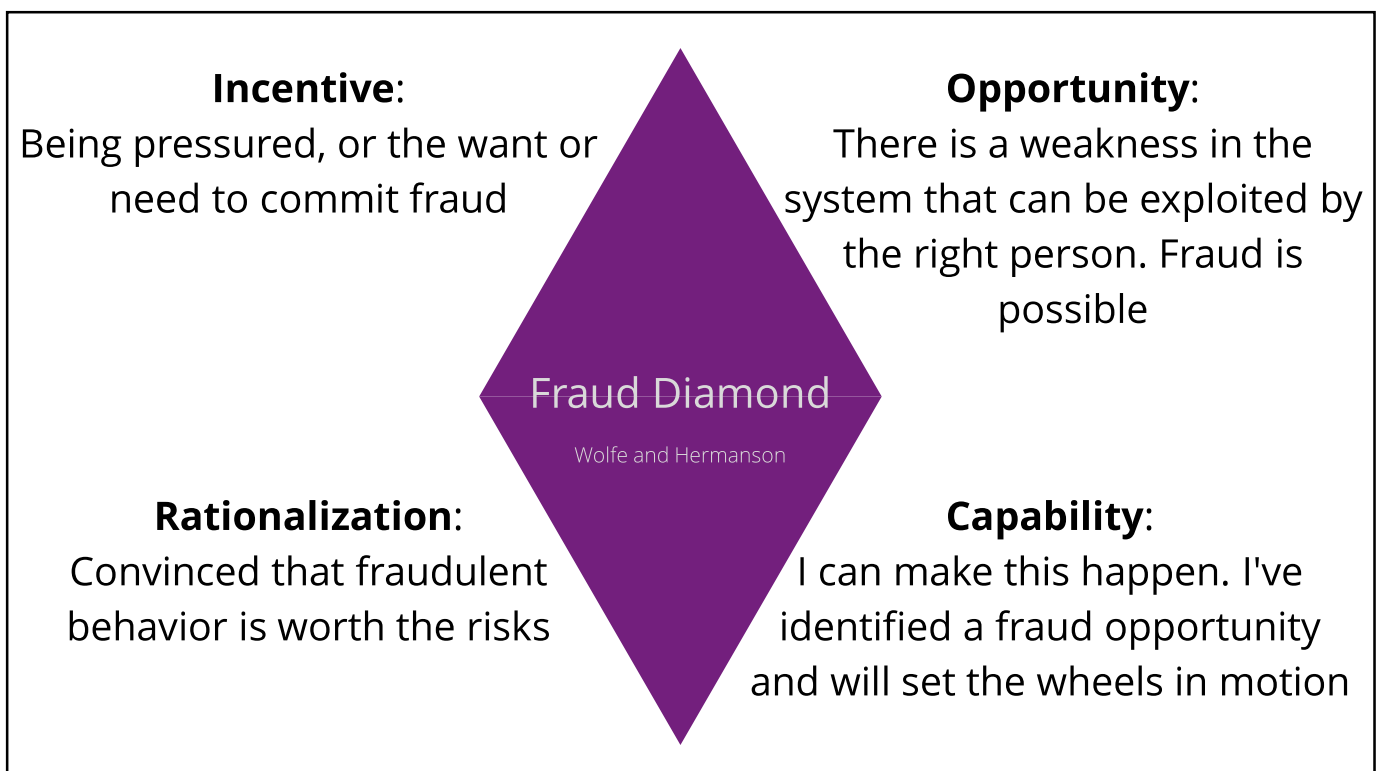
## UNETHICAL ACCOUNTING

1. Exaggerate revenue
2. Provide misleading information regarding business expenses
3. Misuse funds
4. Misappropriation



## 4 Elements of Fraud

- Intentional untrue representation about an important fact or event
- Untrue representation is believed by the victim
- The victim relies upon the untrue representation
- The victim suffers loss of property and/or money acting or relying on the untruth



