



2025 WICPA ACCOUNTING & AUDITING CONFERENCE

YOUR SOURCE FOR KEY UPDATES & INSIGHTS ON TIMELY ISSUES

HIGHLIGHTED TOPICS:



STAY AHEAD OF THE CURVE: FASB UPDATES THAT MATTER

Learn about the latest important FASB updates, what's coming next, and how these changes could impact your financial reporting



WHY CPAS LOSE CLIENTS TO FINANCIAL ADVISORS & HOW TO PREVENT IT

Get actionable items to help you increase collaboration with other professionals, achieve better outcomes for clients, and improve retention and business development



ECONOMIC & FINANCIAL MARKET OUTLOOK: TRENDS BENEATH CHAOS

Explore what the most reliable indicators point to about the economic and financial market, and what that means for us all in 2026 and beyond

THURSDAY, NOV. 20 | WICPA OFFICE & WICPA CPE LIVESTREAM

CONFERENCE AT A GLANCE

THURSDAY, NOV. 20

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 – 9:25 a.m.

GENERAL SESSION
Economic & Financial Market
Outlook: Trends Beneath Chaos
Lower Level Conference Center

9:25 – 9:35 a.m.

Networking Break
Lower Level Foyer

9:35 – 10:35 a.m.

GENERAL SESSION
Planning Opportunities with the
New Tax Law
Lower Level Conference Center

10:35 – 10:45 a.m.

Networking Break
Lower Level Foyer

10:45 – 11:45 a.m.

BREAKOUT SESSIONS
GASB Update
WICPA Training Center

Stay Ahead of the Curve:
FASB Updates That Matter
Lower Level Conference Center

11:45 a.m. – 12:20 p.m.

Networking Lunch
Lower Level Foyer

12:20 – 1:20 p.m.

GENERAL SESSION
Why CPAs Lose Clients to Financial
Advisors & How to Prevent It
Lower Level Conference Center

1:20 – 1:30 p.m.

Networking Break
Lower Level Foyer

1:30 – 2:30 p.m.

GENERAL SESSION
AI & Excel: Practical Tools & Insights
for Accountants
Lower Level Conference Center

2:30 – 2:40 p.m.

Networking Break
Lower Level Foyer

2:40 – 3:30 p.m.

GENERAL SESSION
The Onboarding Experience:
Making a Lasting Impression
Lower Level Conference Center

3:30 – 3:40 p.m.

Networking Break
Lower Level Foyer

3:40 – 4:40 p.m.

GENERAL SESSION
Hot Tax Practice & Procedure &
Ethics Issues & Their Impact on the
Practitioner
Lower Level Conference Center

4:40 p.m.

Closing Remarks & Prize Drawings
Lower Level Conference Center

WE'RE WITH YOU FOR LIFE

Waukesha State Bank 

Member FDIC



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EXPENSES TO
EXPANDING
YOUR FOOTPRINT**

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WICPA Accounting & Auditing Conference

The Economic and Market Outlook 2025 – 2028

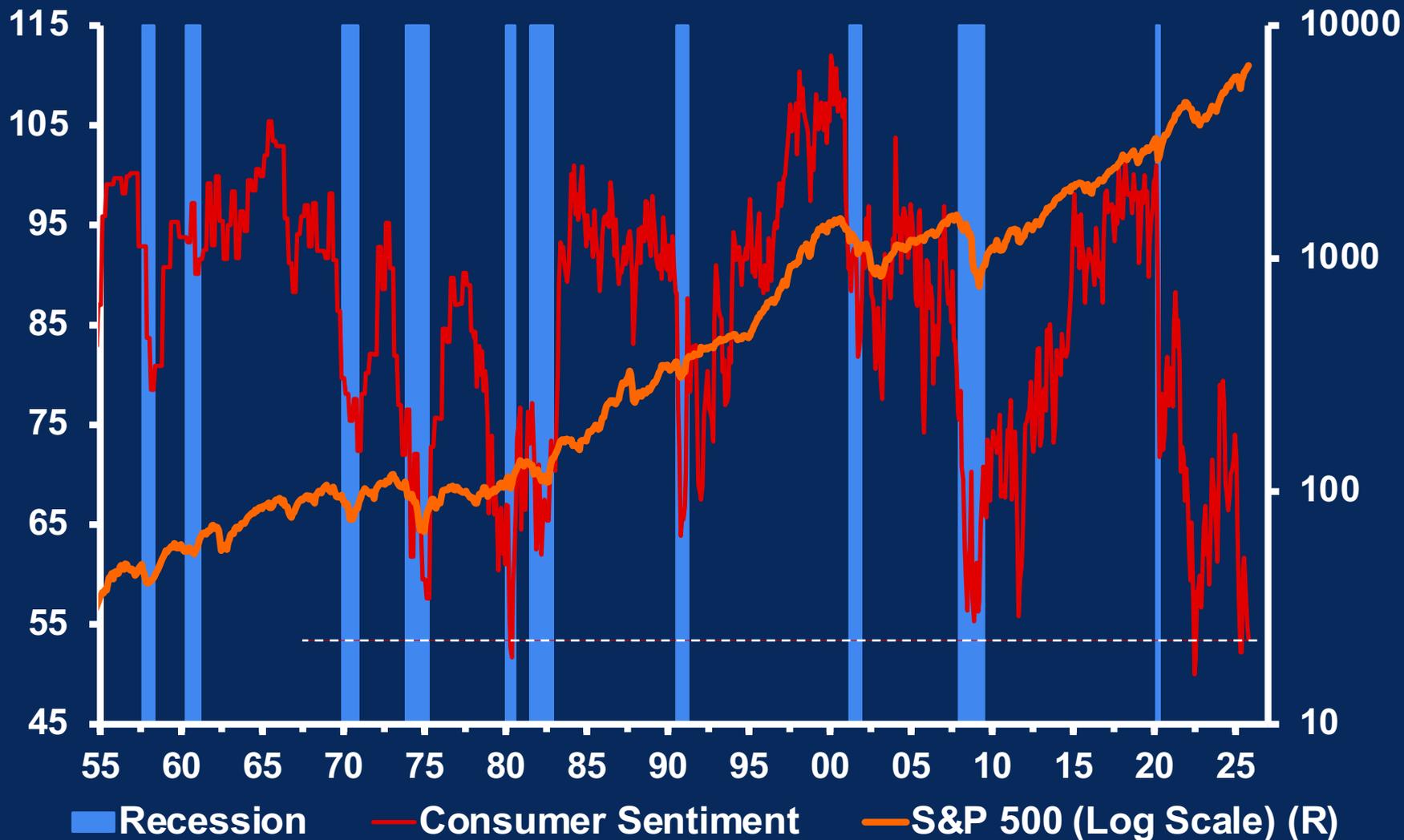
Clare Zempel, CFA, CBE
Economist and Investment Strategist

WICPA Headquarters
November 20, 2025

Copyright © 2025 Clare W. Zempel

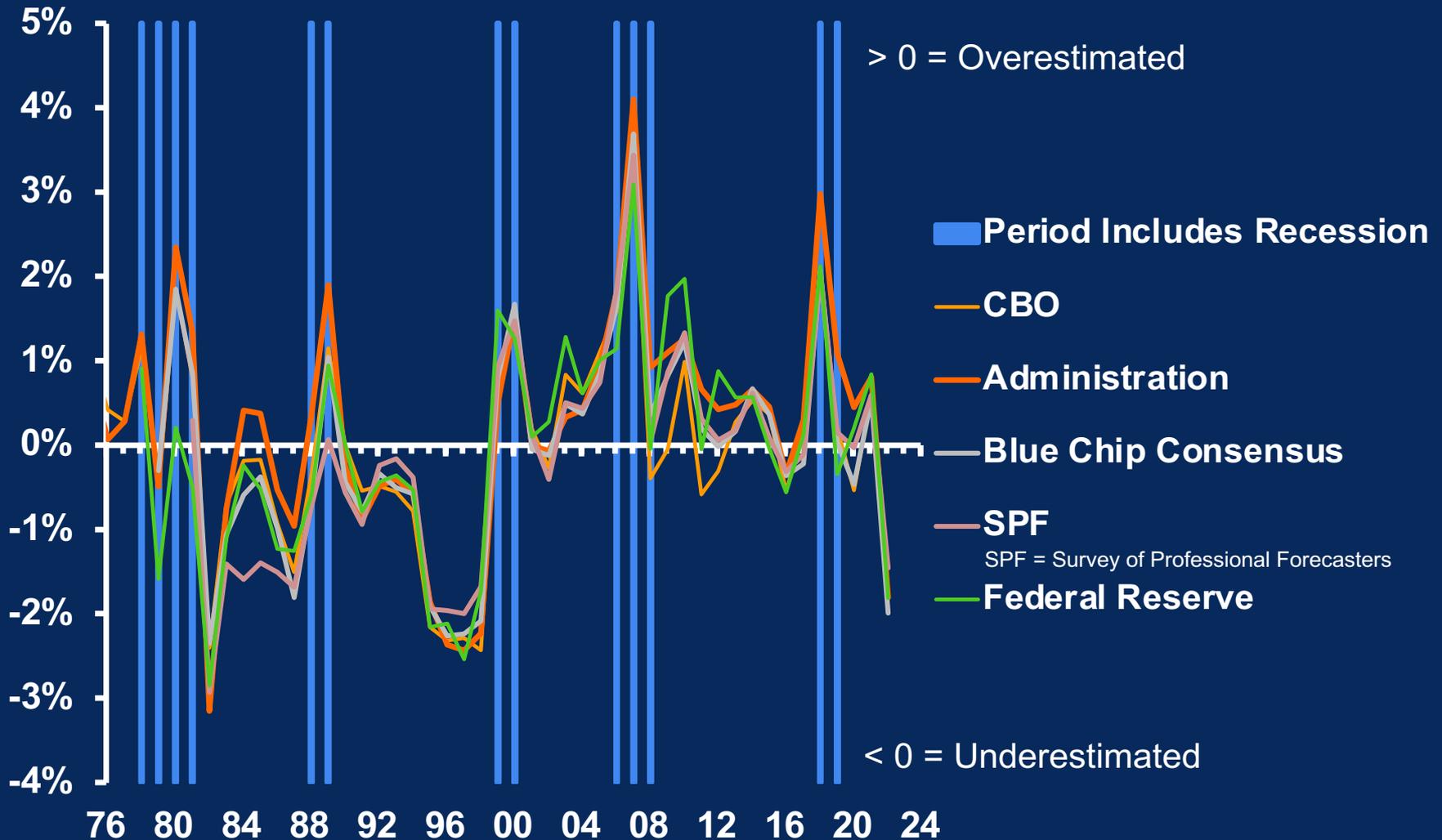
S&P 500 and Consumer Sentiment

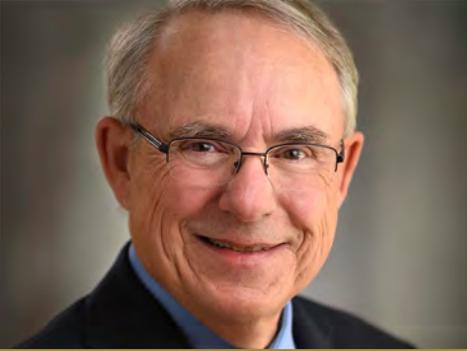
(S&P 500 Index) (University of Michigan Index of Consumer Sentiment)



Real GDP Growth Forecast Errors

CBO (Congressional Budget Office) Analysis (2-Year Forecasts) (2025 Update)





WICPA Accounting & Auditing Conference

The Economic and Market Outlook 2024 – 2028

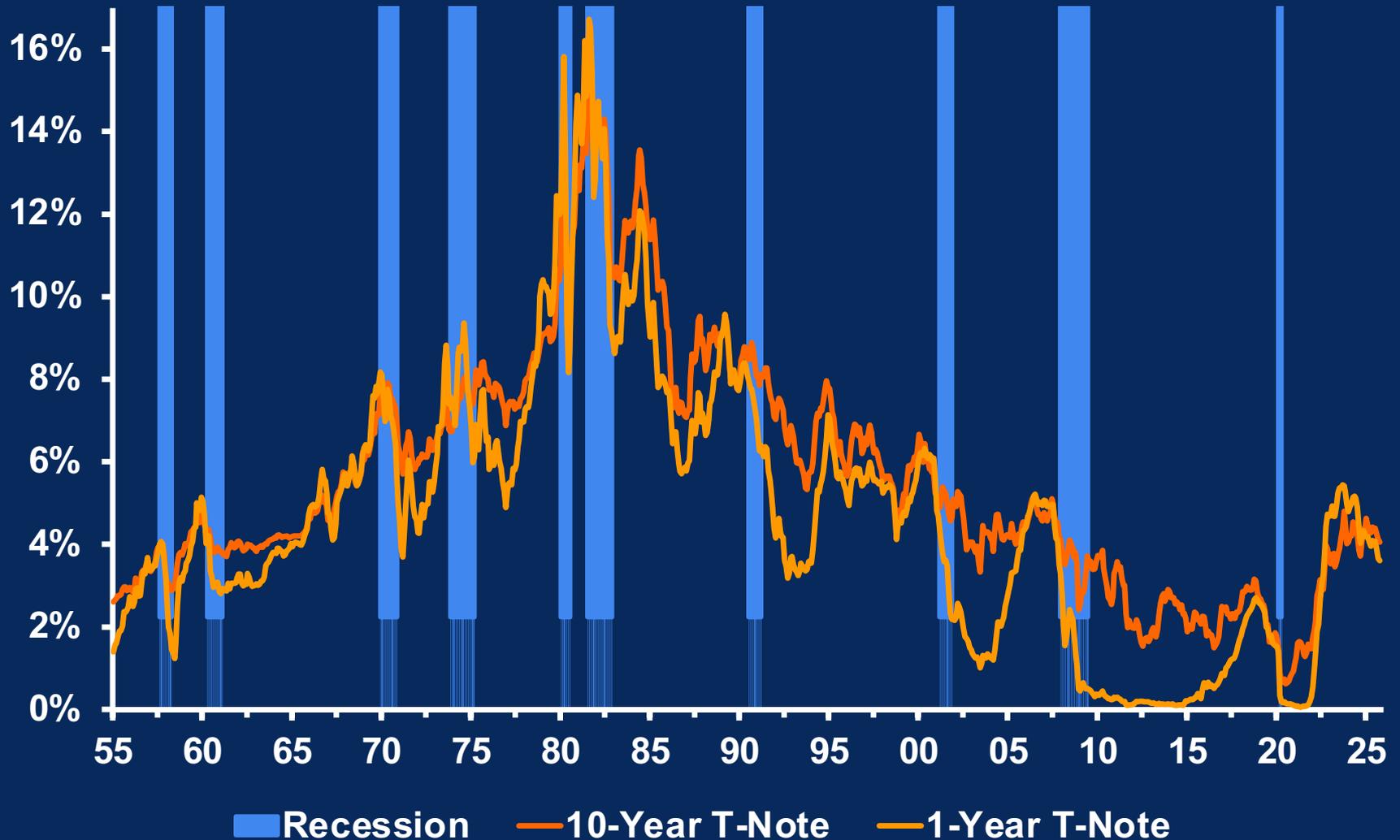
Zempel Zone Approach

Hard Data
Yield-Spread Inversion
Interest-Rate Changes
Applications

Interest Rates and Recessions

(Inversion = 1-Year > 10-Year)

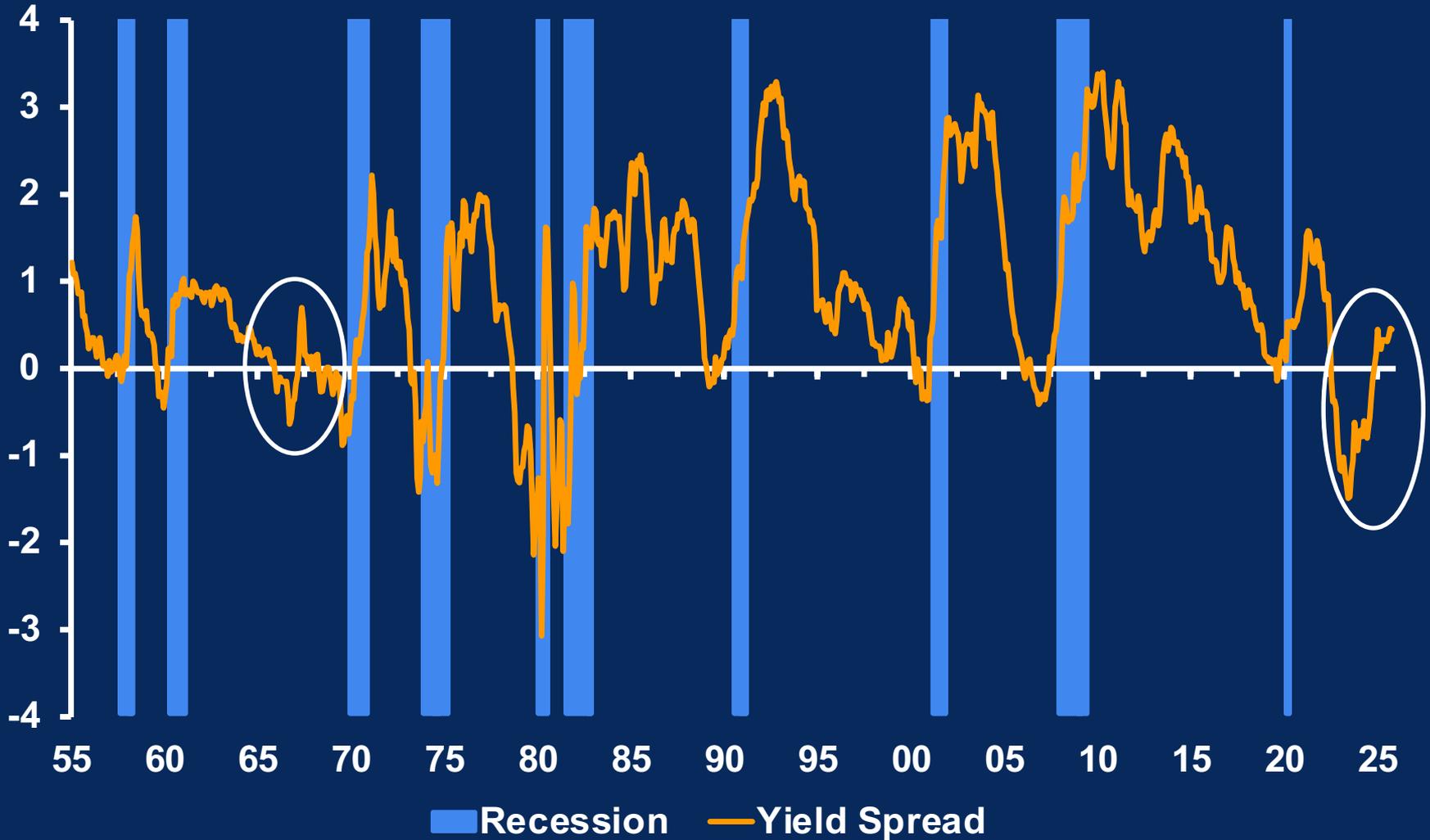
10 Recessions
Since 1955



Yield Spread and Caution Zones ©

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

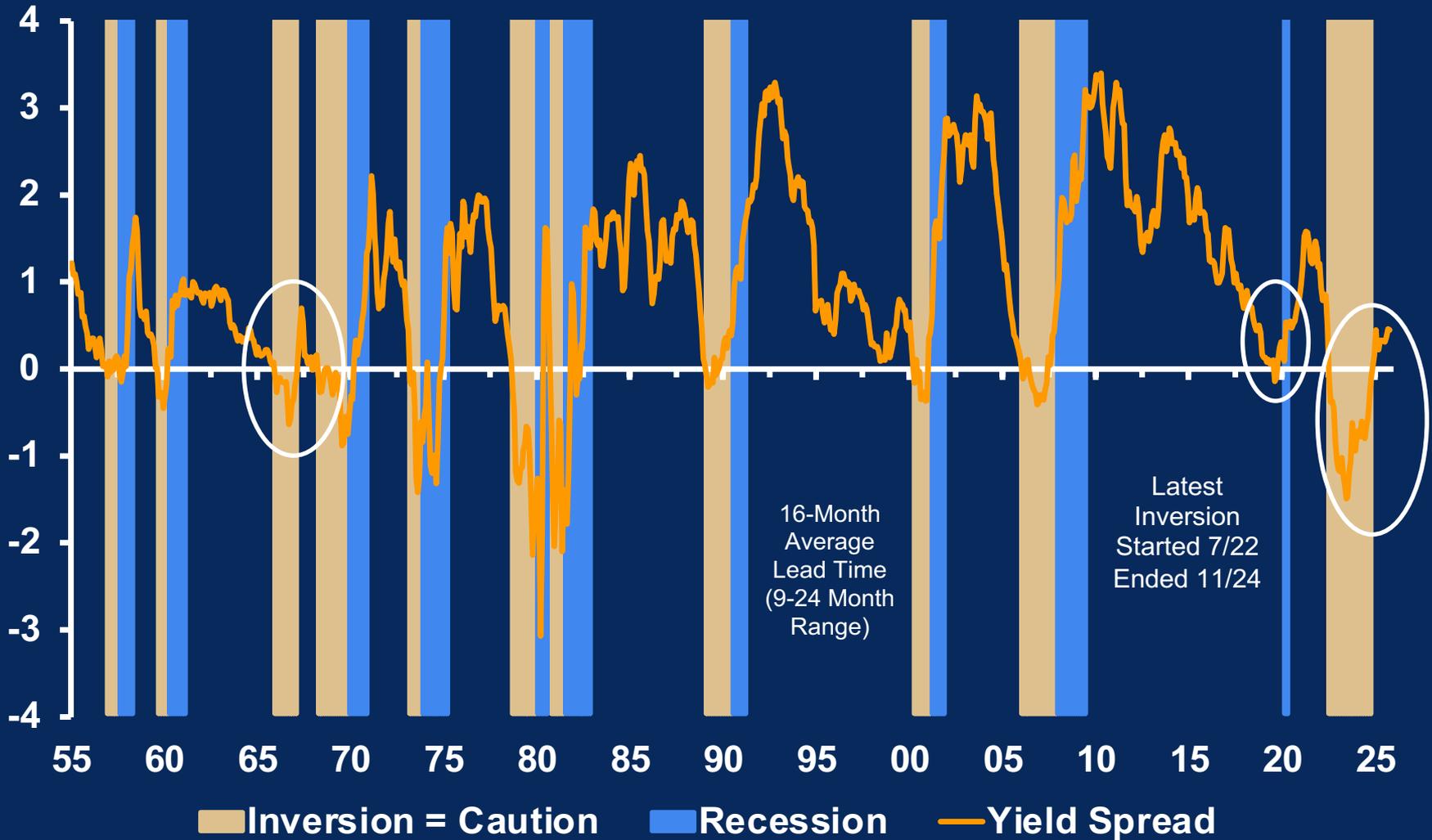
(Inversion = 1-Year > 10-Year)



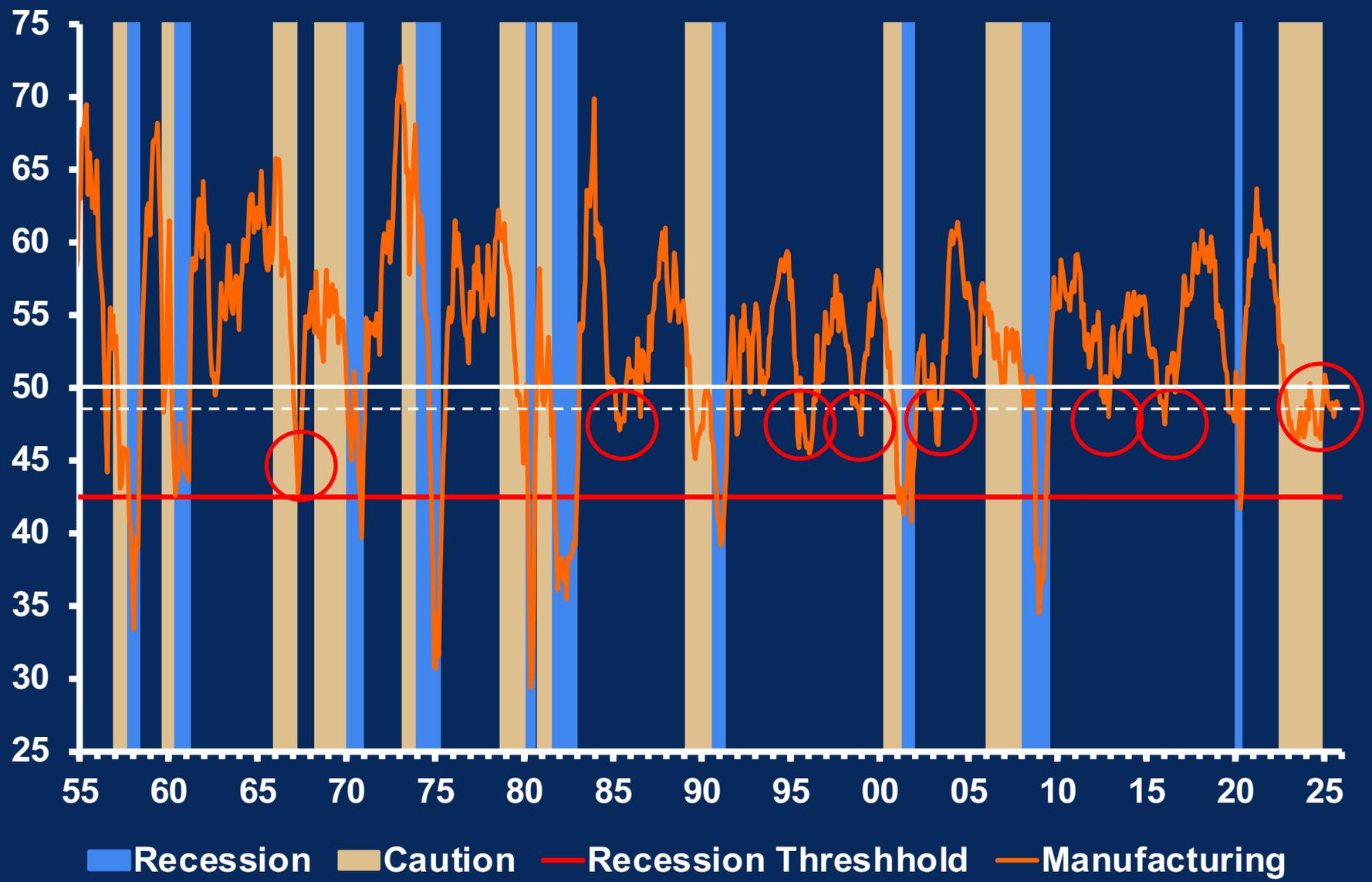
Yield Spread and Caution Zones ©

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

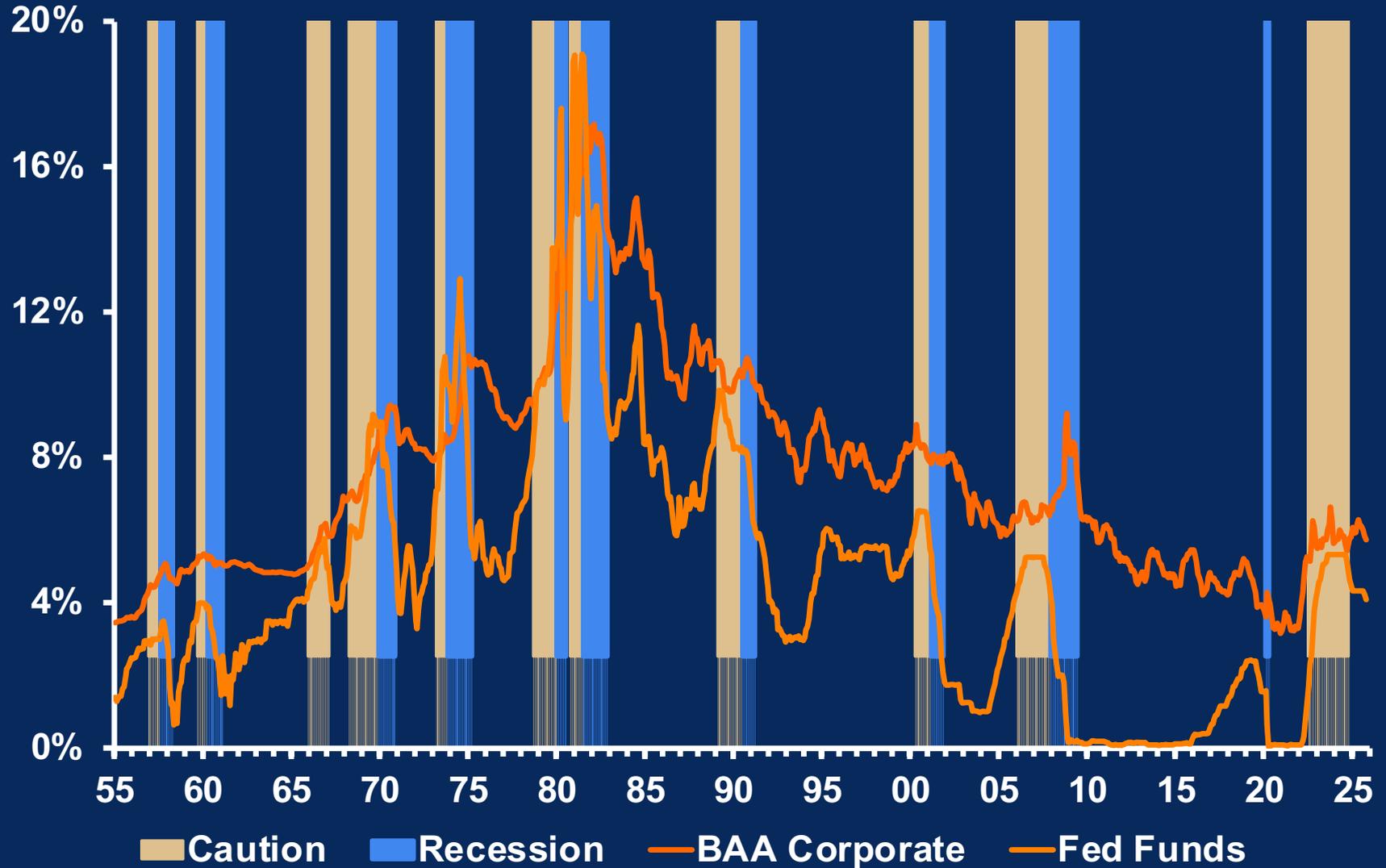
(Inversion = Caution Zone When Fed Funds Rate Is Rising)



ISM (PMI) Indexes (PMI = Purchasing Managers Indexes)



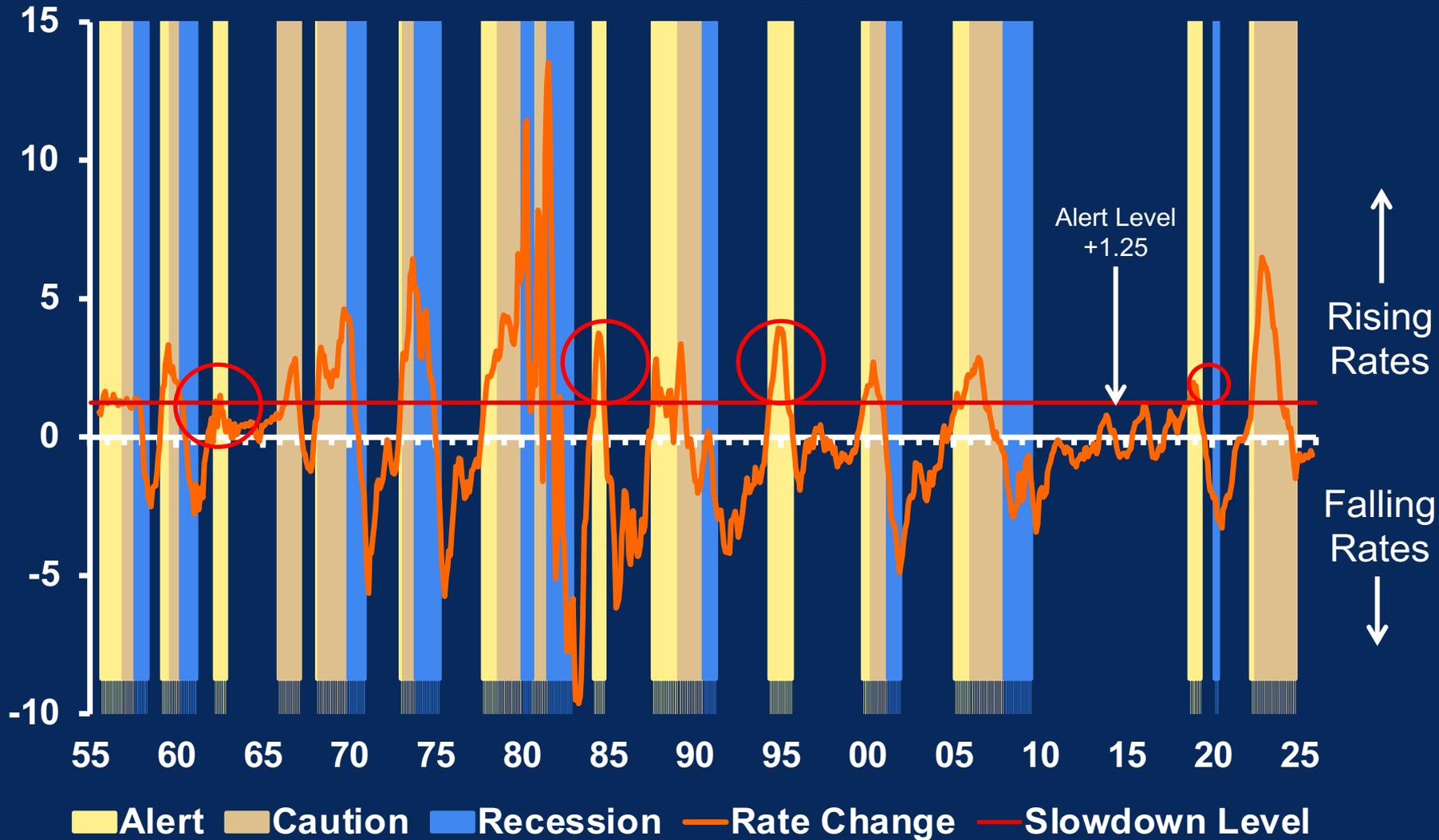
Interest Rates and Recessions



Rate Changes and Zempel Zones ©

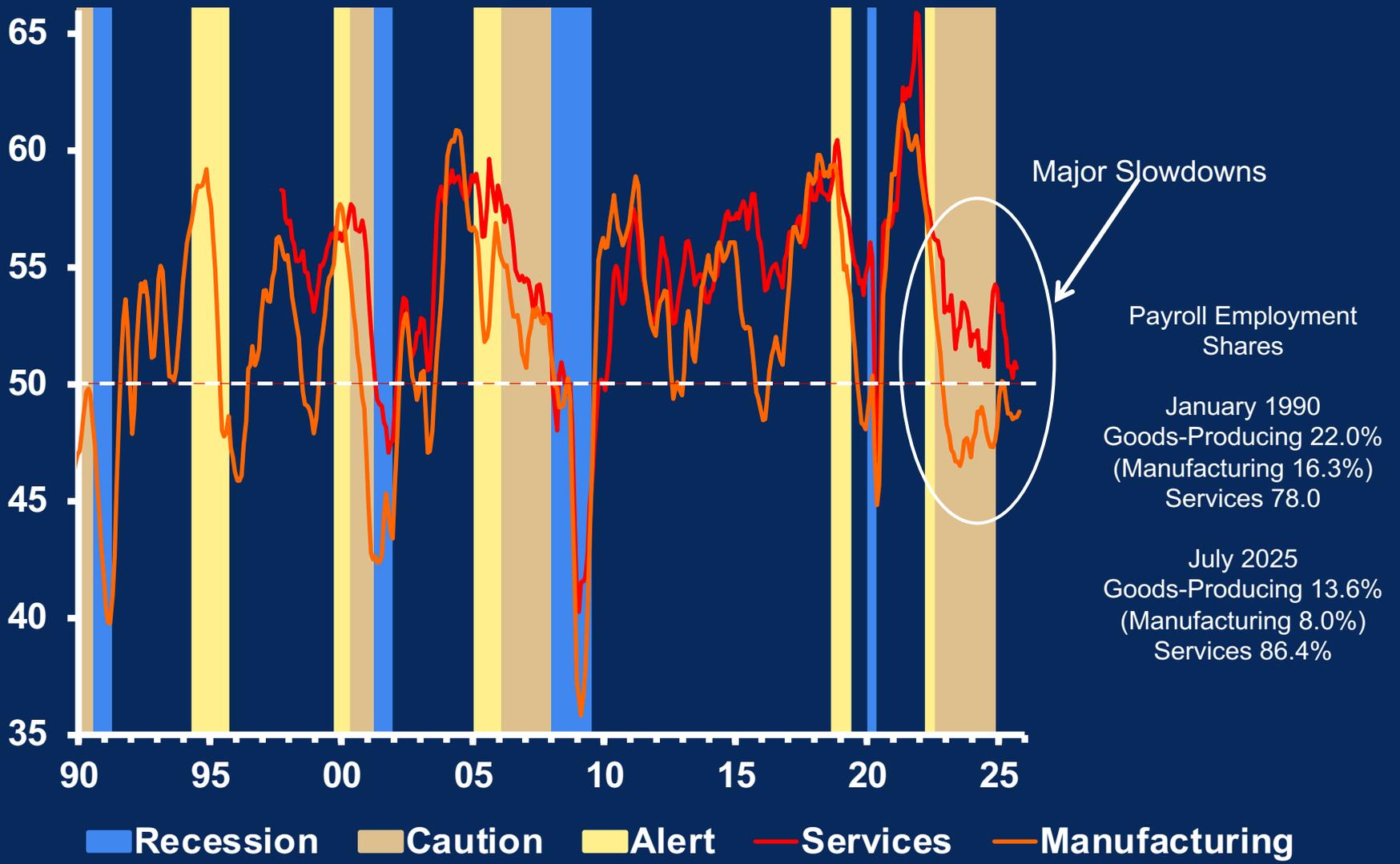
(BAA + Fed Funds) (Total 12-Month Change in Percentage Points)

(Alert Zone = When Rates Rise 1.25 Percentage Points)

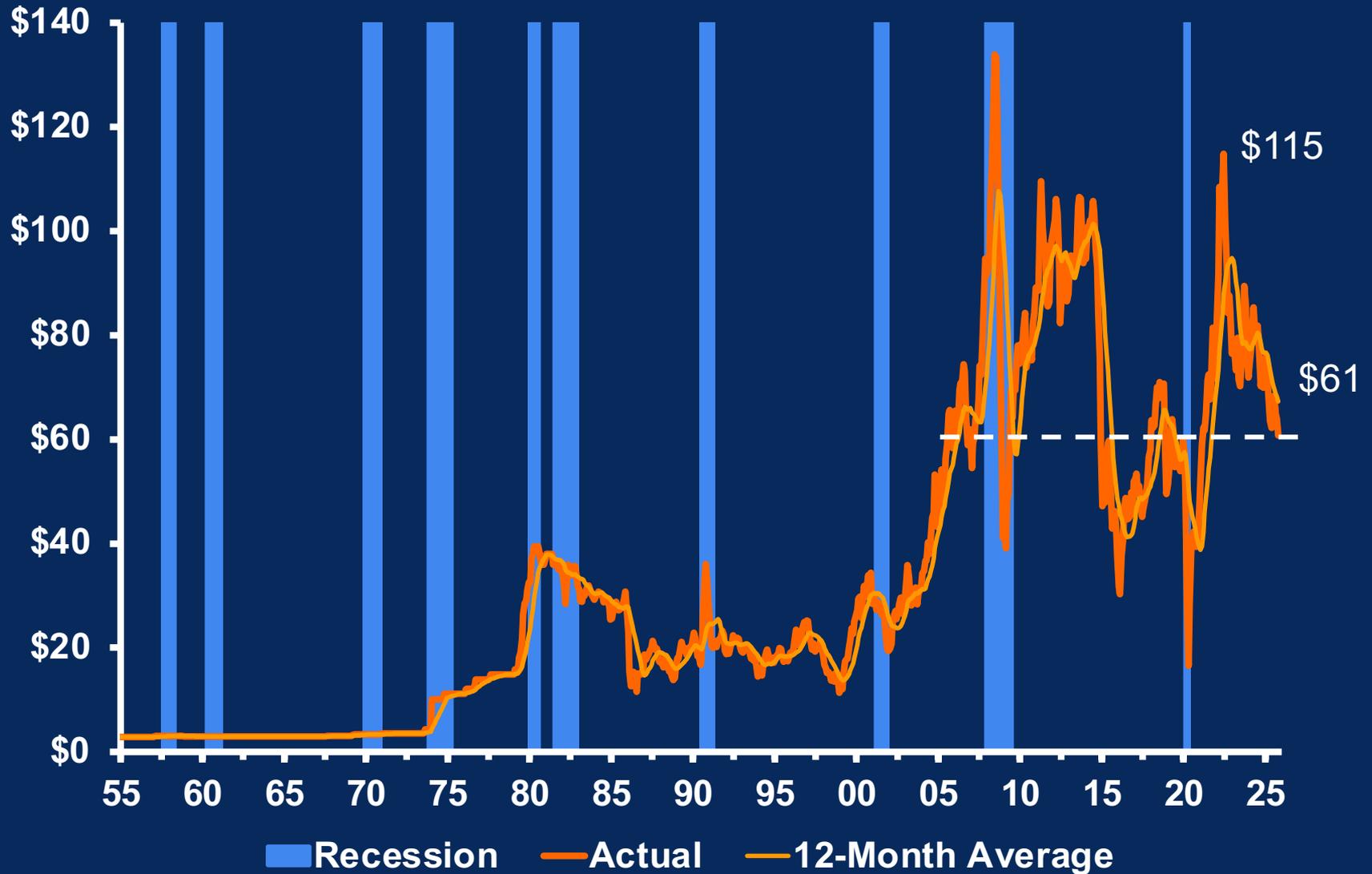


ISM (PMI) Indexes (PMI = Purchasing Managers Indexes)

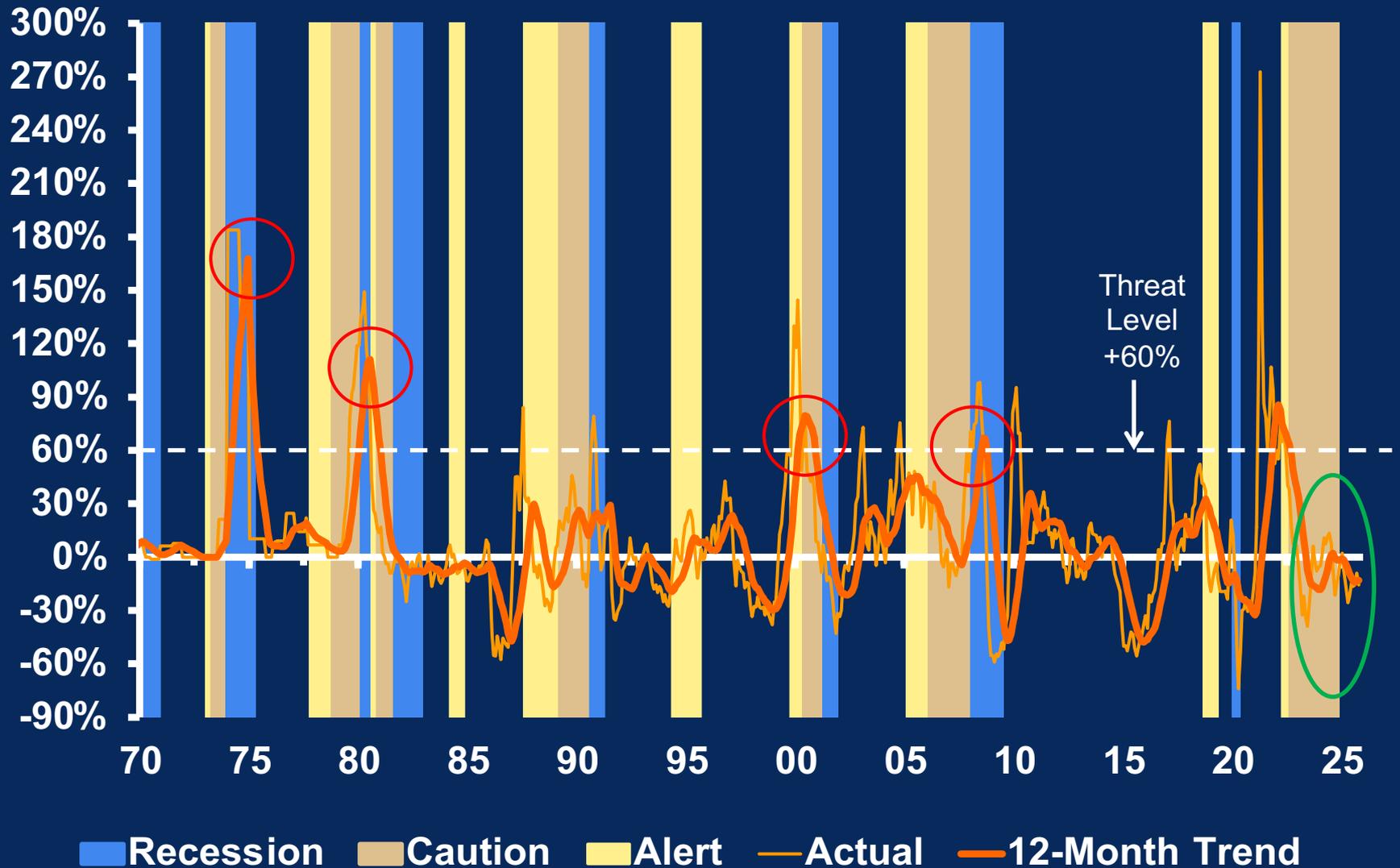
(3-Month Averages)

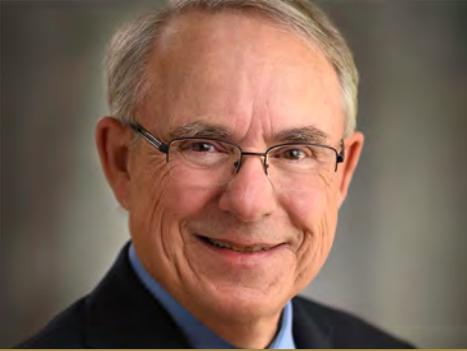


Oil Prices (WTI Spot)



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





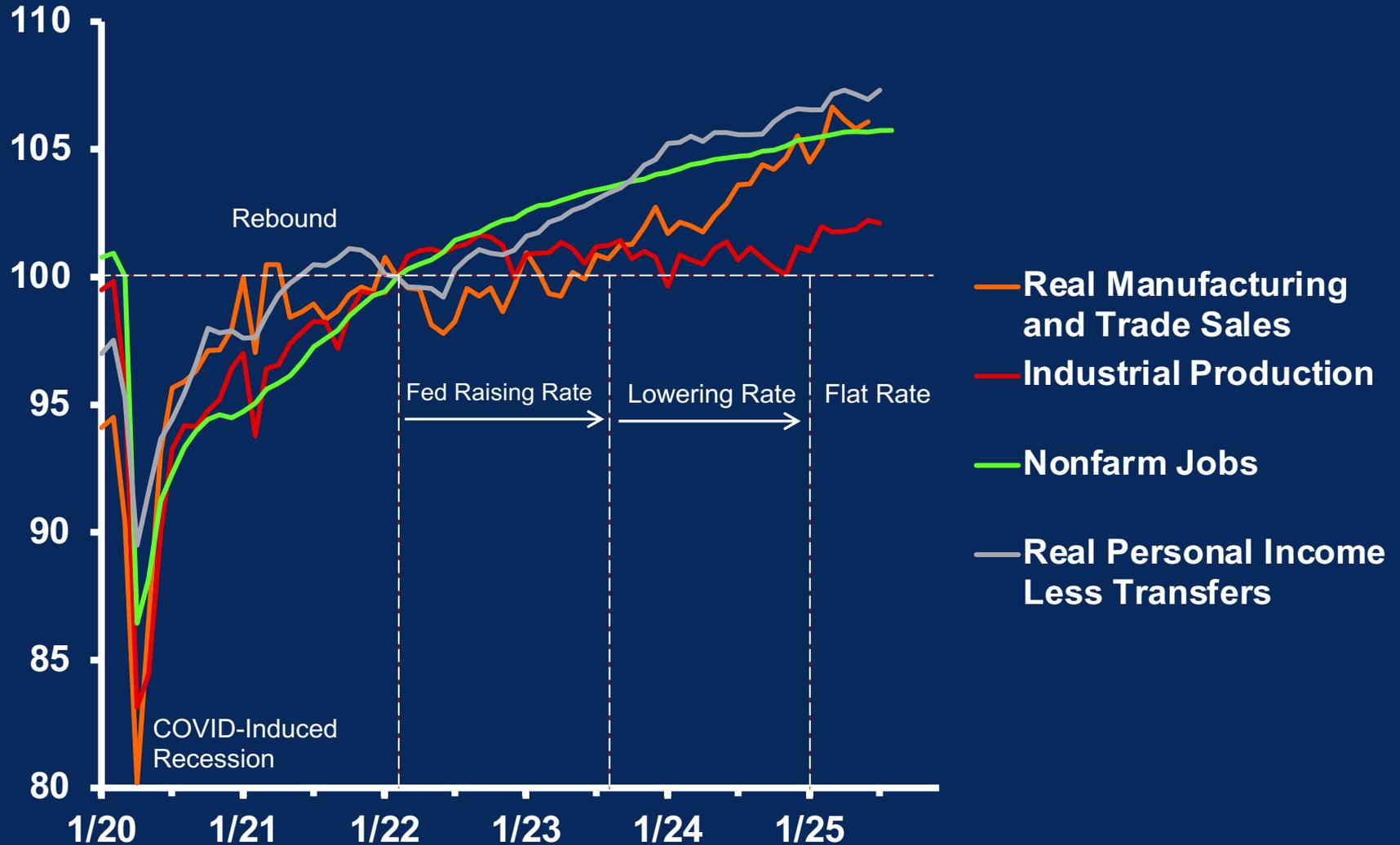
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The Economic and Market Outlook
2025 – 2028

Has Recession Commenced?
How Could We Tell?