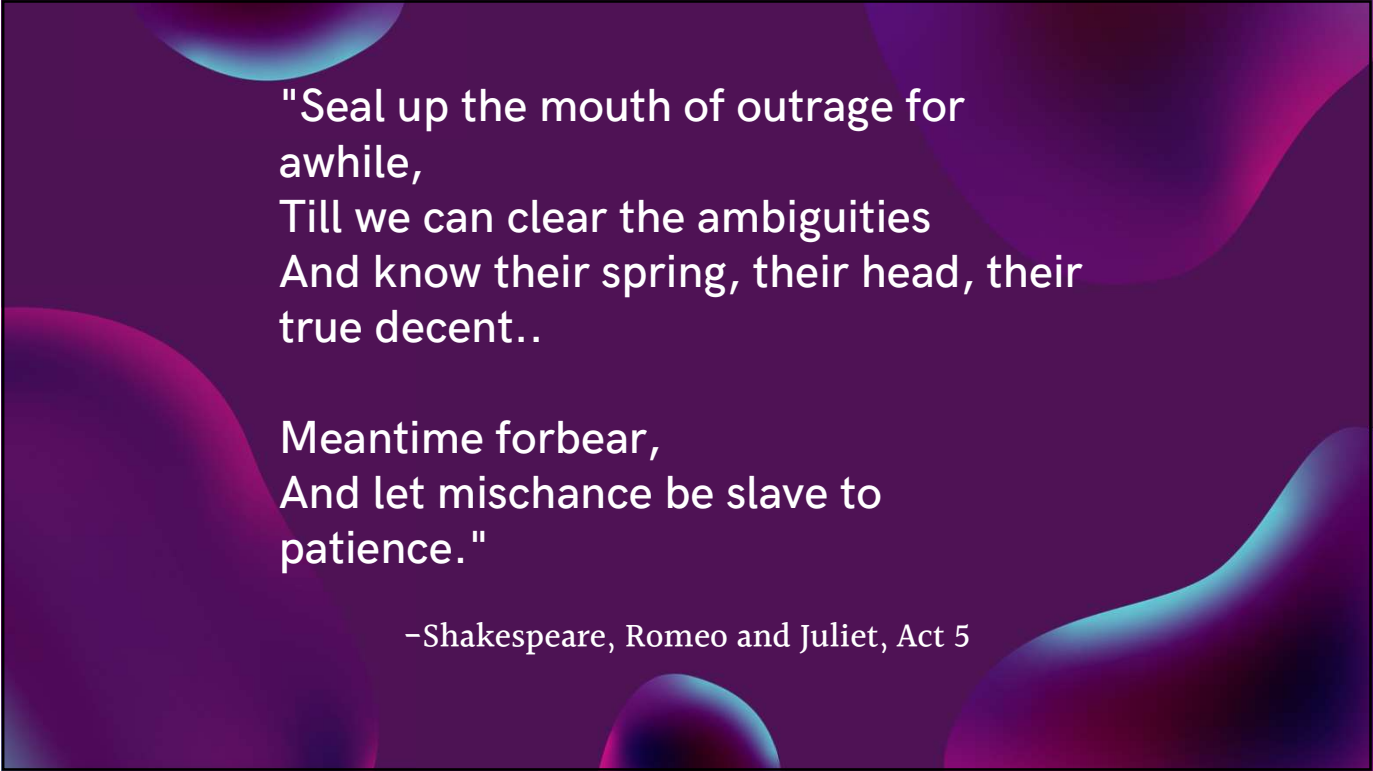
## 6 Traits of Fraudsters – Capability

- Position in workplace – CFO's implicated over 70% of time
- Smart enough to understand and exploit internal control
- Strong ego – easily talk their way out of situations.
- Can coerce others to commit or conceal fraud
- Can lie effectively
- Can live with stress.

### Polling Question

Which of the following is not a part of the fraud diamond?

- a.Incentive
- b.Analysis
- c.Opportunity
- d.Capability



"Seal up the mouth of outrage for  
awhile,  
Till we can clear the ambiguities  
And know their spring, their head, their  
true decent..

Meantime forbear,  
And let mischance be slave to  
patience."

-Shakespeare, Romeo and Juliet, Act 5



## Contact George

George Heyman, CPA, CGMA  
Professor Emeritus,  
Accounting and Economics

**PHONE:** (847) 553-6118

**EMAIL:** [gheyman@me.com](mailto:gheyman@me.com)

2:05 – 3:35 p.m.