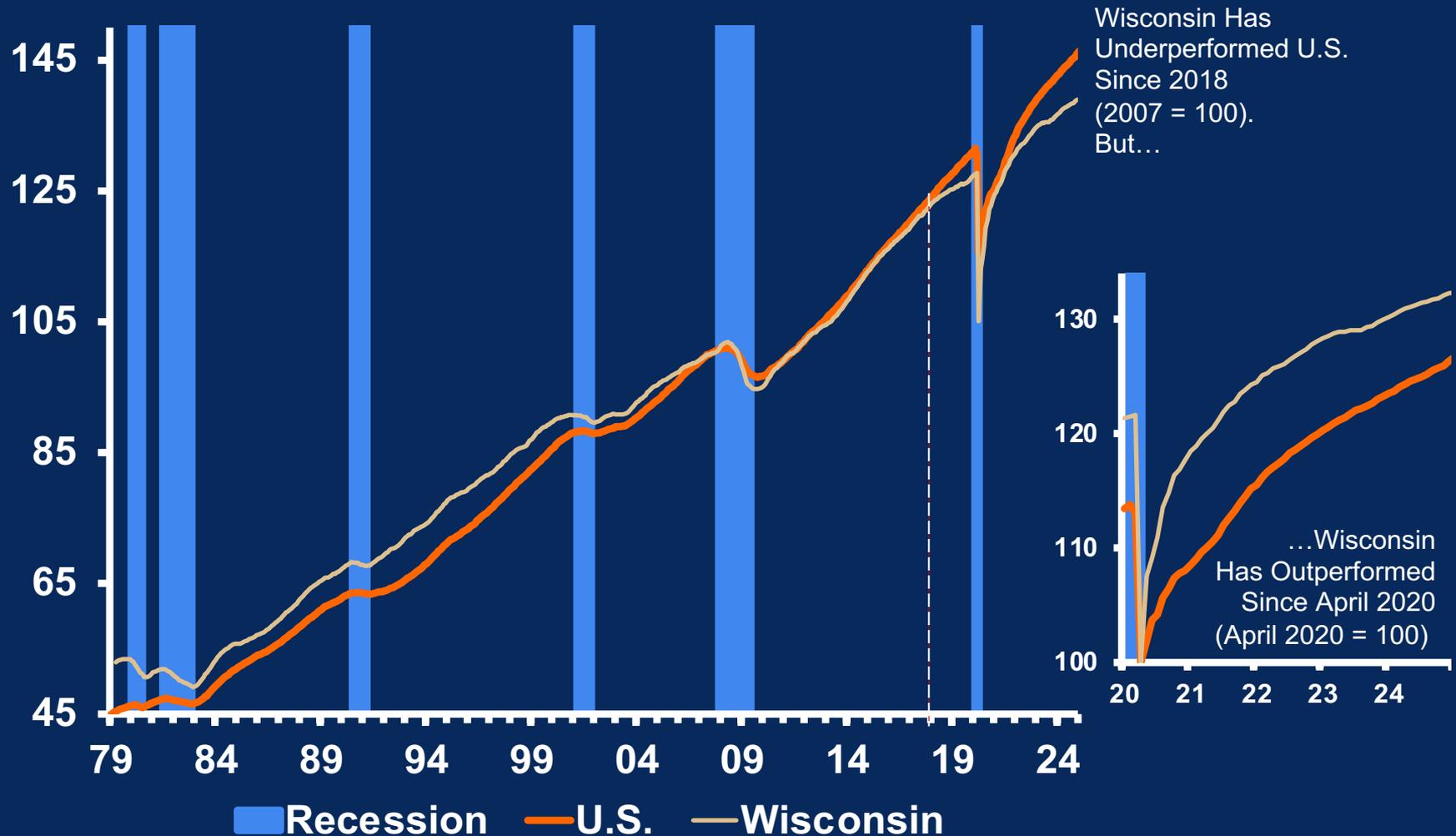
NBER Recession Watch – Four Key Numbers

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



Coincident Economic Indexes

(Coincident Economic Activity Index) (Philadelphia Fed)



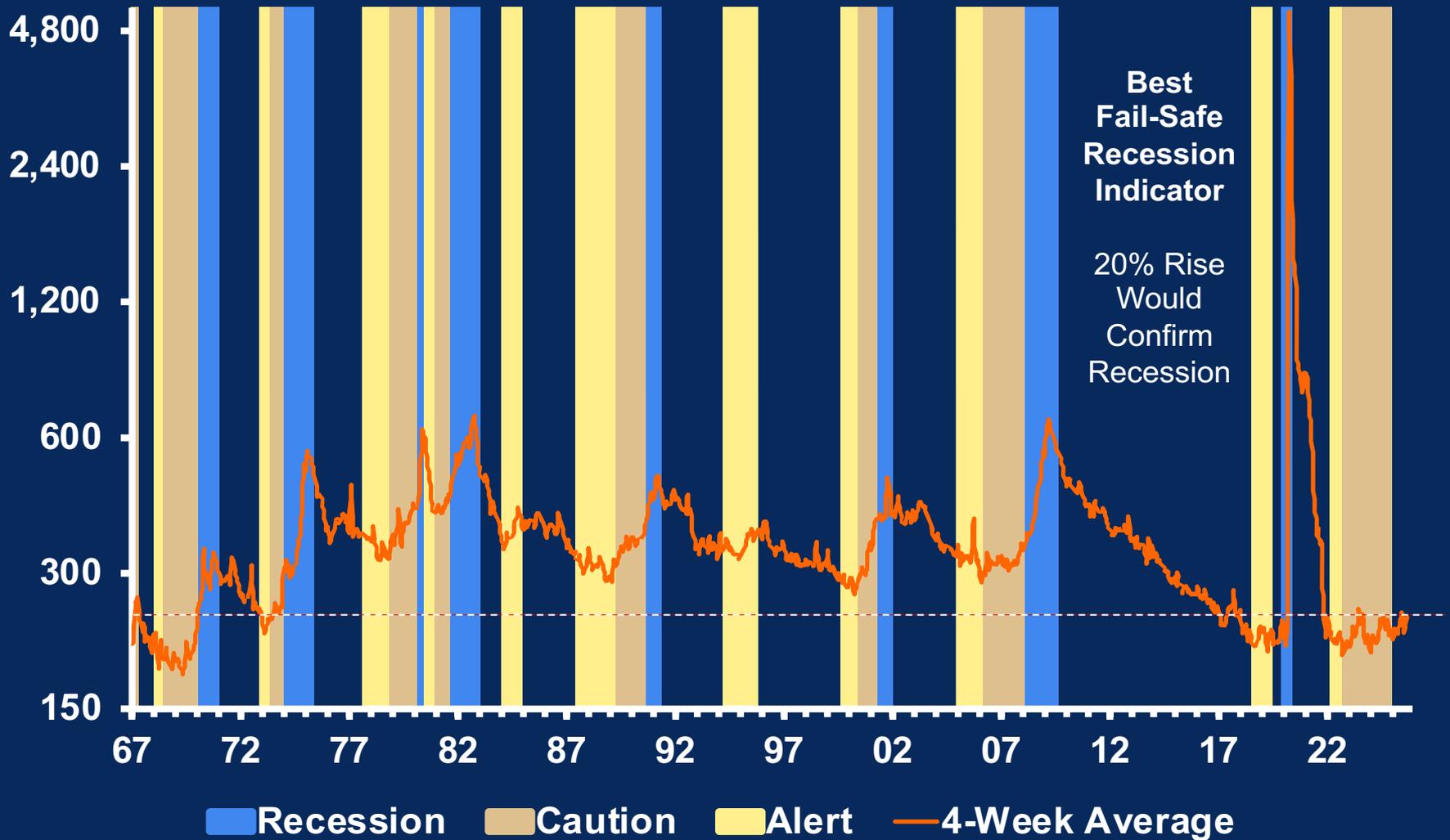
Dallas Fed's Weekly Economic Index

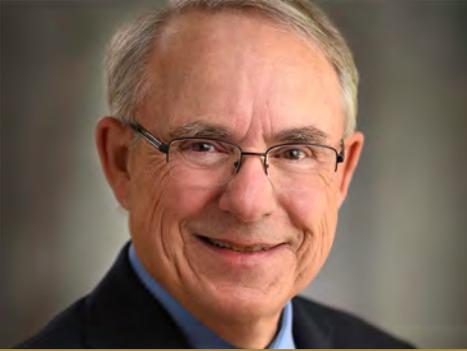
<https://www.dallasfed.org/research/wei>



Jobless Claims and Zempel Zones ©

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





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The Economic and Market Outlook 2025 – 2028

Zempel Zone Approach

Interest-Rate Increases Precede Inversions

Interest-Rate Increases Precede Slowdowns

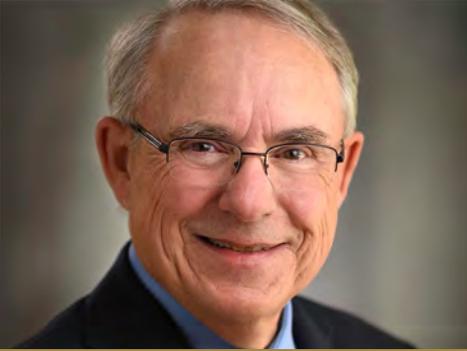
Interest-Rate Increases Trigger Alert Zone

Yield-Spread Inversions Precede Recessions

Yield-Spread Inversions Trigger Caution Zone

Jobless Claims Spike Confirms Recession

Five Numbers ~ Three Calculations



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The Economic and Market Outlook 2025 – 2028

Zempel Zone Applications

Alert Zone Actions

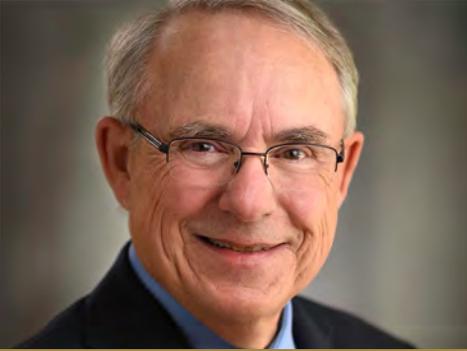
Expect Business Peaks – Monitor Yield Spread
Curb Expansion Plans

Caution Zone Actions

Prepare Recession Plans – Monitor Jobless Claims
Implement Recession Plans When (If) Claims Soar

No Zones Now

Expect Expansion



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The Economic and Market Outlook 2025 – 2028

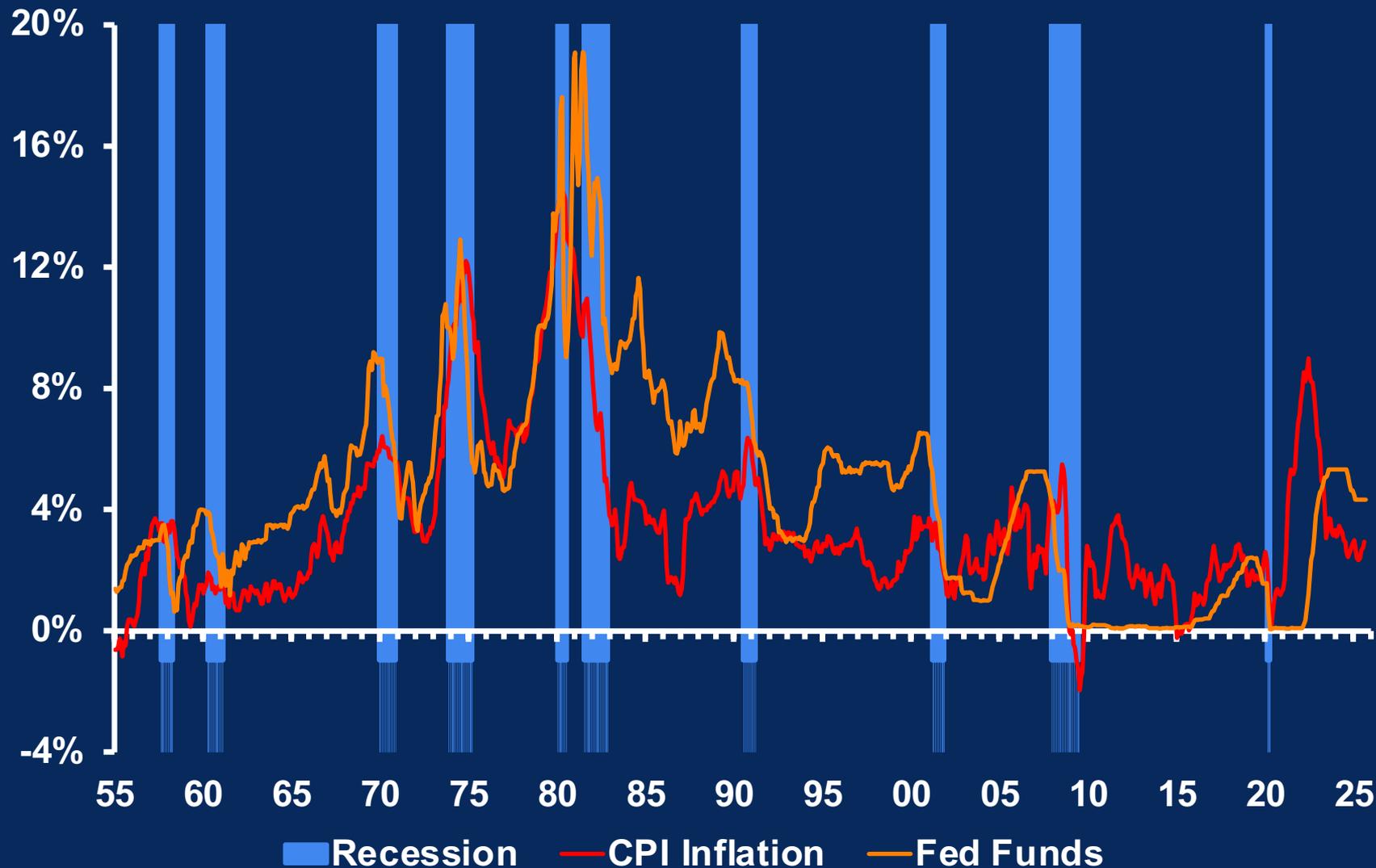
Has Recession Started? No

Why Not? Inflation Fell Much Faster Than Usual
Inflation Decline Bolstered Real Spending

Why Did Inflation Fall So Fast?
Supply Pressures Collapsed Post-2021
Fiscal-Monetary Policies Turned "Restrictive"

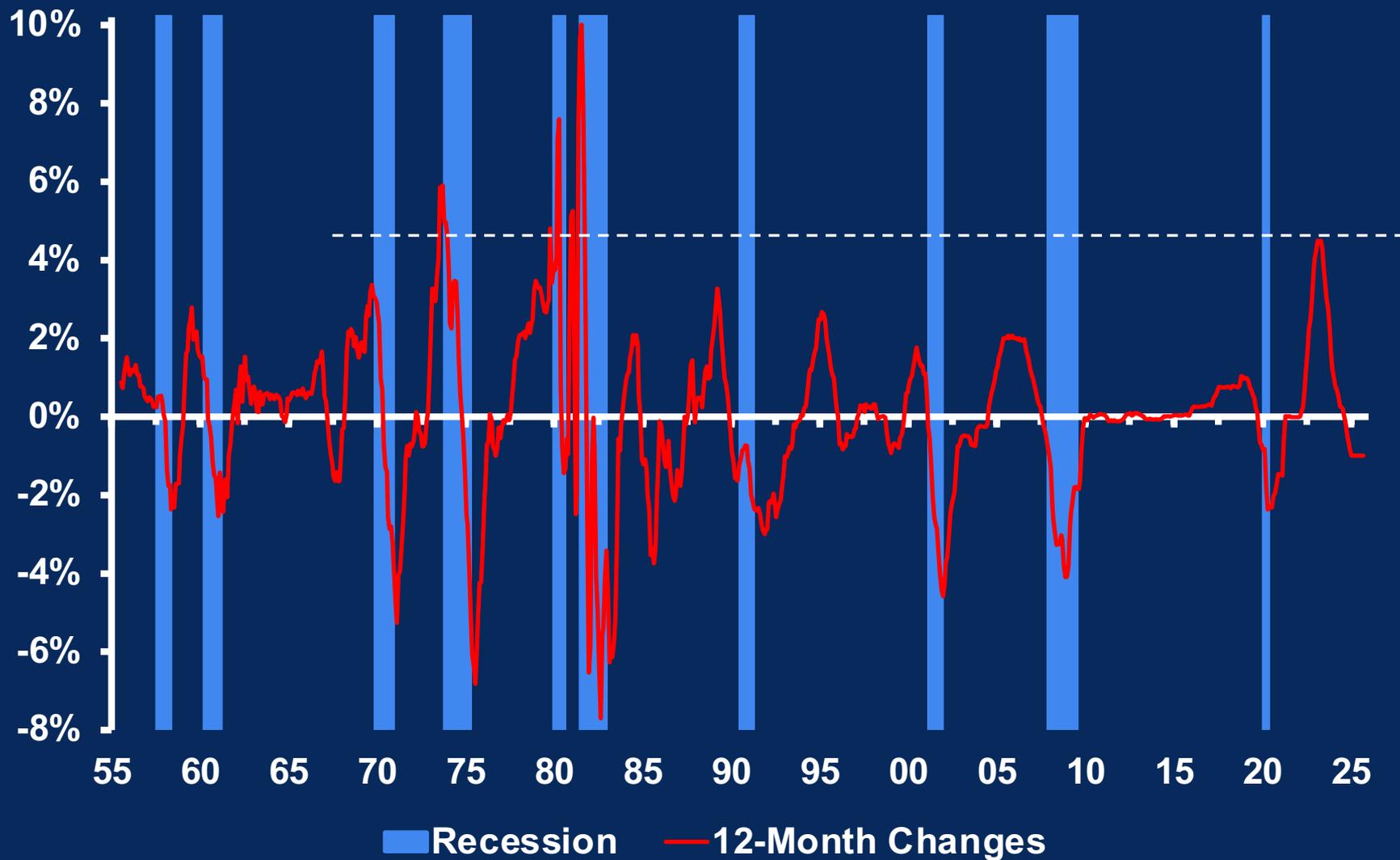
Interest Rates and Inflation

(CPI Inflation = 12-Month Change) (Fed Funds = Level)



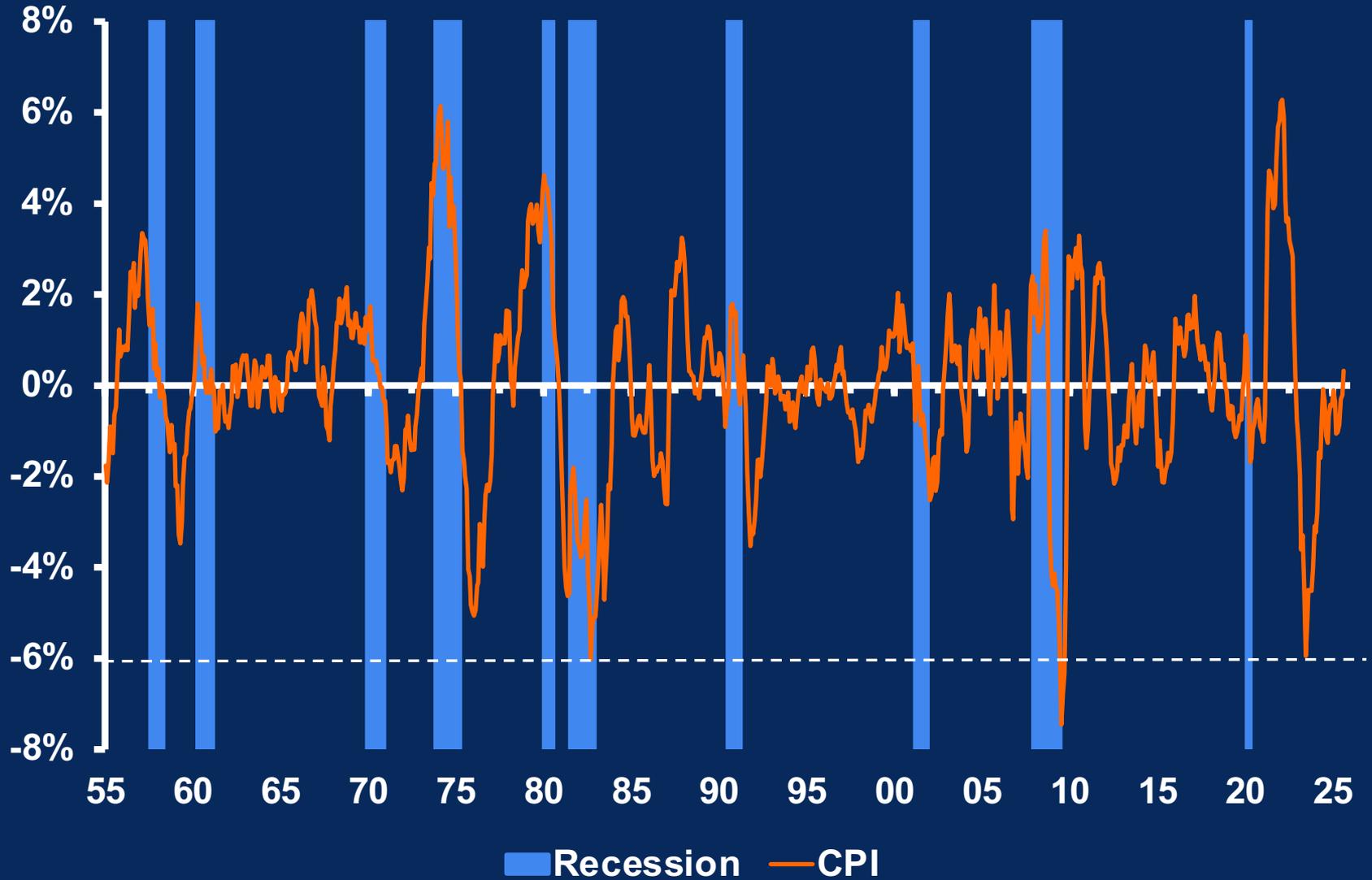
Fed Funds Changes

(12-Month Changes) (Percentage Points)



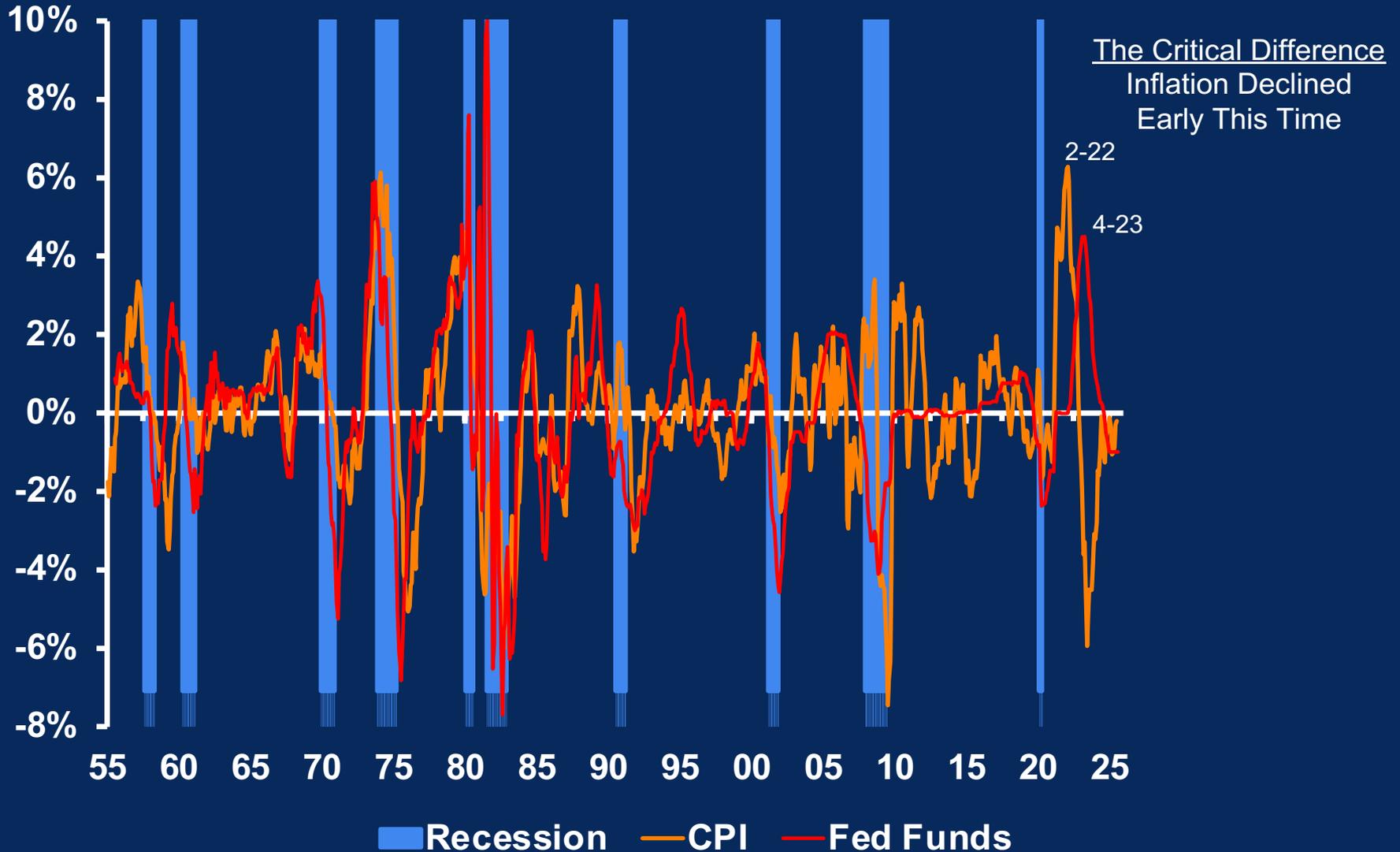
CPI Inflation Rate Changes

(12-Month Changes) (Percentage Points)



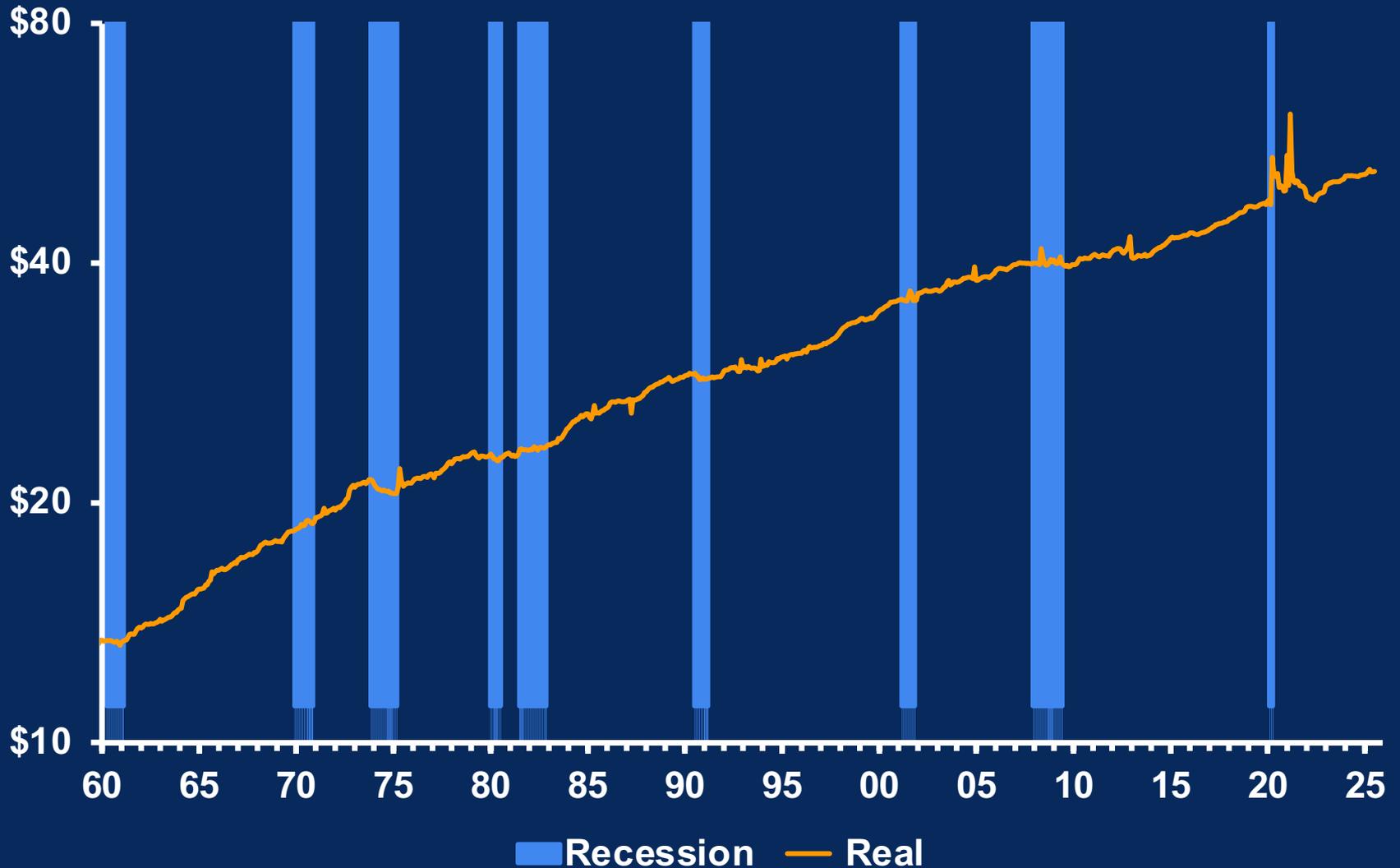
Fed Funds and CPI Changes

(12-Month Changes) (Percentage Points)

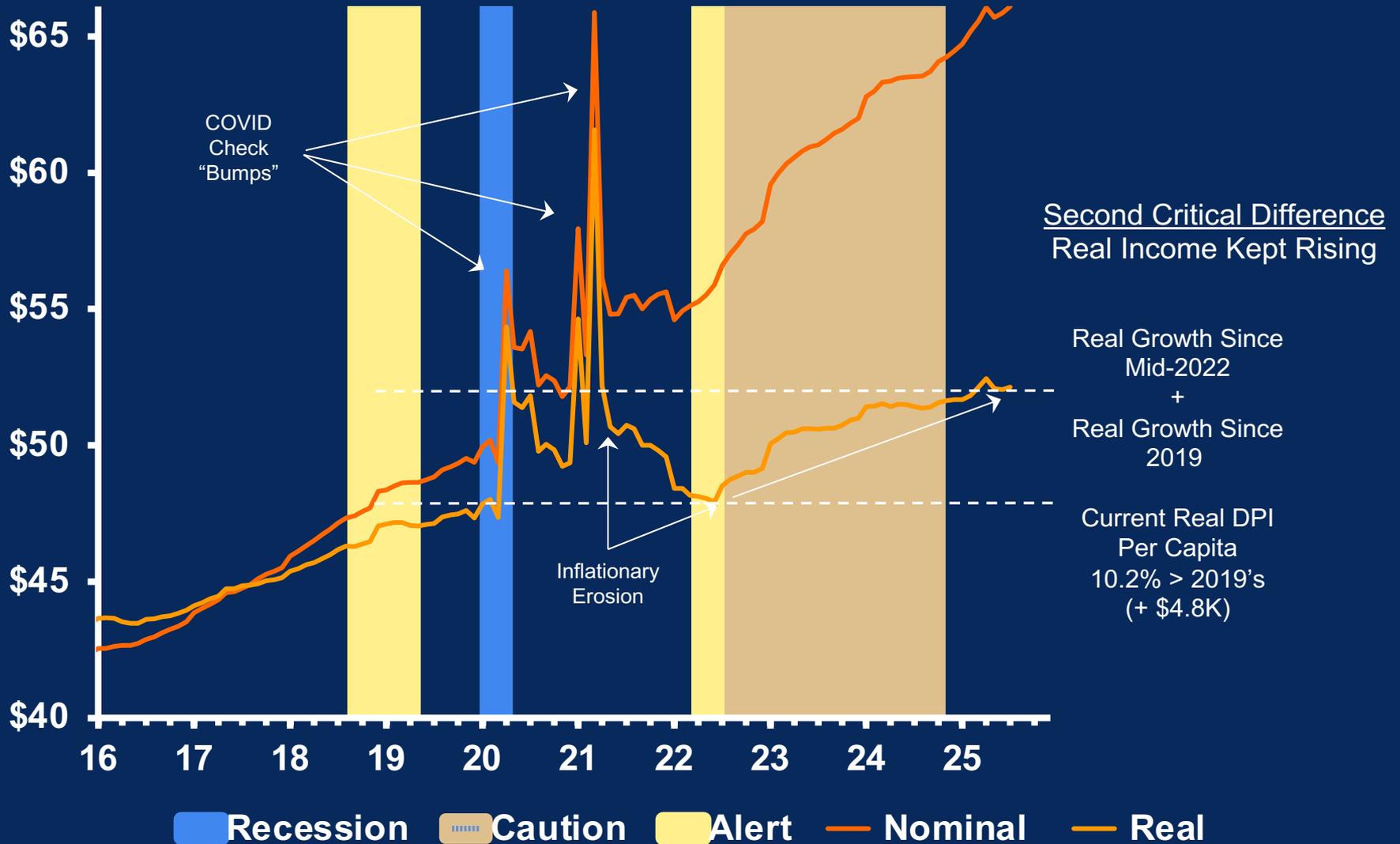


Real Disposable Personal Income

(Per Capita) (Thousand Dollars) (Log Scale)

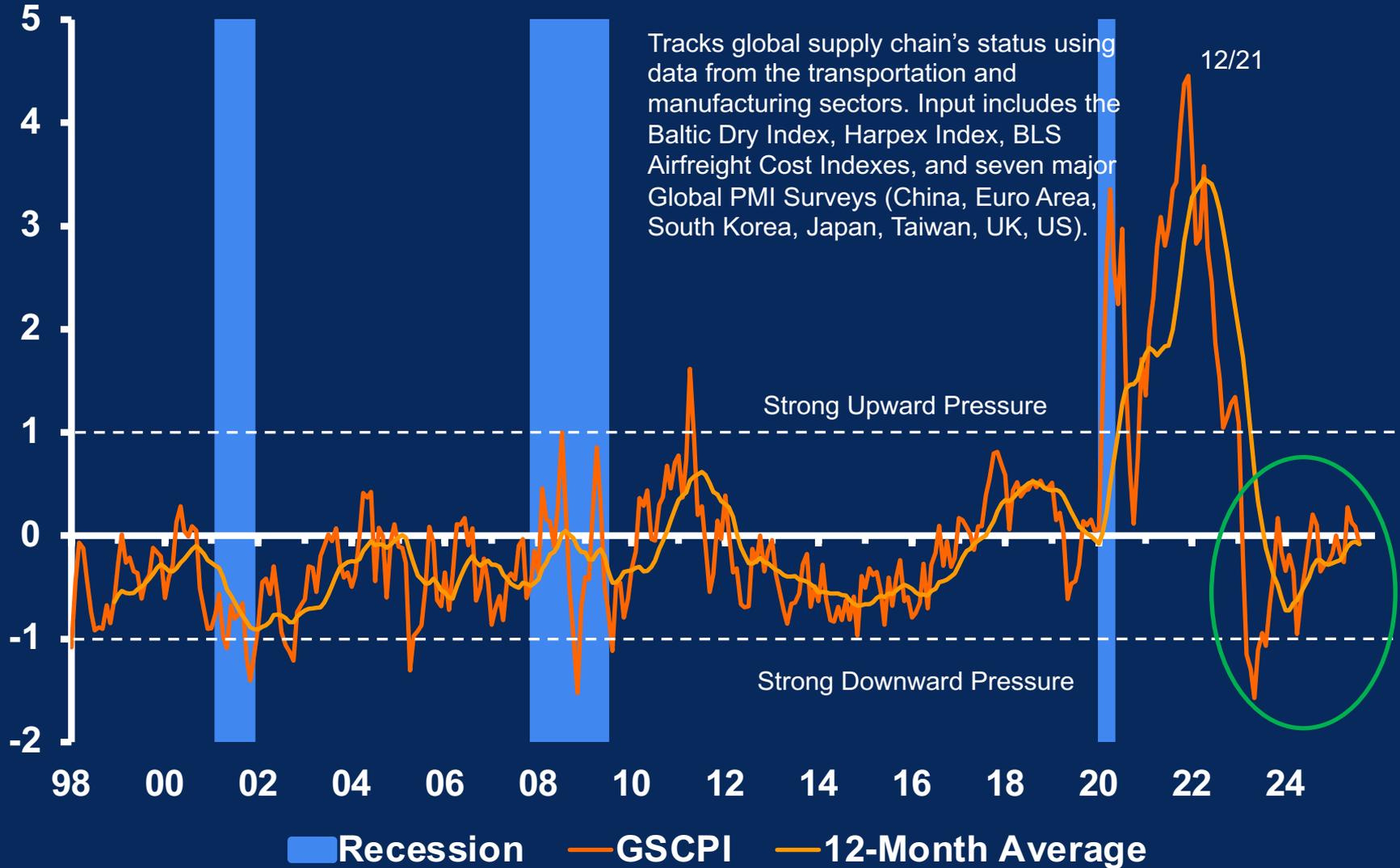


Disposable Personal Income and Zempel Zones © (Per Capita) (Thousand Dollars)



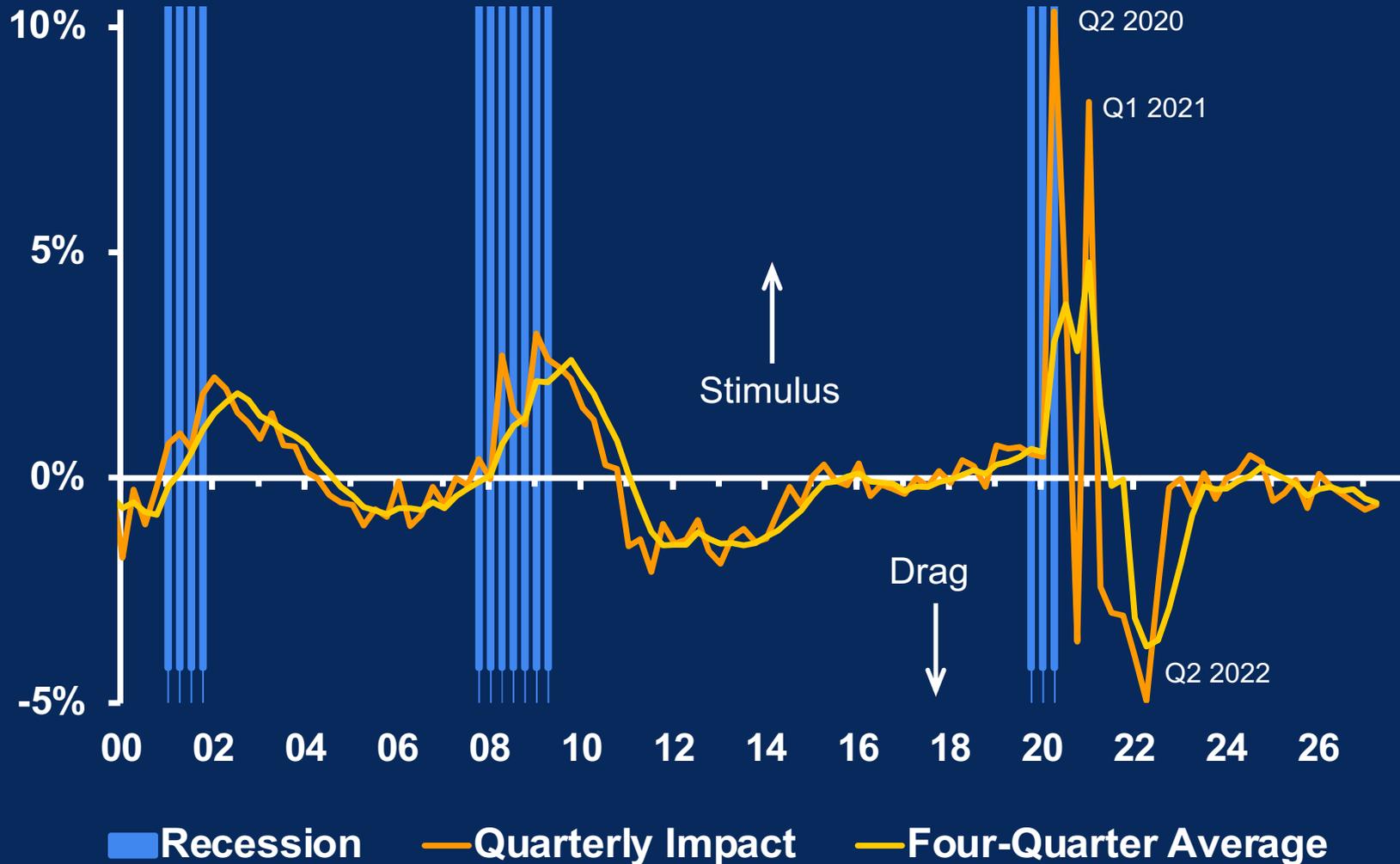
Global Supply Chain Pressure Index

(GSCPI) (Monthly) (New York Fed)



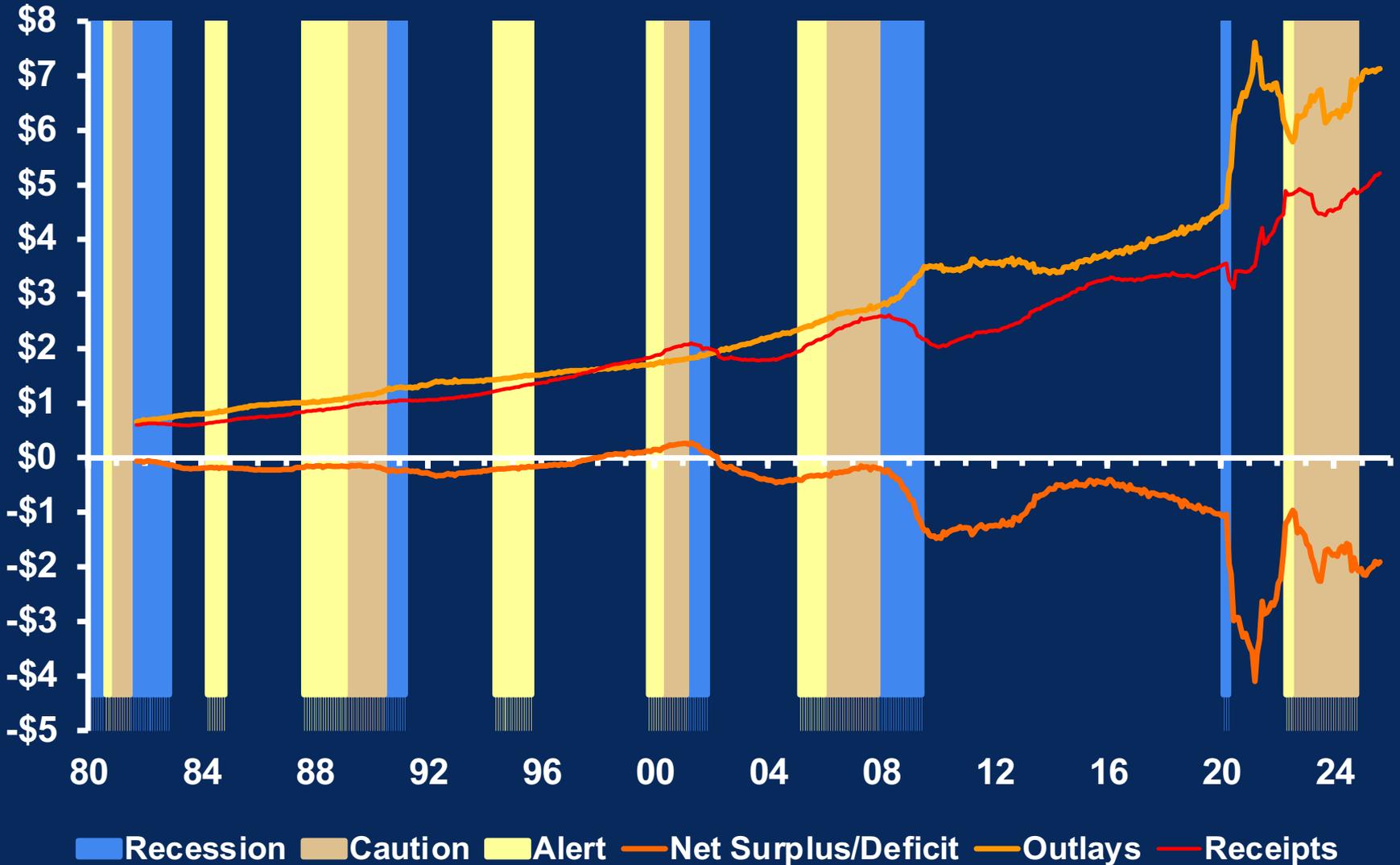
Hutchins Center Fiscal Impact Measure

(GDP Growth Contributions)