# The New Normal: Recruitment & Retention

**Melodi Bunting, CPA, CMA, CGMA**, *Senior Manager, Advisory Services, Wegner CPAs*

**Angela Wurtz, PHR**, *Recruiting Manager, Wegner CPAs*



# The New Normal Recruitment & Retention

Presented by Angela Wurtz & Melodi Bunting



## Angela Wurtz

Recruiting Director, Wegner CPAs



Angela has been in the HR field, with an emphasis on Talent Acquisition, for the last 15 years. She has recruited for a variety of industries and roles including healthcare, manufacturing, business consulting, and public accounting. She earned her Bachelor of Science degree in Business Management with a concentration in Human Resources Development and is also PHR certified.



608.308.1615



[angela.wurtz@wegnercpas.com](mailto:angela.wurtz@wegnercpas.com)



2921 Landmark Pl, Ste 300, Madison, WI 53713



[www.wegnercpas.com](http://www.wegnercpas.com)



## Melodi Bunting

Senior Manager, Advisory Services Wegner CPAs



Melodi returned to public accounting when she joined Wegner CPAs' in 2014 after teaching in higher education, consulting with not-for-profits, and preparing consolidations and international reporting for a retailer. While at Wegner she has been developing and teaching a variety of internal and external training opportunities as well as working with the audit team performing audits, reviews and advisory services.



608.204.7665



[melodi.bunting@wegnercpas.com](mailto:melodi.bunting@wegnercpas.com)



2921 Landmark Pl, Ste 300, Madison, WI 53713



[www.wegnercpas.com](http://www.wegnercpas.com)

## Agenda

- Retaining and attracting talent
- Cost of Recruitment
- Status of the current labor market – what is important to job seekers?
  - Remote work
  - Company Culture
  - Work life balance
- How can employers get comfortable with a remote workforce?



## How do you retain and attract talent in this market?

### RETAIN

- Hybrid work options is becoming mainstream!
- Manager's role are changing.
- Be ok with change – evolve with changing workplace trends



## How do you retain and attract talent in this market?

### ATTRACT


- Be where the emerging talent is
- Interview and hire efficiently
- Make recruiting a team effort





Hiring is  
expensive!

The average cost to hire ONE new employee is \$4700!!

- - 60% indirect costs
    - - Interviewers time
    - - Temporary help
    - - Over time for existing staff
  - - 40% direct costs
    - - job posting and advertisement
    - - Pre employment assessments
- 

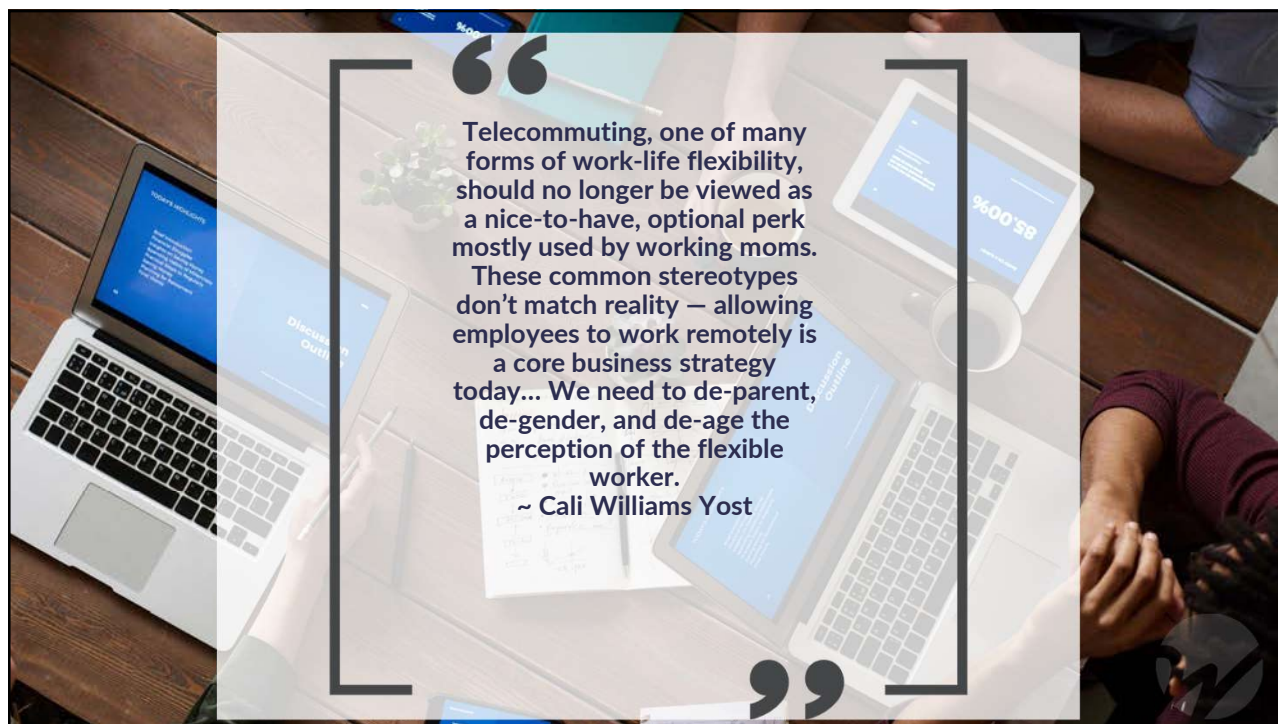
Remote work is here to stay – and there  
are benefits!

Happier  
employees

Lower  
overhead  
costs

Improved  
recruiting

Less  
tension



What can employers do to keep remote workers engaged?

Communication

Expectations

Accountability

Culture

Why is leadership concerned with remote work?



COLLEAGUES  
AND TEAMS  
BEING SILOED  
FROM EACH  
OTHER



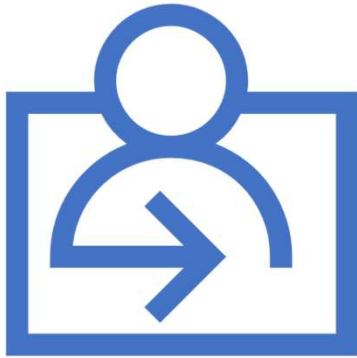
COLLEAGUES  
FEELING LESS  
CONNECTED  
WITH ONE  
ANOTHER.



## How to make remote work, work

- Set a regular time to check in throughout the day.
- Don't hesitate to schedule a video call (cameras on) to discuss things when email and chat don't cut it.
- Equip your team with the right equipment
- Promote socialization among colleagues

## Remote work statistics



- **27%** of U.S. employees work remotely. There are expected to be 36.2 million American employees working remotely by 2025.
- **40%** of workers believe that they've been more productive while working at home during the pandemic, as opposed to the office.
- **16%** of U.S. companies are fully remote
- Remote jobs now make up **15%** of work opportunities in the US.
- **68%** of employees prefer working remotely
- **75%** of remote workers believe their work-life balance has improved, while **62%** of workers feel remote work positively affects their work engagement.
- **6%** of remote workers would rather work fully on-site
- Workers are **13%** more productive when working remotely, and overall worker productivity in the U.S. has increased by 5% since the start of the pandemic.
- Turnover reduces by **50%** when employees have access to a remote work option

Source: Remote Work Statistics & Trends (n.d.) retrieved from forbes.com

## Contact Us



608.308.1615



angela.wurtz@wegnercpas.com



2921 Landmark Pl, Ste 300, Madison, WI 53713



www.wegnercpas.com

# THANK YOU



3:50 – 4:40 p.m.

# Ethics & Decision Making

**George Heyman, CPA, CGMA**, *Professor Emeritus of  
Accounting & Economics, Oakton Community College*

# Ethics and Decision Making

November 9, 2023

George A Heyman, CPA, CGMA

Professor Emeritus Accounting and Economics

CONTACT GEORGE

GEORGE HEYMAN, CPA, CGMA

Professor Emeritus, Accounting and Economics

PHONE

(847) 553-6118

EMAIL

[gheyman@me.com](mailto:gheyman@me.com)

# RULES OF ENGAGEMENT

- Make connections – Network!
- Ask questions!
- Consider takeaways that you can share and use right away.
- Have a good time – learning should be fun!