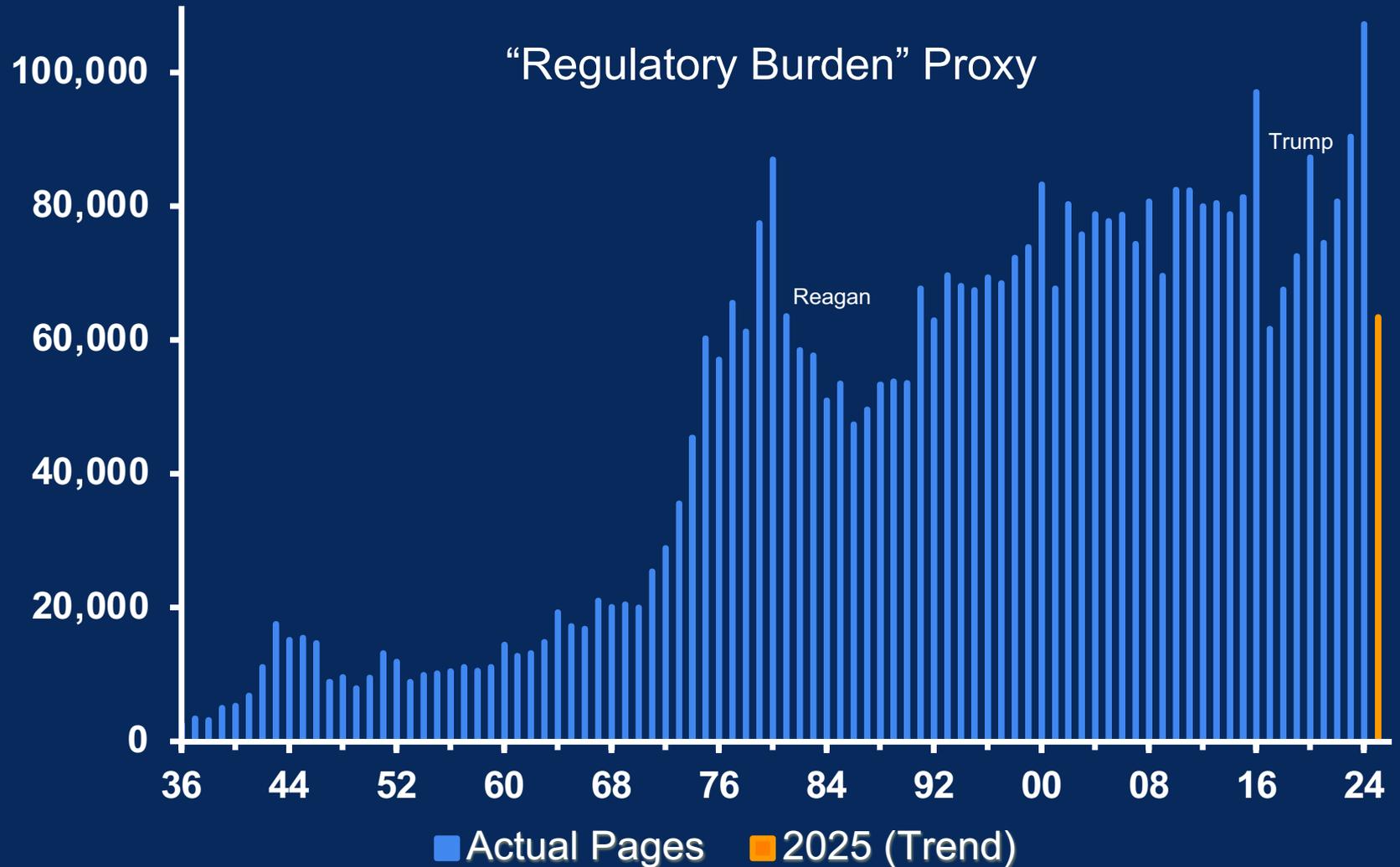
Federal Budget and Zempel Zones ©

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



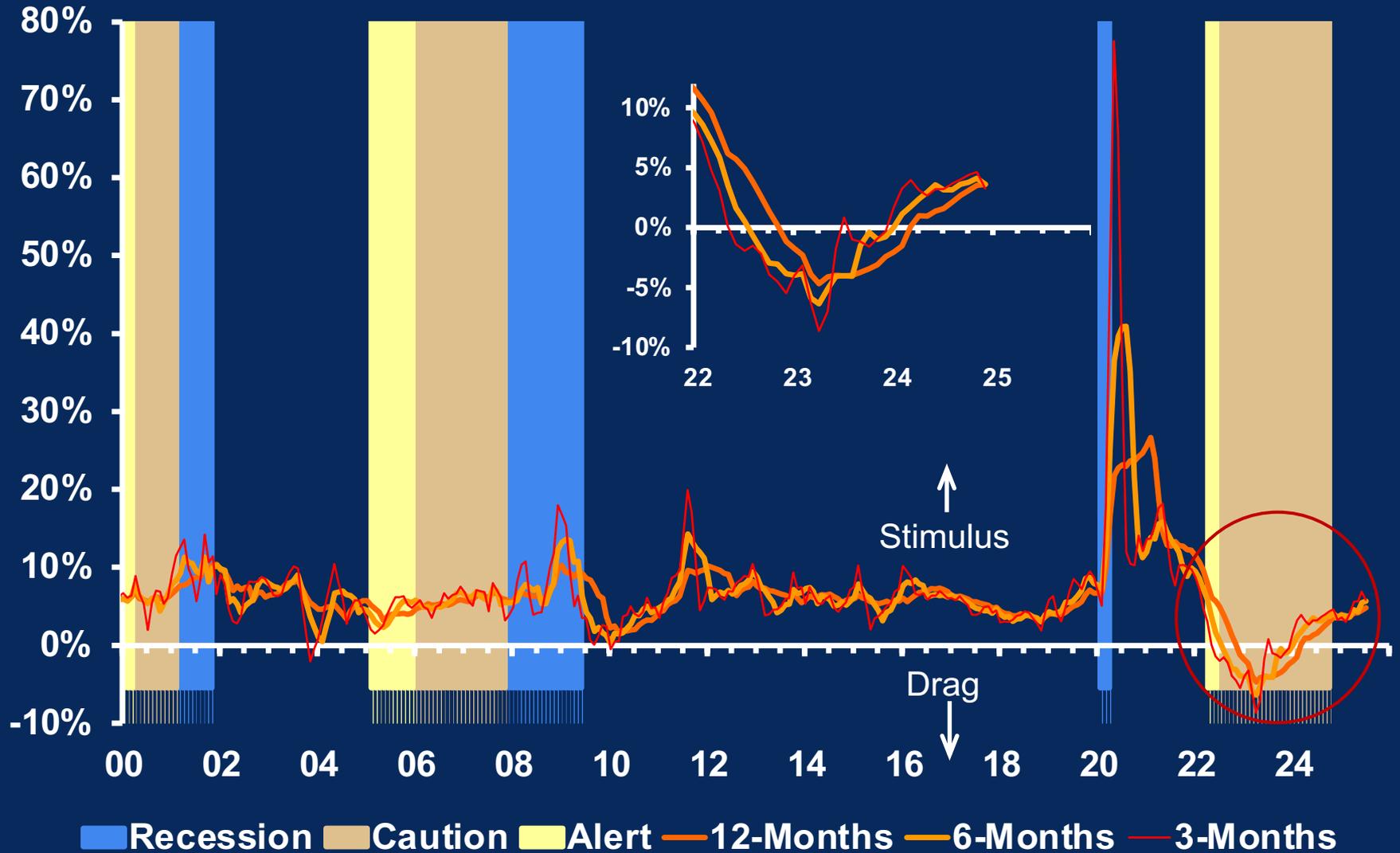
Federal Register Page Count

(Annual Totals in 1936-2025) (Competitive Enterprise Institute)



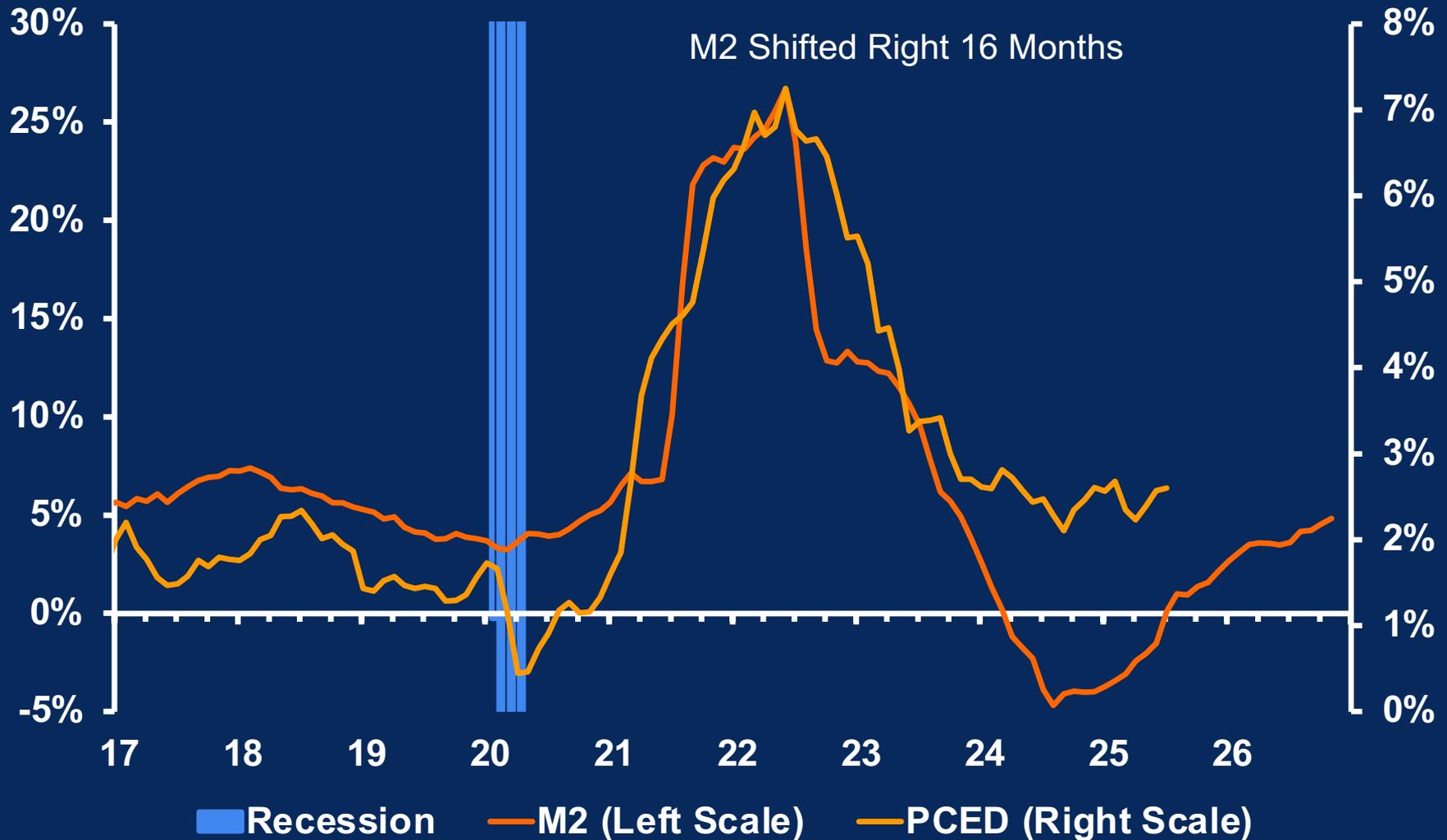
M2 Growth and Zempel Zones ©

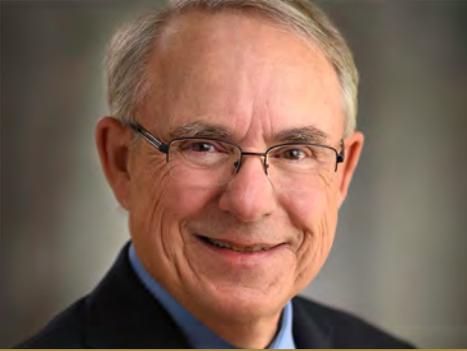
(M2 Money Stock) (Monthly)



M2 Growth and PCED Inflation

(12-Month Changes)





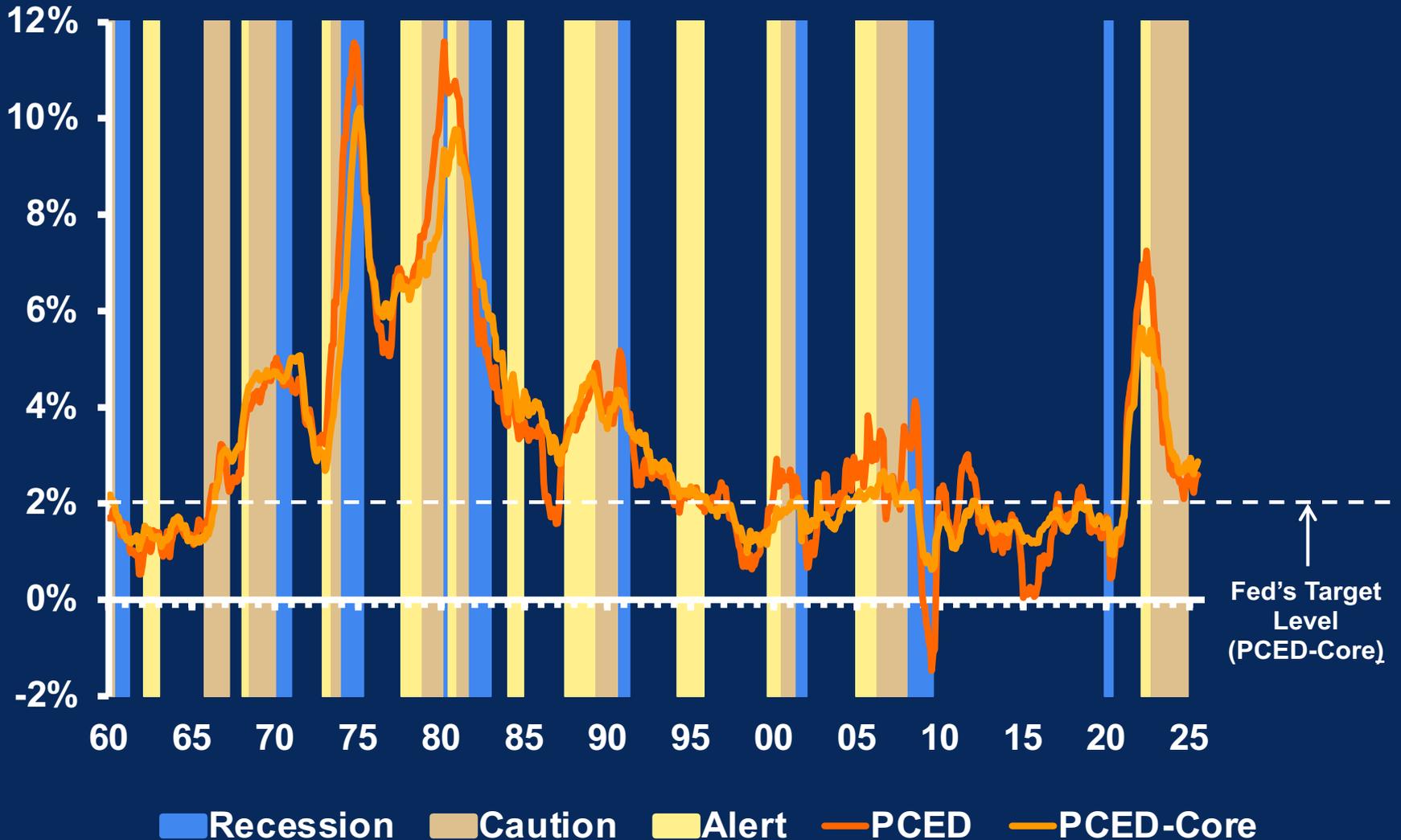
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The Economic and Market Outlook 2025 – 2028

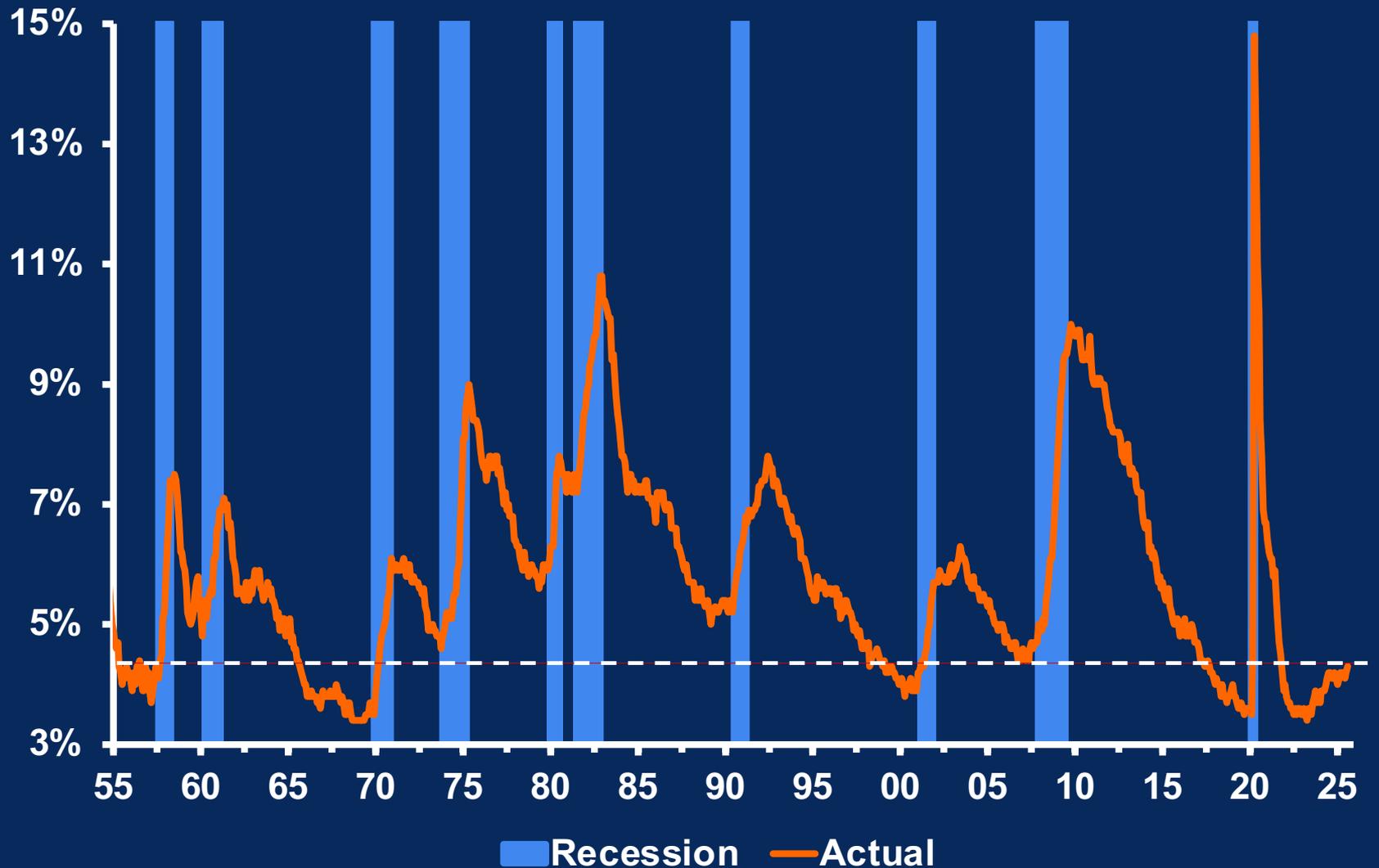
Will Inflation Remain “Low”? Yes, Excepting Tariff “Spike”
What Drives Long-Run Inflation? Spending
What Drives Spending? Macro Policies
Will Real Growth “Boom”? Not Soon
Where Are Interest Rates Headed? Lower

PCED Inflation and Zempel Zones ©

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

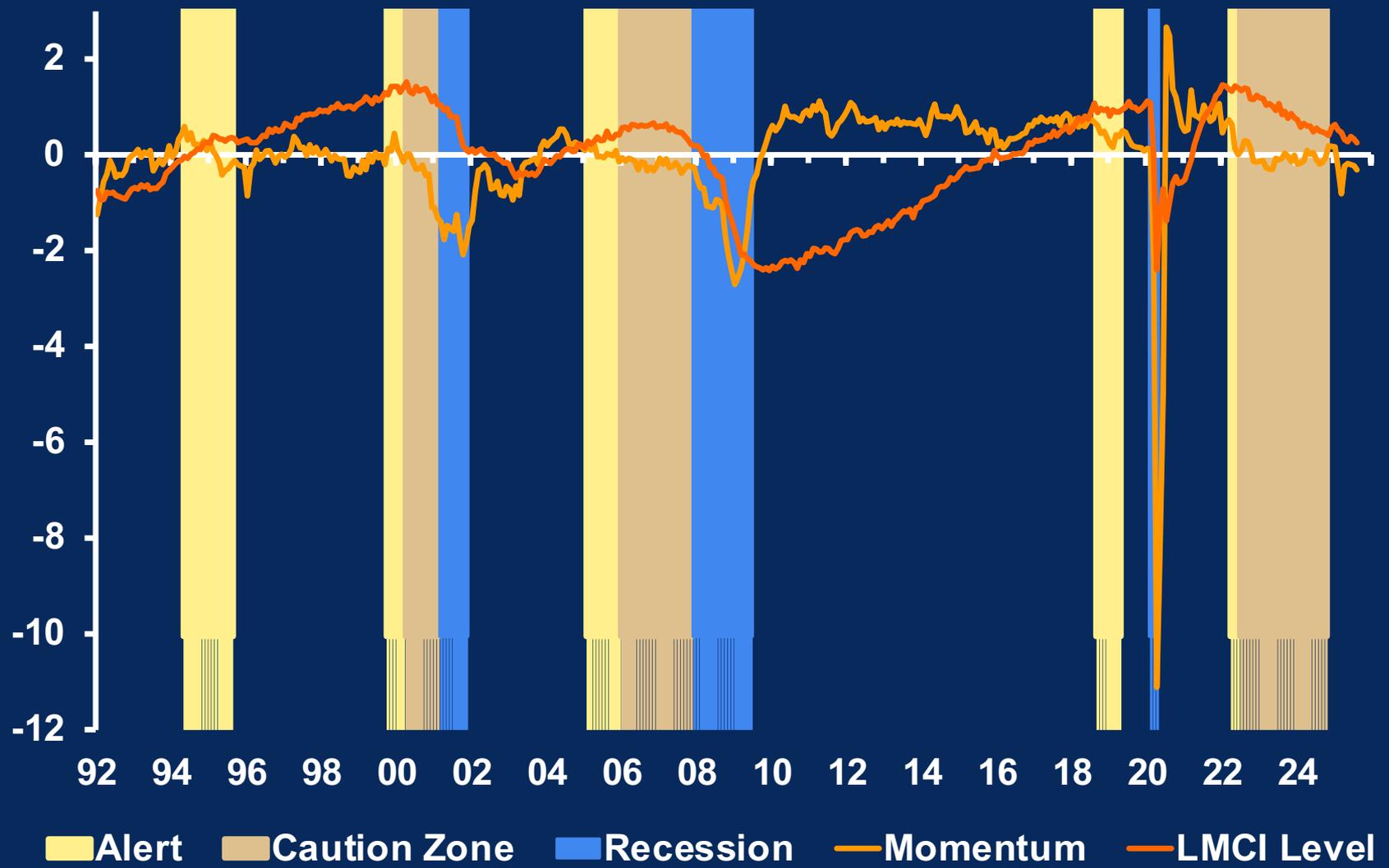


Unemployment Rate (Monthly)



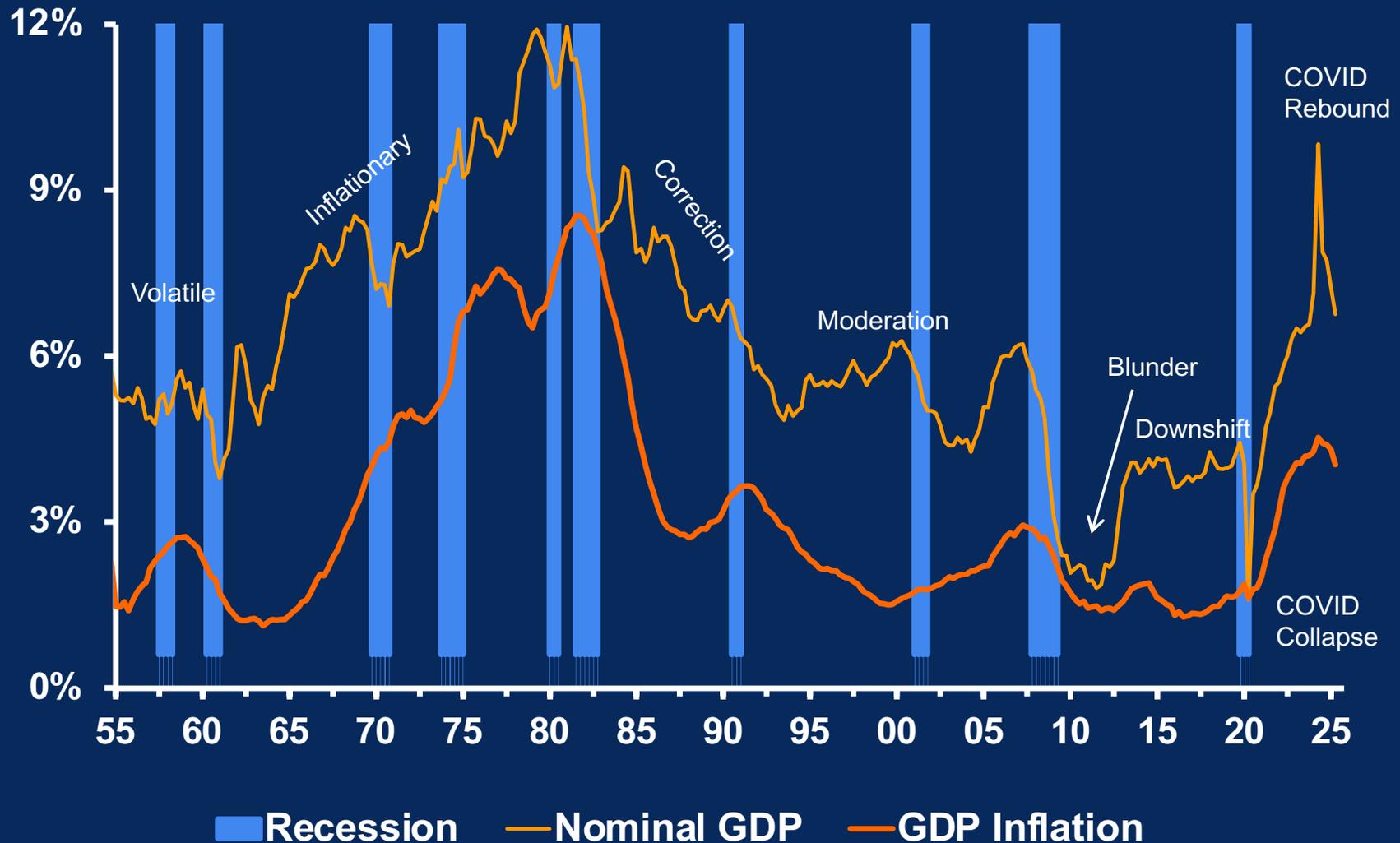
Fed Labor Market Conditions Indicators

(LMCI = Labor Market Conditions Index) (Kansas City Fed)