# CULTURE

- Beliefs – Implicit assumptions (What are they?)
- Values – Norms, principles, and standards (AICPA Code of Ethics) ( The Story )
- Behavior – What we actually do
- Comfort – Fair and equitable treatment

# It is our choices that show who we truly are, far more than our abilities

HARRY POTTER AND THE  
CHAMBER OF SECRETS  
- J.K. ROWLING

## MAKING DECISIONS

- People face tradeoffs
- What people get is the cost of what they give up
- Rational people make decisions on the margin
- People react to incentives (golden rule?)



# INTENT

## Maximize revenue

- Obtain loans from banks
- Show healthy business performance

## Minimize revenue

- Pay less taxes on less revenue

# Corporate Culture and Policies

## SHOULD....

- Increase profits
- Attract and retain talent – mentoring
- Improve risk management
- Make better decisions
- Sleep well at night

## MAKING DECISIONS

### ACT

...as if everything depends on you

### ETHICAL

...people are aware and observant - they notice!

### INFLUENCE

...and accountability  
authority and responsibility

## ETHICAL PEOPLE

- Can ethical people have unethical behaviors?
- Can guidelines keep people ethical?
- Can an unethical person act ethically?

# ETHICAL DIFFERENCE

I did nothing wrong

vs.

I did the right thing

"While I do not believe I ever  
did anything illegal...  
I've done an awful, awful lot  
that was wrong."

-John Edwards on his acquittal/mistrial

100% legal – 10% ethical?

Is doing the right thing the same as saying:  
"I did nothing wrong?"

# ETHICAL BEHAVIOUR

## QUESTIONS TO ASK YOURSELF

- Is staying out of people's way enough?
- If I behave this way, who am I inconveniencing? Homeland Security and the TSA

## CPA ETHICS

A definition:

(noun) A trusted expert who helps organizations and individuals envision and shape their financial future.

Characterized by a commitment to competence, objectivity, and integrity; excellent performance on behalf of the public, clients and employees; and accountability for the highest professional and business ethics

# Professional Conduct

## INTEGRITY

Trust, judgement and observation

## OBJECTIVITY

Influence and unbiasedness

## CONFIDENTIALITY

Information, personal gain

## COMPETENCY

Channel your inner Sherlock  
Holmes  
Knowledge, observation,  
deduction  
A questioning attitude

## THE MORE YOU KNOW

### ETHICS

-from the Greek 'ethos'  
meaning character.

Ethics is the study of  
how we make  
decisions.

### INTENT...

...and expectations  
Engagement letter

### VALUES

Ethics are the values  
by which human  
beings live in relation  
to other human  
beings, themselves  
and/or nature.

# RULES

- Emanuel Kant stated that
- "consequences can't make actions right or wrong"
- The key question is: "What would happen if everyone acted this way?"

let's go a little deeper...

# RULES

A good rule is one that:

- Becomes universal and can be applied consistently
- Is respectful of the autonomy and rationality of all human beings

Trade-offs:

- Promotion of self-interest vs. protection of rights (founding fathers – first 10 amendments)

# DOES HAVING RULES MAKE SOMEONE ETHICAL?

An ethical person will want to know the rules so that he/she can make informed ethical choices.

**The question is whether or not the rules and procedures are being applied ethically**

## LAWRENCE KOHLBERG'S MODEL

### PRE-CONVENTIONAL LEVEL

People act out of fear of punishment - there is no morality.

### CONVENTIONAL LEVEL

People act to conform their behavior to the expectations of the group to which they belong.  
-"I did nothing wrong"

-"Everyone else does it  
The boss says it is ok"

### POST-CONVENTIONAL LEVEL

The individual understands the reasoning behind a moral principle.  
-"I did the right thing"

# Contract Theory

John Rawls  
American Philosopher  
1921 – 2002

## SOCIAL JUSTICE

- All jobs should be open to talent (equal opportunity)

## DECISIONS

- Made behind a veil of ignorance.
- This "veil" blinds people to all facts about themselves and others so they cannot tailor principles to their advantage.

## ETHICS AND DECISION MAKING

Ethics isn't always about making a decision between right and wrong

Ethics is also about making the decision between right and right

*-Defining Moments: When Managers Must Choose Between Right and Right.  
Joseph L. Badaracco Jr.*

## Code of Professional Conduct

### PRINCIPLES...

...are ideal standards and are not enforceable. (Based in Philosophy)

### RULES OF CONDUCT...

...are minimal standards of ethical conduct stated as specific rules. They are enforceable. (ex. Independence)

### INTERPRETATION OF RULES...

...are not enforceable but you must justify rules of departure. (Ex. can an Auditor accept a gift?)