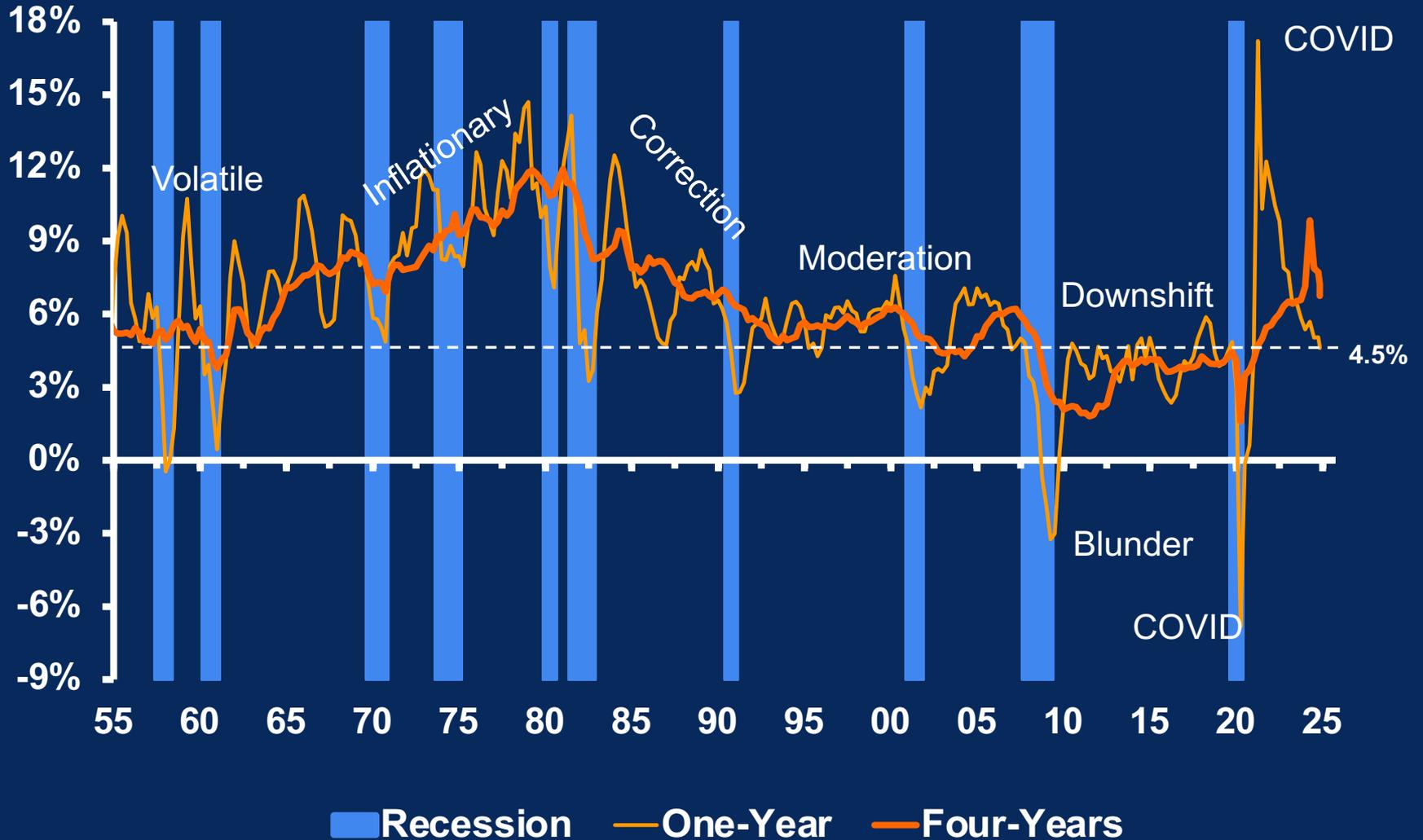


Nominal GDP Growth and Inflation

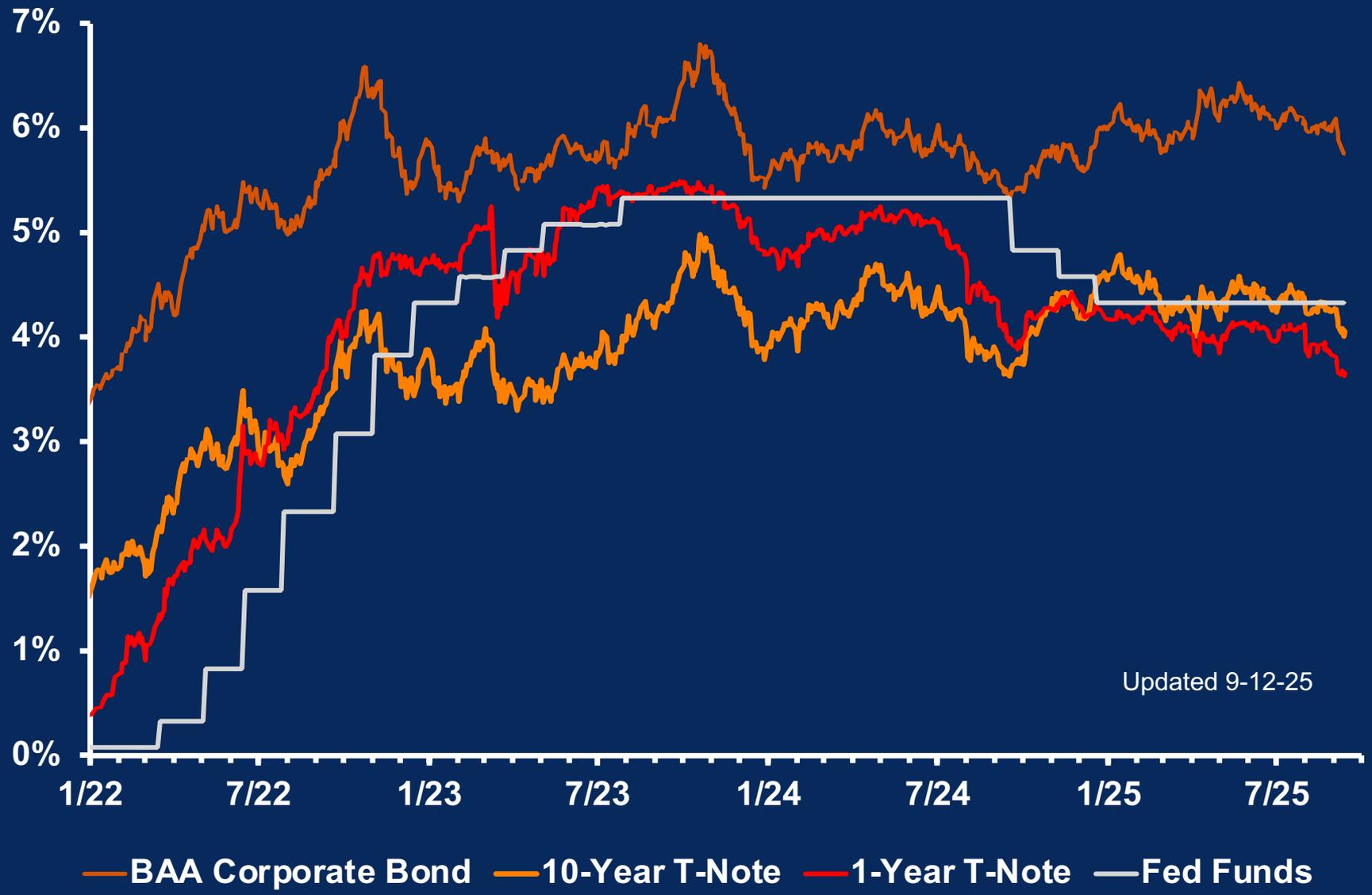
(Four-Year Growth Rates)

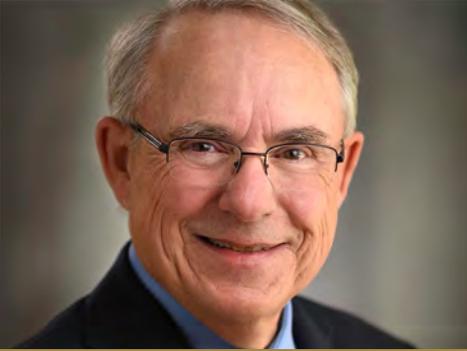


Nominal GDP Growth Rates



Selected Interest Rates (Daily)





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The Economic and Market Outlook 2025 – 2028

Fed's Inflation Target Achievable

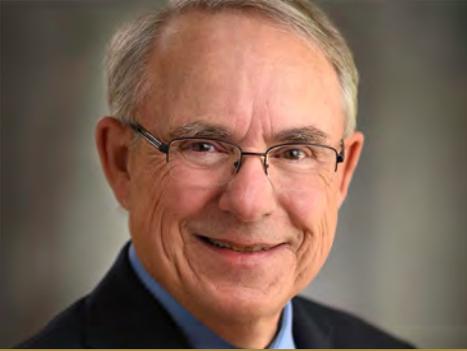
Lower Inflation Makes Recession Unlikely

Fed Should/Will Ease Further Soon

Fiscal Policy Effects Unclear

2025-26 Prospects Positive But Sluggish ($4.5 = 2.5 + 2.0$)

2027-28 Productivity-Led Boomlet Possible ($5 = 3 + 2$)



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The Economic and Market Outlook 2025 – 2028

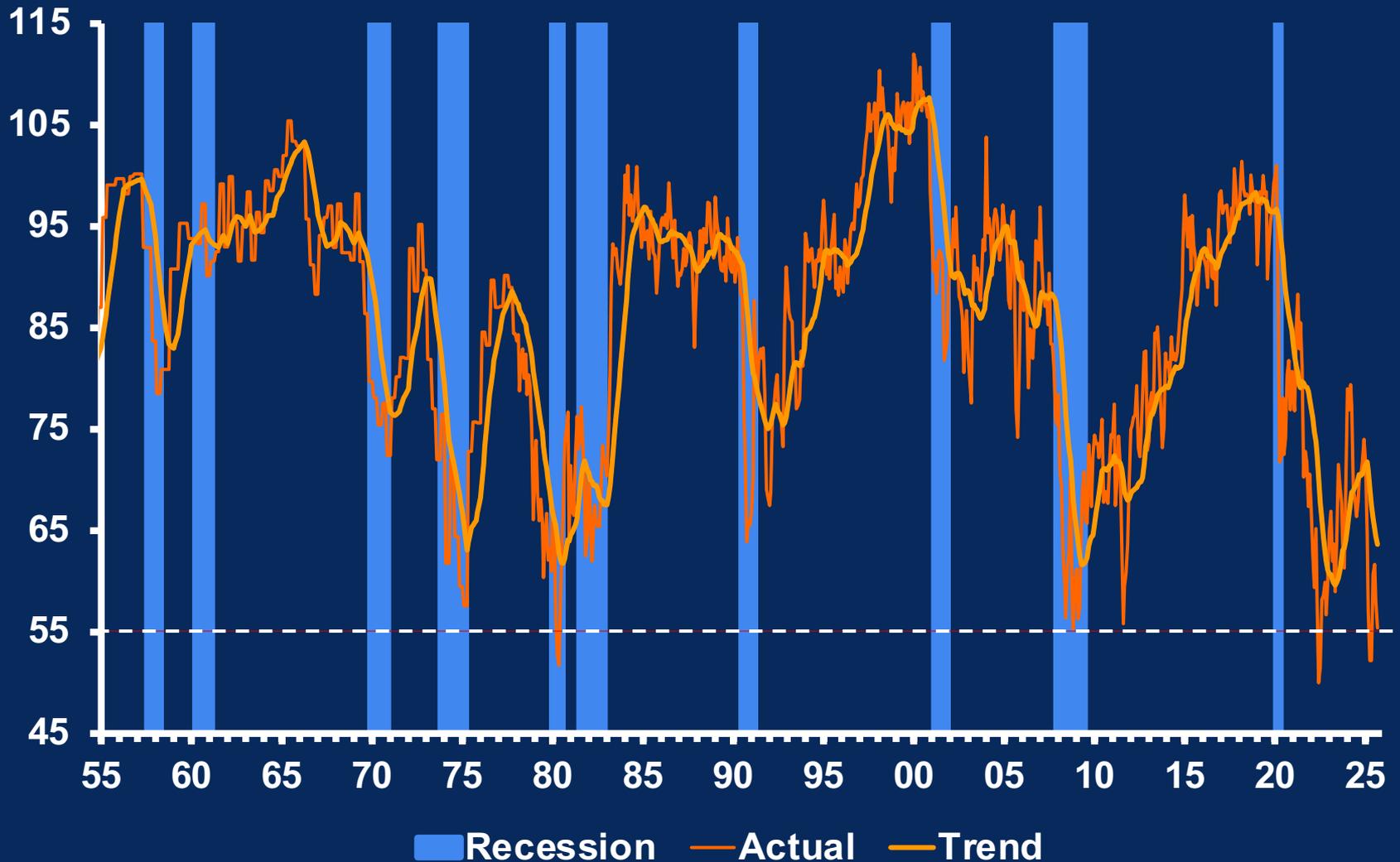
Economic Sector Performances (Top-Down View)

2025-26 Prospects Positive But Sluggish ($4.5 = 2.5 + 2.0$)

2027-28 Productivity-Led Boomlet Possible ($5 = 3 + 2$)

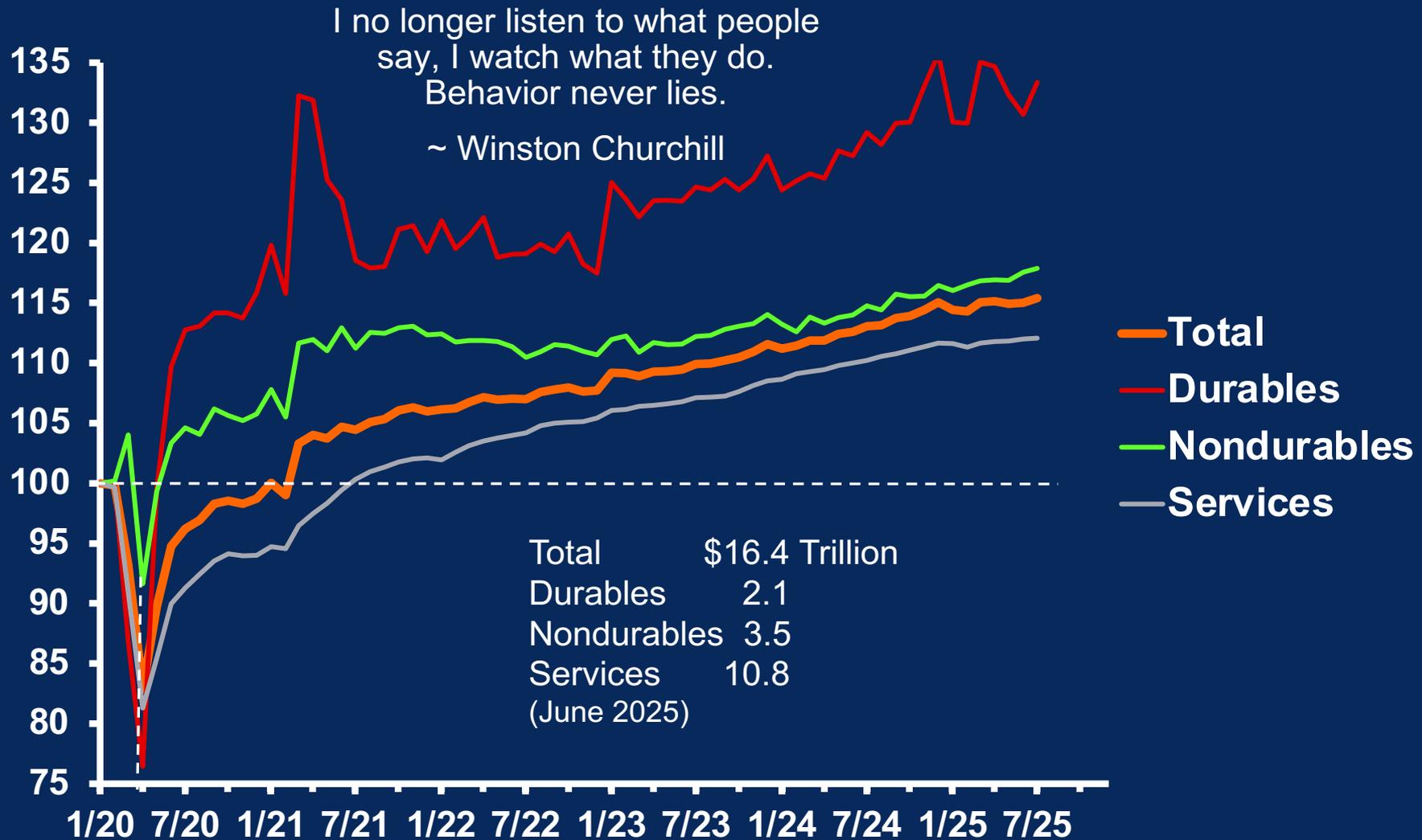
Consumer Sentiment and Zempel Zones ©

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

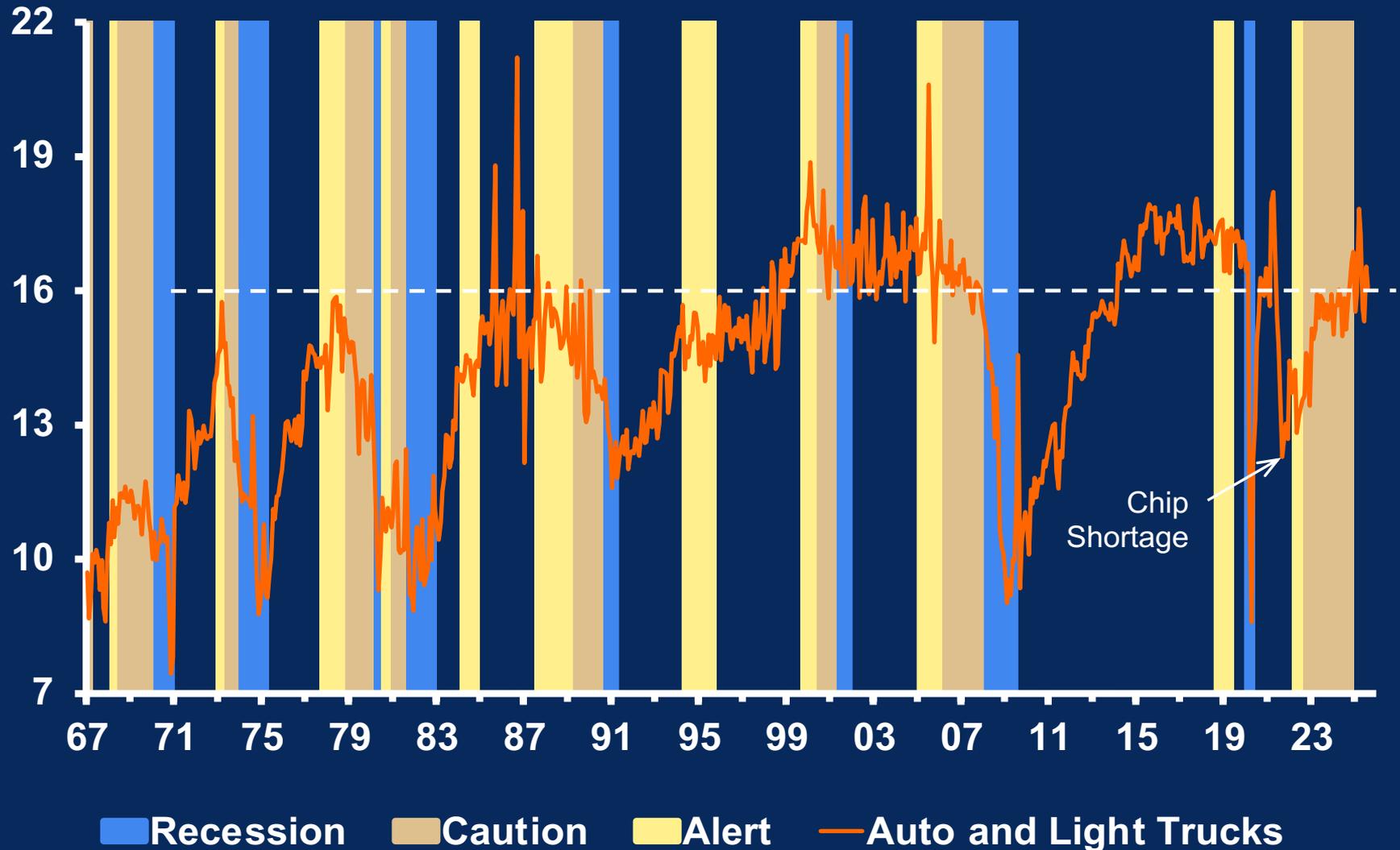


Real Personal Consumption Indexes

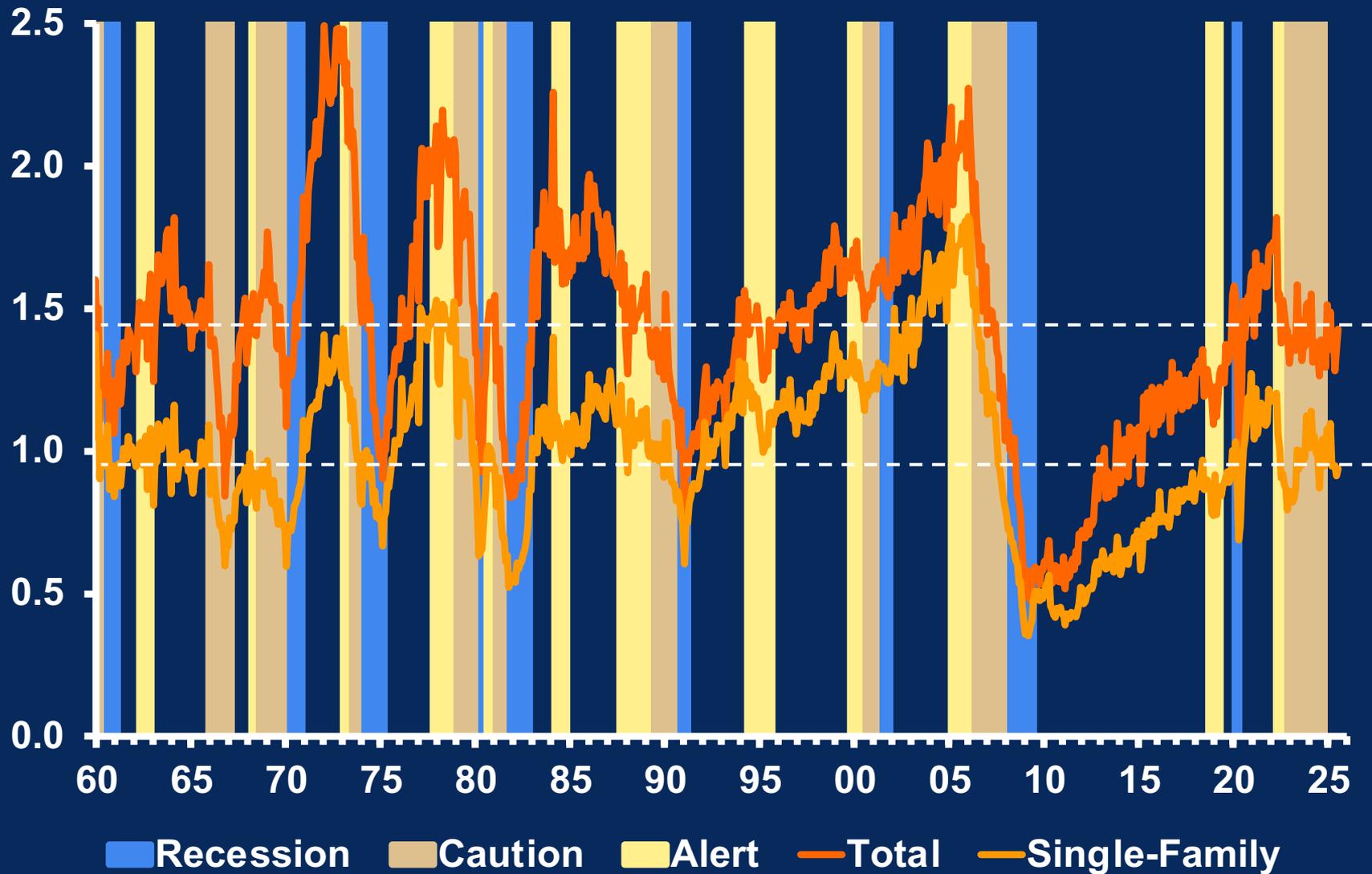
(January 2020 = 100)



Auto and Light Truck Sales (Million Units)

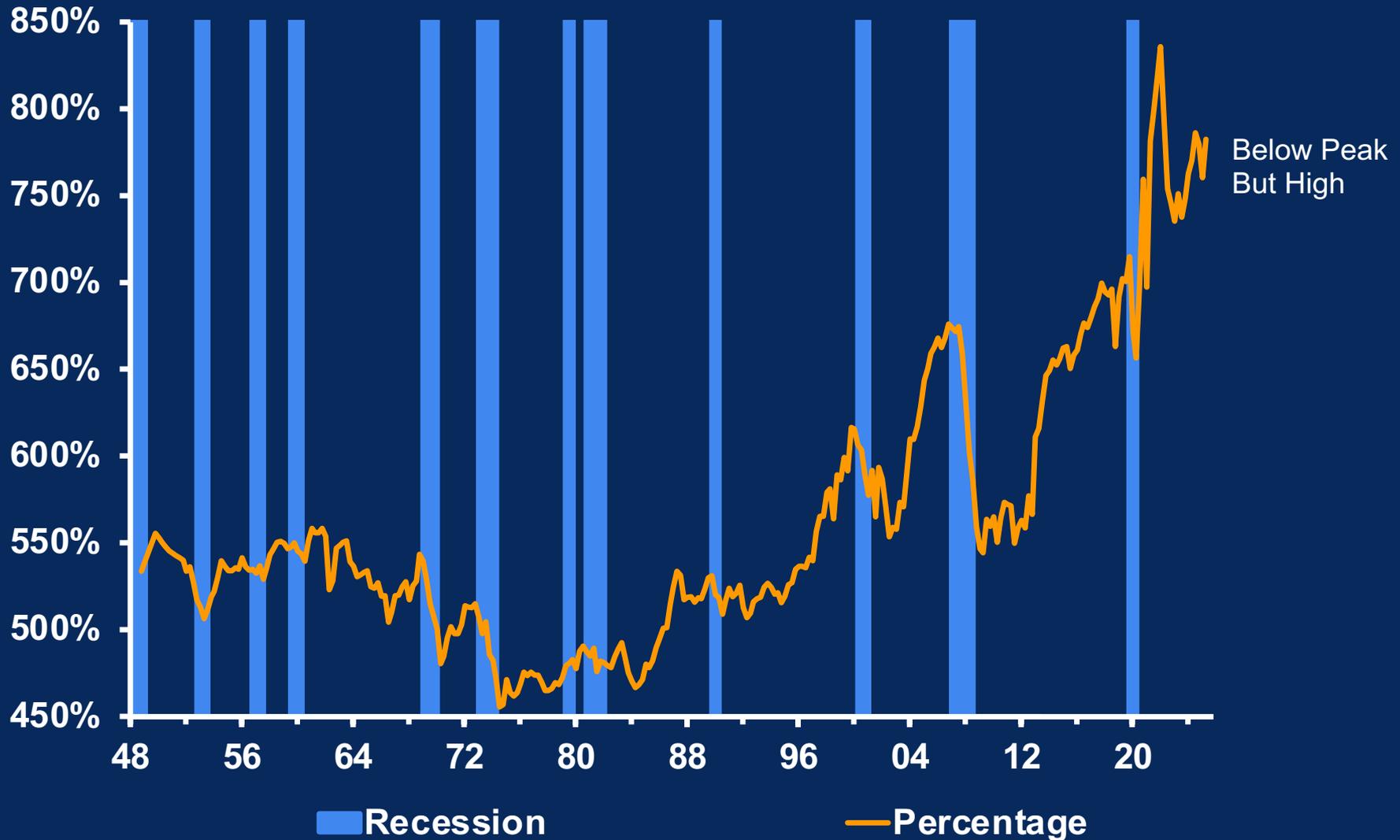


Housing Starts (Million Units)



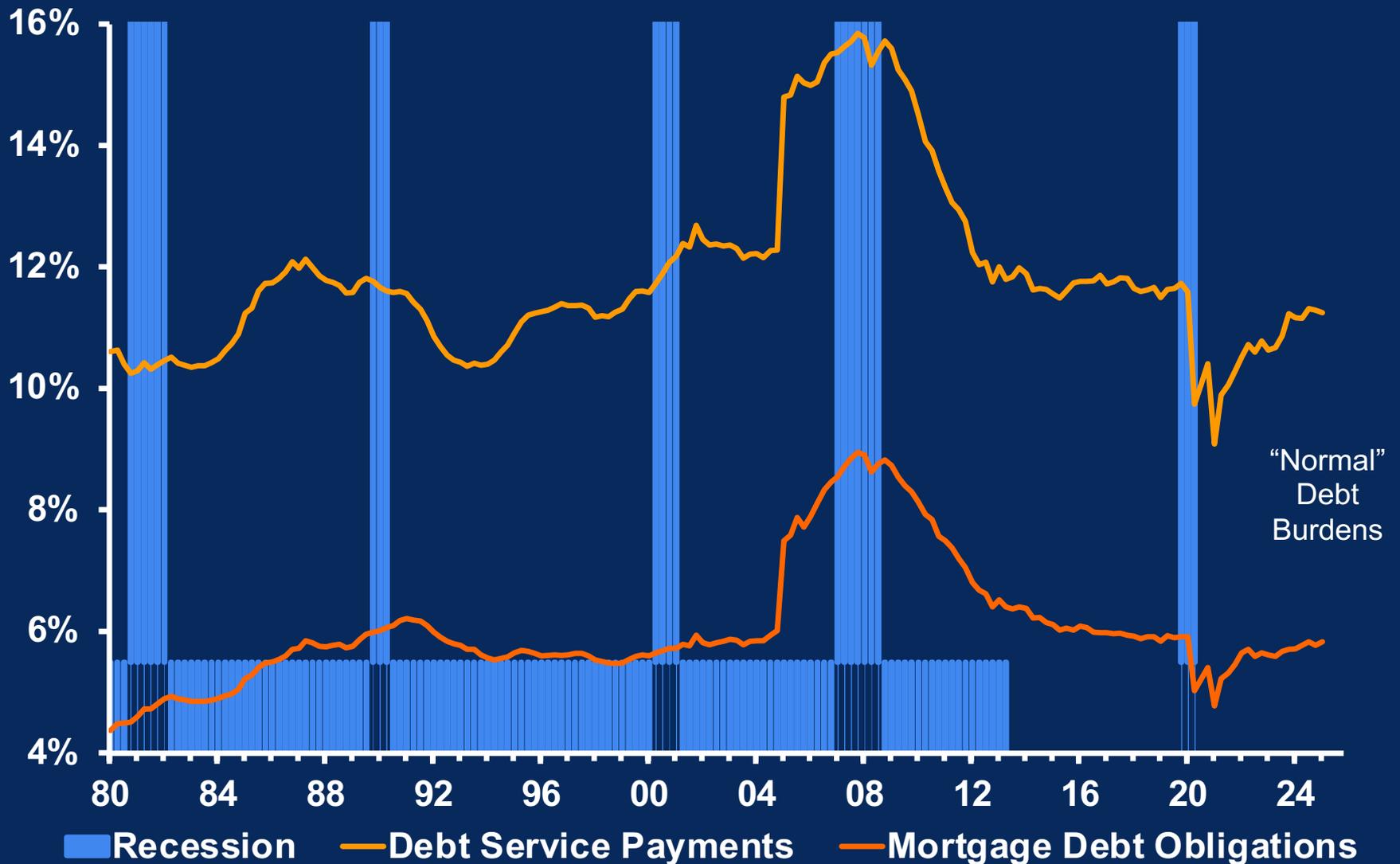
Net Worth (Percentage of DPI)

(Households and Nonprofit Organizations)



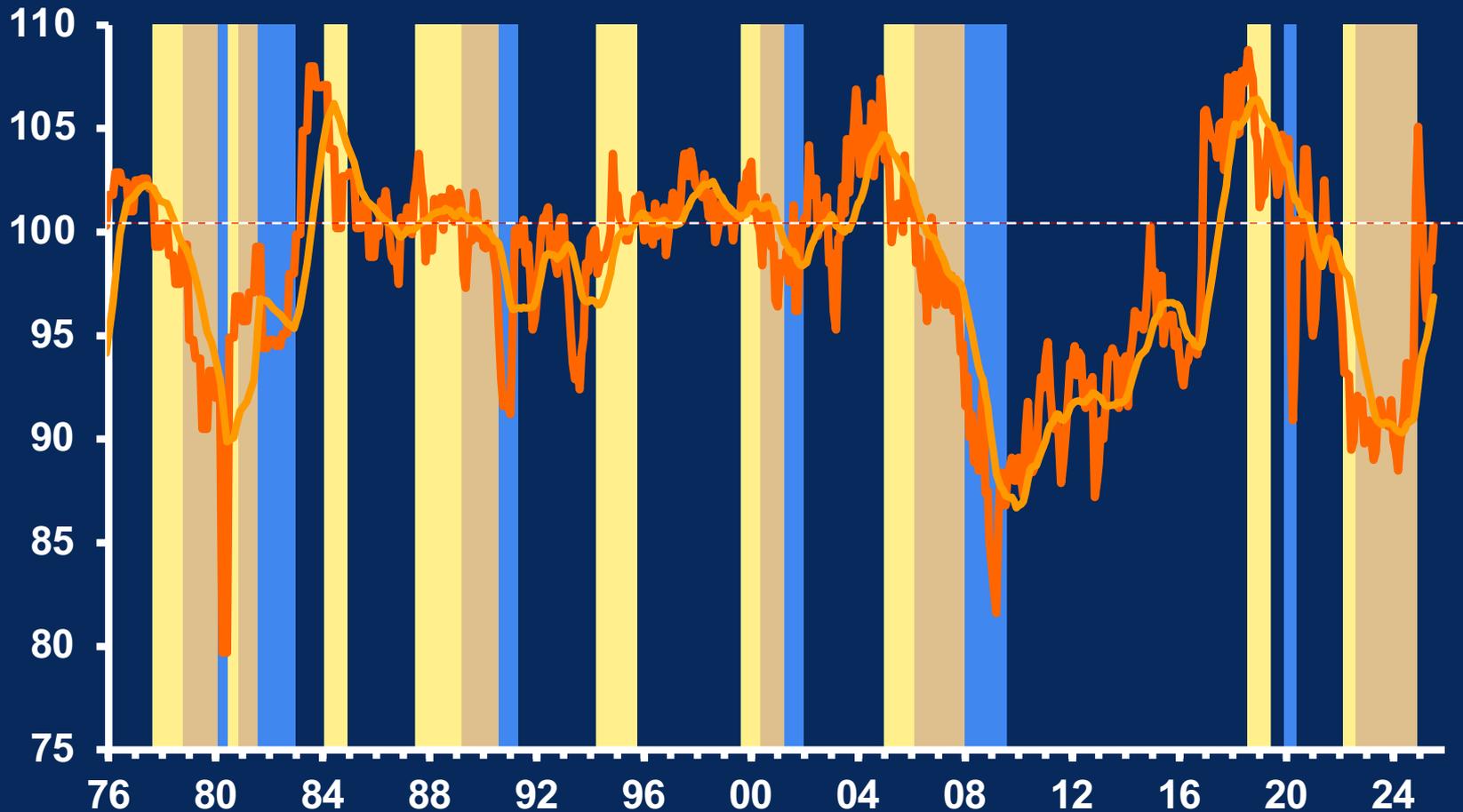
Household Debt Burdens

(Percent of Disposable Personal Income)



NFIB Optimism and Zempel Zones ©

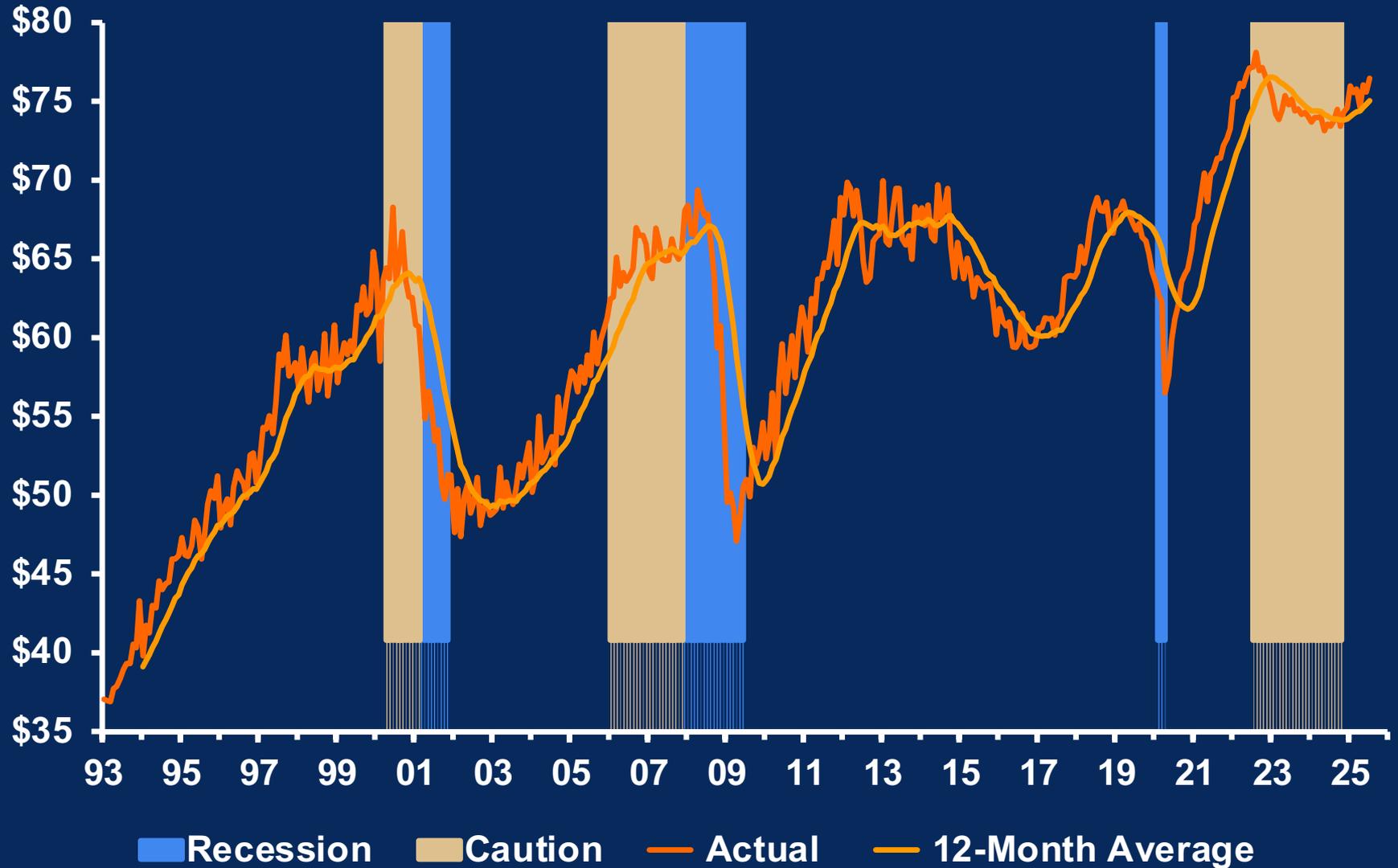
(Small Business Optimism Index) (Quarterly Then Monthly Since 1986)



Recession Caution Alert Actual Trend

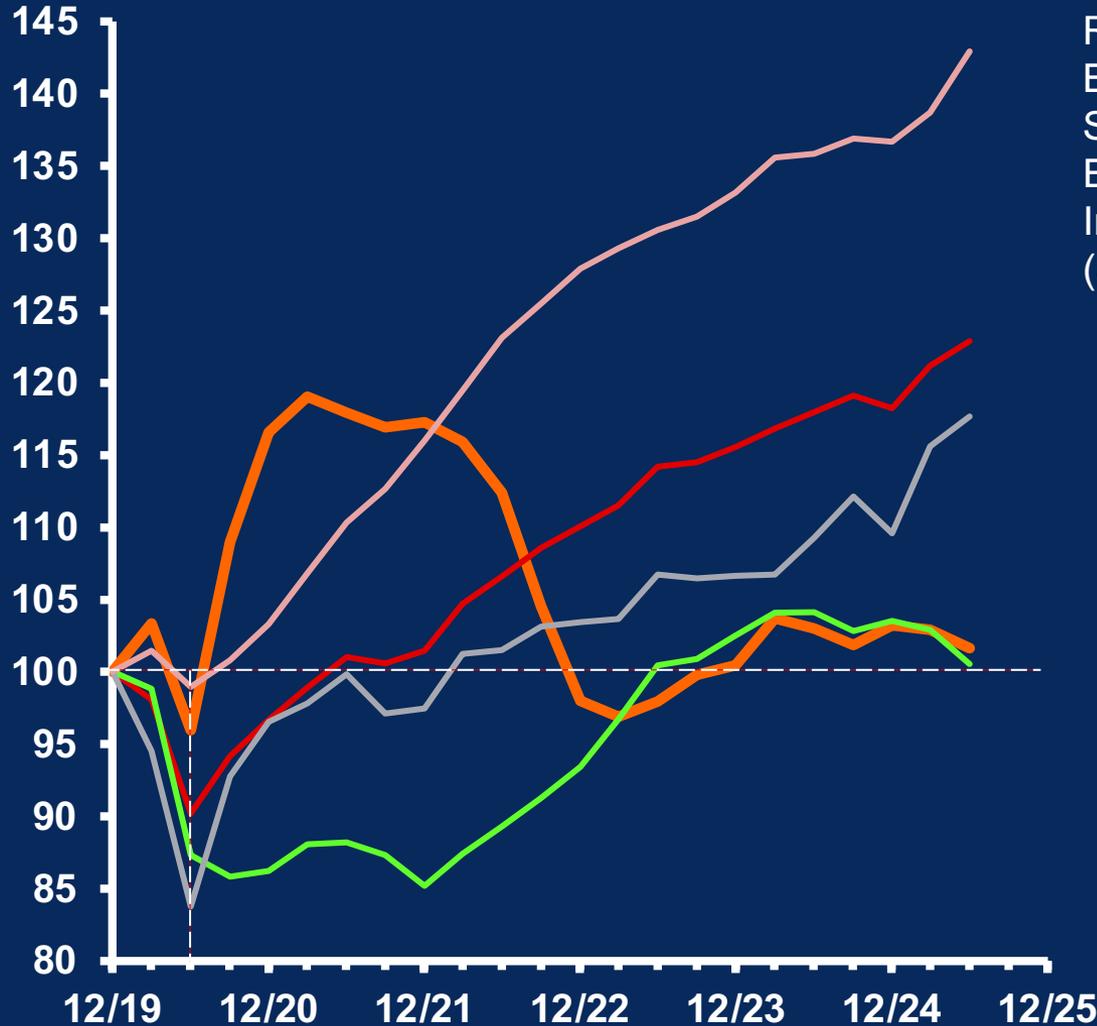
New Non-Defense Capital Goods Orders

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



Real Investment Indexes

(Quarterly) (December 2019 = 100)

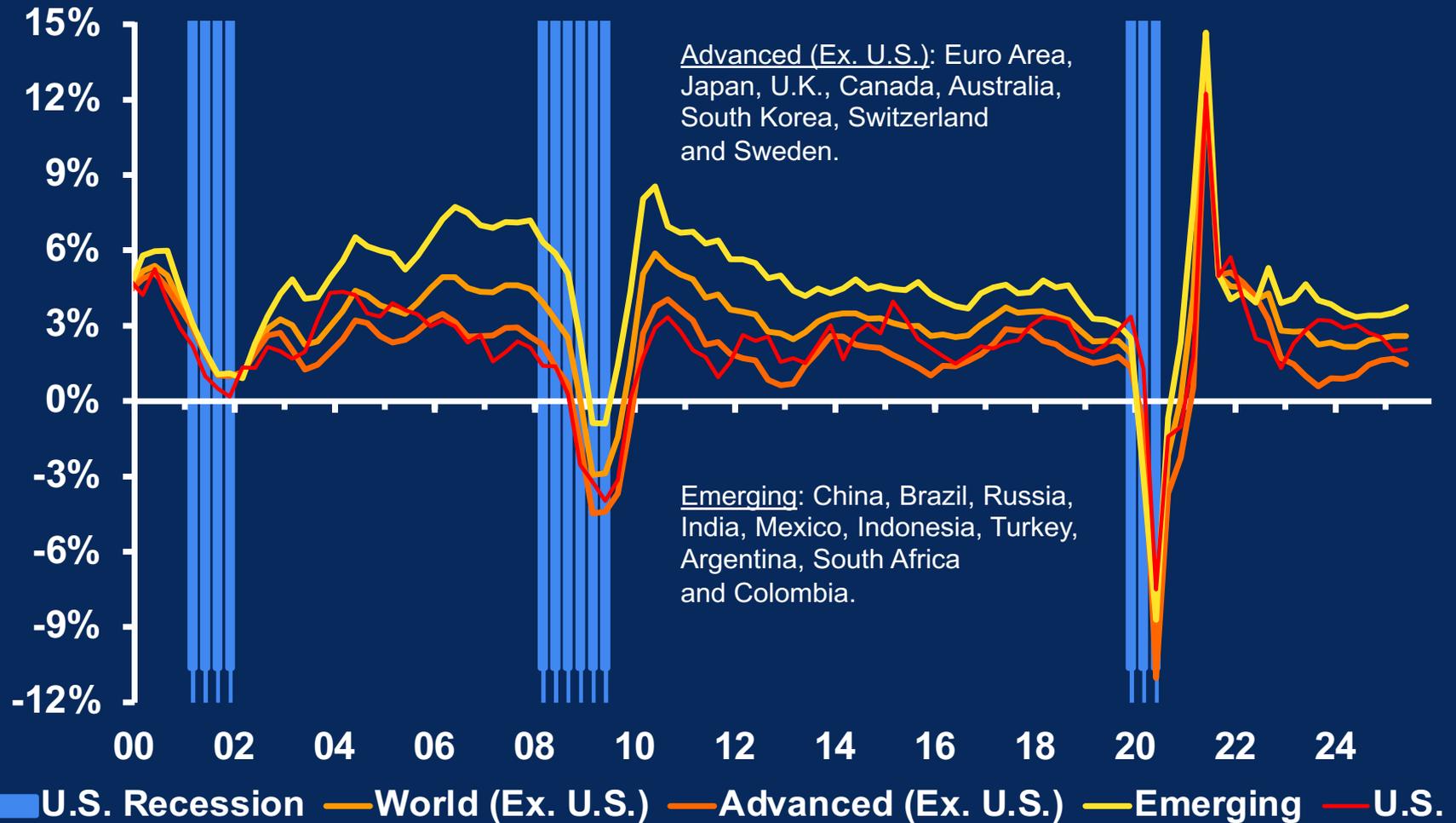


Residential \$0.8 Trillion
Business Total 3.5
Structures 0.7
Equipment 1.4
Intellectual 1.5
(Second Quarter 2025)

- Residential
- Business Total
- Business Structures
- Business Equipment
- Intellectual Property