### ETHICAL RULINGS...

...are published explanations of questions asked to the AICPA. Not enforceable but you must justify departure.

## PROFESSIONAL CONDUCT

### THE PUBLIC INTEREST

(Trust and responsibility)

### DUE CARE

"The quest for excellence is the essence of due care." – Professional judgement and skepticism

### INTEGRITY

(Can accommodate the inadvertent error and honest difference of opinion; it cannot accommodate deceit or subordination of principle)

### PRUDENCE

# Code of Conduct Update

- Reorganize the code of conduct
  - Part 1 – Public practice
  - Part 2 – Industry
  - Part 3 – Between jobs, retired, other
- Topics and sub-topics
  - Non-authoritative guidance issued by the AICPA will appear next to authoritative standards

ICTS

Public – Ethical conflicts

Business – Conflicts of interest

Others – Acts discreditable

## INDEPENDENCE

### Conceptual Framework

- Independence of mind
- Independence of appearance

The most detailed section  
of our code of conduct

### ETHICAL CONFLICTS - THREATS TO INDEPENDENCE

obstacles created by  
internal or external  
pressures

Conflicts in applying  
relevant professional  
and/or legal standards  
(fraud and  
confidentiality)

Response: Relevant  
facts and  
circumstances  
(including rules),  
ethical issues,  
established external  
procedures

## ETHICAL INDEPENDENCE

Staff Augmentation  
Arrangements

Reply to Exposure draft:

1. Should be permitted with attest clients in limited circumstances.
2. Can not perform non attest services prohibited in ET 1295. (Threats to independence)

APPEARANCE OF INDEPENDENCE – KEY

## Public – Ethical conflicts – threats to independence

### ADVERSE INTEREST

members interest opposed to employer  
(ex. Lawsuit against client)

### ADVOCACY

promote employer interest or position  
(IPO, expert witness, tax)

### FAMILIARITY

too accepting of a person's word or  
sympathetic to a person (close  
relationship)

### SELF INTEREST

benefit financially or otherwise (Loan)

## Public – Ethical conflicts – threats to independence (Cont'd)

### SELF REVIEW

will not evaluate work appropriately  
(previously made judgments)

### UNDUE INFLUENCE

A member will subordinate his/her judgment  
and integrity to an individual due to that  
individual's position, reputation, or  
aggressive (dominating) personality

### MANAGEMENT PARTICIPATION

(old 101-3) – Directorship, client  
employees, responsible for client internal  
control

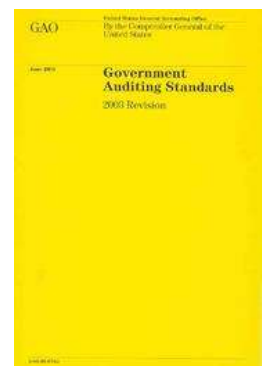
## YELLOW BOOK ETHICS

Integrity and objectivity sections mention  
independence and freedom from political  
and ideological bias.

How does this impact ethical behavior?

Public interest - also proper use of  
government information, resources and  
position.

Compliance with laws and regulations?



## LET'S DISCUSS...

Your boss says to you:

"I am not telling you to do anything illegal.  
I am just telling you what I want done.  
It is up to you to figure out how to do it."

(friend in government)

WHAT WOULD YOU DO?  
Tobey case



## CLIENT AND CUSTOMER ACCEPTANCE AND RETENTION

- Set expectations from the beginning
- Client meetings should be two-way Interviews
- Bullying

## JUMP IN THE ETHICAL DRIVING SEAT

- Don't hit anything
- Be aware - notice things (bus!)
- Don't get hit by anything
- Stay out of other people's way
- Know what others expect you to do
- Let others know what you are doing - be transparent!
- Your decisions impact others
- For backseat driving...



Do the right thing!

CONTACT GEORGE

GEORGE HEYMAN, CPA, CGMA

Professor Emeritus, Accounting and Economics

PHONE

(847) 553-6118

EMAIL

[gheyman@me.com](mailto:gheyman@me.com)