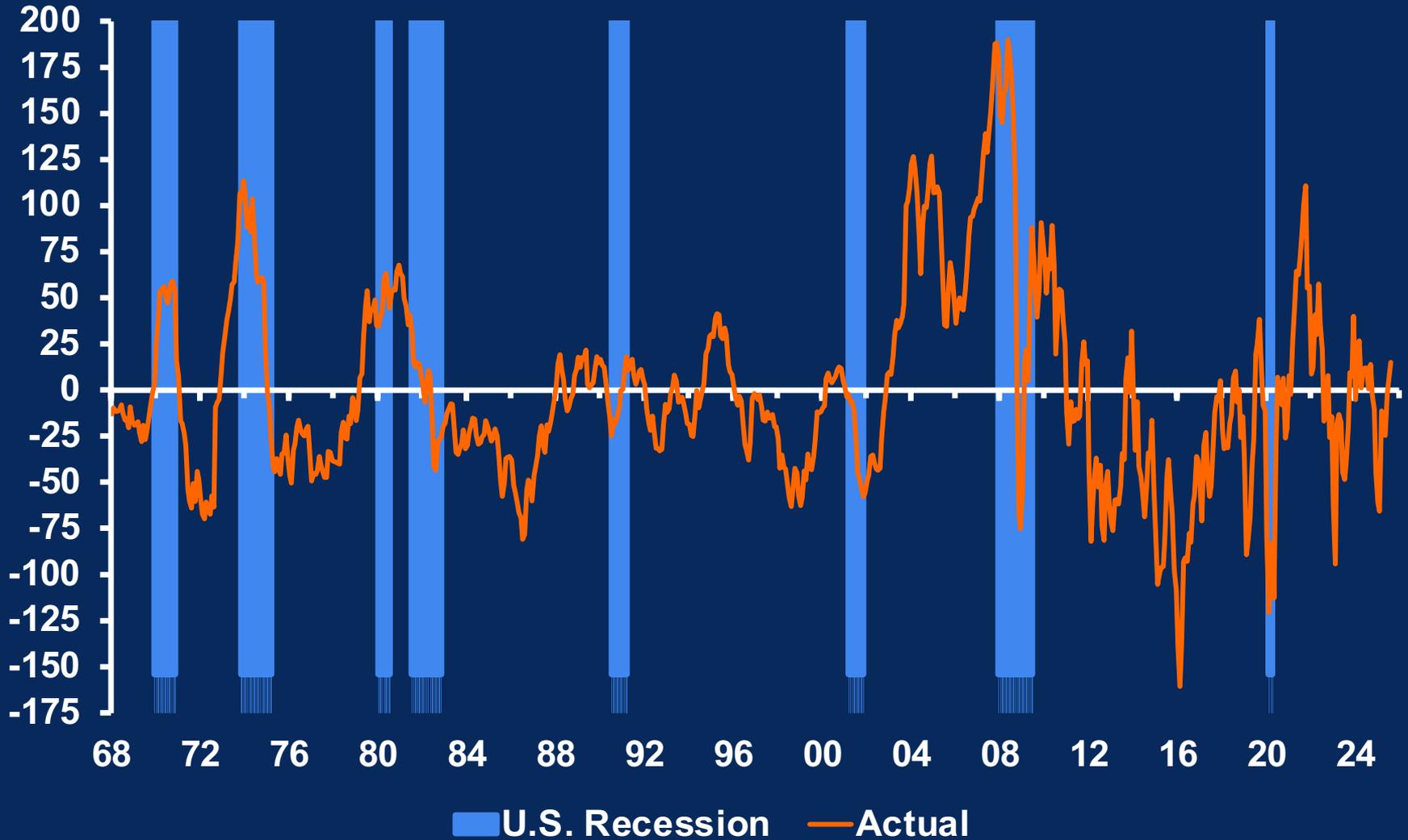
World Real GDP

Dallas Fed's Globalization & Monetary Policy Institute



Global Real Activity and Recessions

(Global Industrial Commodity Market Shipping Volume Proxy) (Deviations from Trend)
(Dallas Fed's Globalization & Monetary Policy Institute)

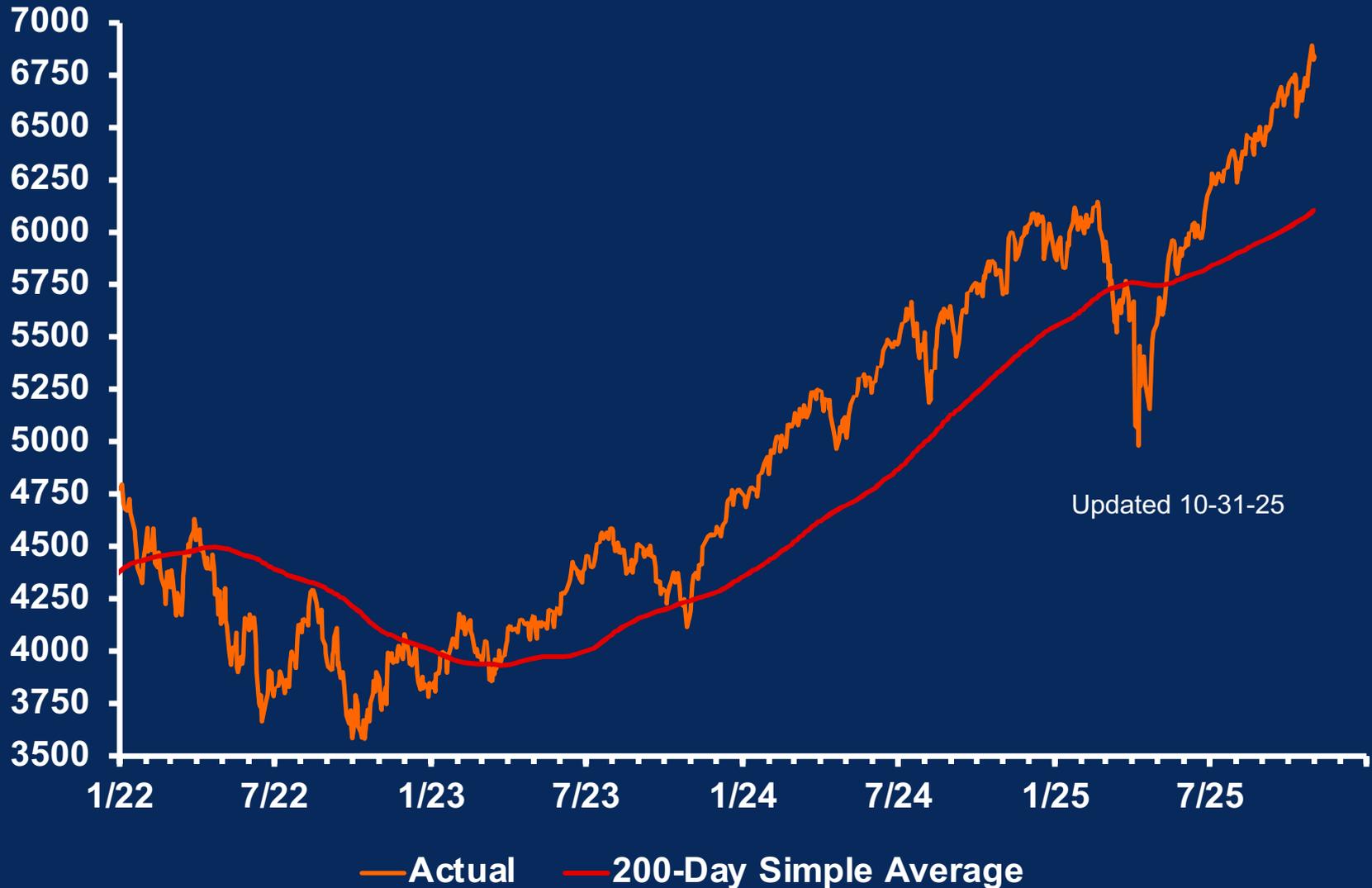


Dollar Exchange Rates

(Fed's New Trade-Weighted "Country" Indexes) (Monthly)

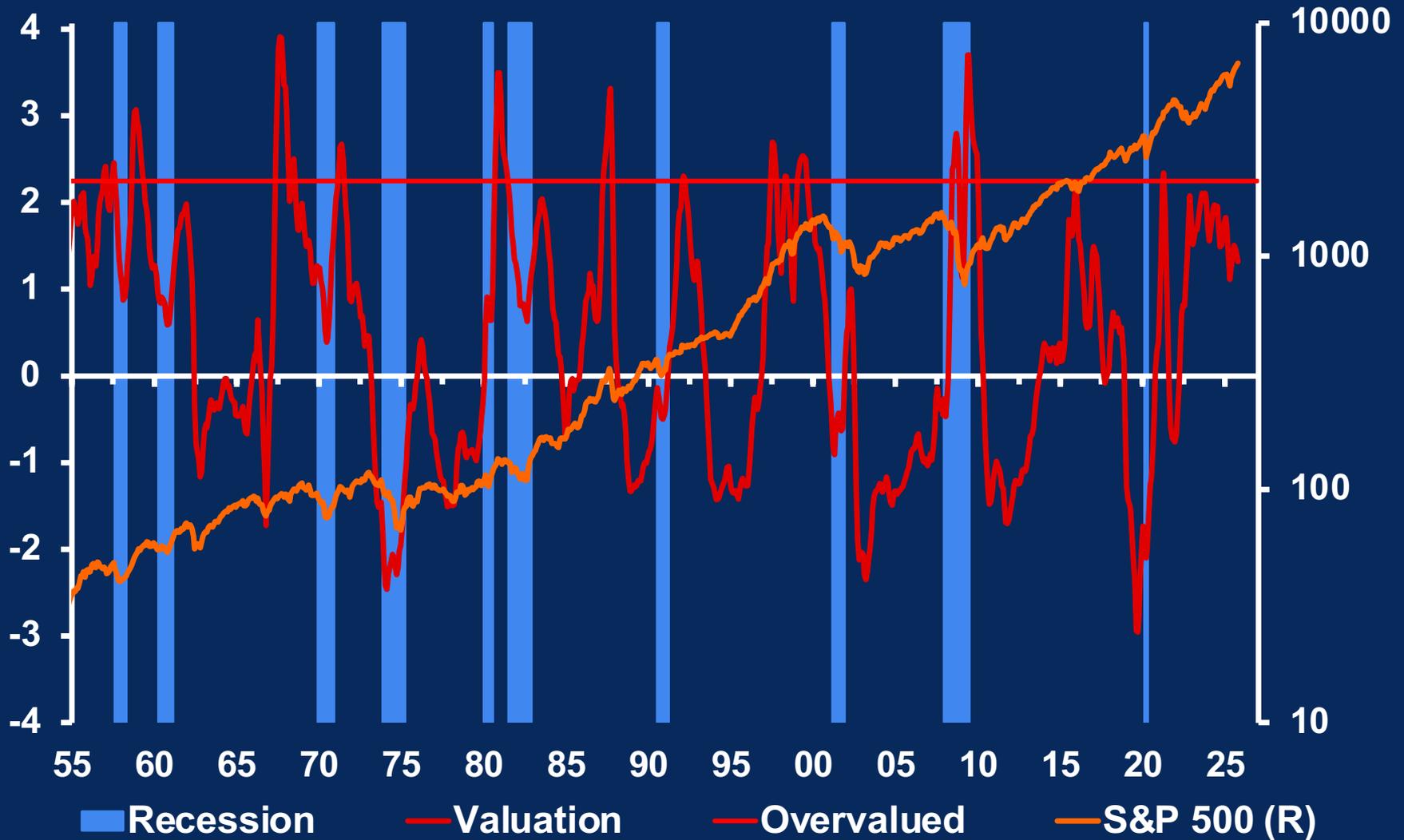


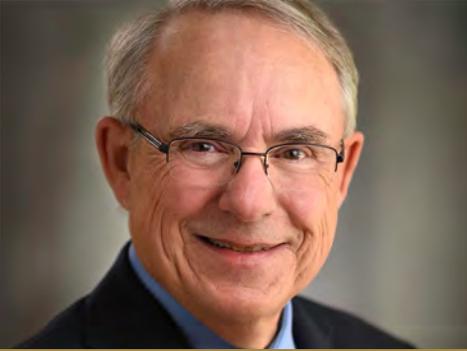
S&P 500 Common Stock Index (Days)



S&P 500 Valuation Index

(Operating Earnings) (Smoothed Valuation Index)





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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

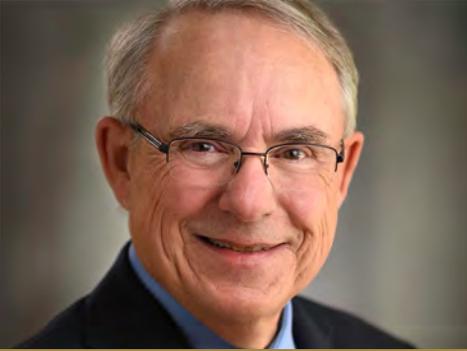
Normalization = $(\text{Actual} - \text{Mean}) / \text{Standard Deviation}$

Stock Market Model Components

Momentum

Interest-Rate Changes

Valuation Index



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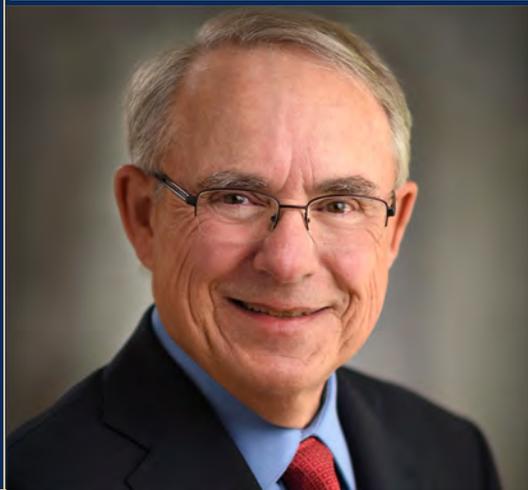
The Economic and Market Outlook 2024 – 2028

Summary

Fed's Inflation Target Achievable Post-Tariffs "Soon"
Lower Inflation Makes Recession Improbable
Fed Will Ease Further But Slowly
Future Fiscal Impact (Taxes/Tariffs/Regulations) Unclear
2025-26 Prospects Positive But Not Robust
Productivity Upturn Could Support 2027-28 "Boomlet"
Monitor Yield Spread
Track Interest Rate Changes
Watch Jobless Claims

Zempel's Best Advice





Questions...

Clare W. Zempel, CFA, CBE

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CLA Outlook: Planning Opportunities With the New Tax Law

November 20, 2025



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Agenda

- OBBBA overview
 - Individual provisions
 - Business provisions
 - Planning opportunities
-



Learning Objectives

1. Identify which Tax Cuts and Jobs Act (TCJA) items were extended or enhanced and how that could impact your tax planning
2. Review the changes to the state and local tax (SALT) deduction cap and the implications for taxpayers
3. Discuss the considerations for choosing the right entity structure, analyzing Sections 1202, 199A, and the 21% corporate tax rate
4. Recall key accounting methods and elections that may shape your financial strategies
5. Identify cost segregation opportunities, including bonus depreciation and Qualified Property Provisions (QPP)
6. Recognize the law's changes to energy credits enacted under the Inflation Reduction Act
7. Identify employer reporting responsibilities related to overtime and tip provisions





Key Tax Law Changes: Individuals



Key Individual Provisions

Tax rates

Lower brackets permanent and *inflation adjustment on lower brackets*



Personal exemptions

Permanently repealed



Child tax credit

\$2,200 permanent increase



AMT

Higher exemption and phaseout thresholds permanent



Premium tax credit

Repayment isn't capped starting in 2026



Other Individual Provisions

Standard deduction

Made permanent at the higher amounts



Overall itemized deduction limitation

A 35% deduction for those individuals in the 37% top tax bracket (starts 2026)



Miscellaneous Deductions

Permanently suspended



State and Local Tax Limit

\$40,000 SALT cap (<\$500k AGI) (2025- 2029)



Seniors

\$6,000 deduction for seniors 65 and older (2025 - 2028)



Charitable Deduction Provisions

Creates a new deduction for those that do not itemize - \$1,000 single and \$2,000 married filing joint

New .5% floor on charitable deductions



Financial Planning Provisions

Permanently increased and indexed for inflation

Estate and Gift Exemption



Trump Accounts

- Established for children under 18
- \$1,000 deposited for children born 1/1/25 - 12/31/2028



New Provisions: Deductions and Credits

Trump accounts

- Expansion of certain qualified expenses and HAS contribution eligibility
- Distributions of earnings are taxed as ordinary income
- Distributions under age 59 ½ are likely subject to the 10% withdrawal penalty
- No withdrawals under age 18
- Earnings portion of withdrawal taxed as ordinary income
- Up to \$5,000 non-deductible annual contribution until age 18

Seniors

- \$6,000 deduction for seniors 65 and older (2025 - 2028) - Subject to phase out based on income





Proactive management of itemized deductions



Planning Opportunity



Opportunity Zones

Provides opportunity to defer capital gains

Must hold for 5 years to receive a 10% gain reduction

Must realize gain on the fifth anniversary of the investment





Key Tax Law Changes: Business



Compensation and Benefits Provisions

New deductions allowed for qualifying tips and overtime payments

Tips and Overtime

The IRS issued a preliminary [list of occupations](#) that qualify for no tax on tips. A final list is scheduled for release on October 2, 2025.



1099 Reporting Threshold

Increased to \$2,000





Research and Development Expensing

Sec. 174 R&D Expensing

- Full expensing restored for domestic R&D
- Two options to unwind prior year capitalized expenses
 - Amended return for small businesses
 - Deduct in 2025 (or ratably over 2025 and 2026)
- On August 28, 2025, the IRS issued limited preliminary guidance via [Rev. Proc. 2025-28](#) addressing certain election statements and accounting method changes





Examine research and development costs



Planning Opportunity



Bonus Depreciation

- Permanently extends 100% expensing – property acquired and placed in service after 1/19/2025
- Qualified Production Property – new 100% expensing for qualified production non-residential real property
- Section 179 expensing increased to \$2.5 million after 12/31/2024





Look at impact of expanded bonus depreciation and cost segregation studies



Planning Opportunity



Clean Energy Tax Credits

- Early termination and accelerated phaseouts for some credits
- Introduces complex restrictions around “foreign entities of concern”
- Generally, no direct changes to transferability or direct pay
- On August 15, the IRS issued [Notice 2025-42](#) covering beginning of construction (BOC) rules for wind and solar energy credit facilities that are subject to phaseout under the OBBBA. To determine eligibility for Section 45Y and Section 48E credits, such facilities must determine BOC using the physical work test; the 5 percent safe harbor is not permitted





Other Energy Provisions

Energy Efficient
Commercial Buildings
Deduction (Sec. 179D)

Repealed for projects that
begin construction after
6/30/2026

New Energy Efficient
Home Credit (Sec. 45L)

Repealed for homes
acquired after 6/30/2026

Cost Recovery for Clean
Energy Property

Terminates special 5-yr
recovery period that applies to
certain energy credit property





Plan ahead for clean energy credit changes



Planning Opportunity



Business Interest Deductions



163(j) Interest Limitation



Reinstates and makes permanent EBITDA limitation and capitalized interest subject to 163(j)





Manage business interest deductions



Planning Opportunity



Qualified Business Income Deduction

- Permanently set at 20% and phase out range increases





Other Business Provisions

Section 1202

Enhanced benefits, expanded eligibility, and tiered exclusion



Corporate charitable contributions

New 1% floor on contributions





Reevaluate your choice of entity



Planning Opportunity





Excess Compensation Tax

Expanded definition of covered employee to expand excise tax base



Endowments Excise Tax

New 3-tier tax rate on higher ed endowments and new tax law changes

Exempt Organization Provisions





Exempt entities: Prepare for changes



Planning Opportunity





Base Erosion
Minimum Tax
(BEAT)

Global Intangible
Low-Taxed Income
(GILTI)

Foreign-Derived
Intangible Income
(FDII)

International Provisions

Aims to curb tax avoidance by multinational corporations and encourage the retention of intangible assets within the U.S.

Section 899 was dropped from the final bill



Summary of Planning Items

1. Proactive management of itemized deductions
2. Analyze impacts of tax changes to business deductions
3. Look at impact of expanded bonus depreciation
4. Manage business interest deductions
5. Examine research and development costs
6. Evaluate cost segregation scenarios
7. Reevaluate your choice of entity
8. Plan ahead for clean energy credit changes
9. Exempt entities: Prepare for changes
10. Consider changes to your income tax provision





Opportunity modeling to analyze impacts of tax changes



Planning Opportunity





Proactive management – itemized deductions

Accelerate SALT payments & charitable contributions into 2025



Reevaluate choice of entity

Impact of Sec. 1202 changes and additional items to consider



Analyze potential impacts on business deductions, methods, and credits

- ✓ Impact of expanded bonus depreciation, Section 179, and new QPP opportunity
- ✓ Domestic Section 174A
- ✓ Business interest expense calculation changes



Evaluate cost segregation studies

100% bonus depreciation and new QPP expensing makes cost segs even more powerful



Questions?





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Stay Ahead of the Curve: FASB Updates That Matter

Angie Storm

Chief Accountant, KPMG LLP

—

November 20, 2025



Financial Reporting View

Insights for financial reporting professionals

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Introductions



Angie Storm
Chief Accountant, Department of
Professional Practice
KPMG LLP

Agenda

- 1** ASUs effective in 2025 and 2026
- 2** Other FASB developments
- 3** Private company council update
- 4** Closing/Q&A



ASUs effective in 2025 and 2026



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ASU 2023-09, Income tax disclosures



What

- Requires enhanced income tax disclosures, especially disaggregated rate reconciliation and taxes paid.
- Eliminates certain disclosures, such as reasonably possible changes in unrecognized tax benefits and cumulative temporary differences without recognized deferred tax liabilities.
- Adds requirements to disaggregate income/loss and tax expense by domestic vs. foreign and federal, state, and foreign jurisdictions for continuing operations.



Why

- To improve the transparency and decision usefulness of income tax disclosures.

Effective For private entities in **2026**

Early adoption permitted

Defining Issues

Hot Topic

Handbook

Webcast

ASU 2023-09 – Rate reconciliation

Qualitative disclosure

Nature and effect of:

- Specific categories
- Individual jurisdictions

that result in significant differences between the statutory rate and the effective rate.

Example

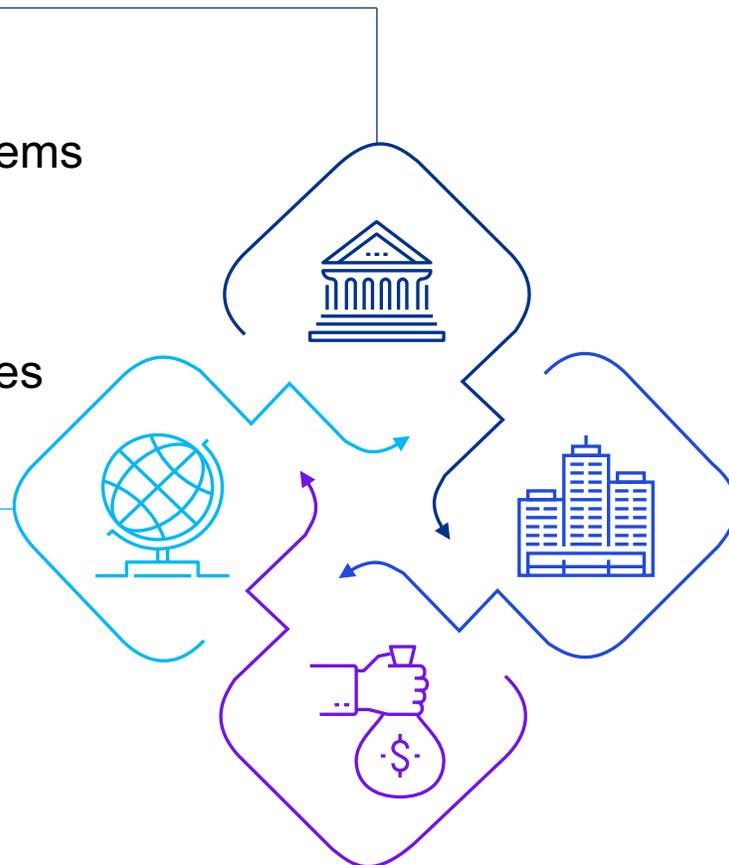
Entity's effective tax rate for the fiscal year ending December 31, Year 3 was 17%, which differs from the statutory income tax rate of 21%. This difference is primarily due to the decreasing effect of research tax credits, excess tax benefits on share-based payments and foreign tax effects due to lower tax rates in foreign countries, particularly operations in Ireland. These effects were partially offset by the increasing effect of state and local taxes, net of federal effect, and cross-border taxes in the US for global intangible low-taxed income.

ASU 2023-09 – Rate reconciliation – Specific categories

Domestic federal

- Tax credits
- Nontaxable or nondeductible items
- Cross-border tax laws
- Changes in tax laws
- Changes in valuation allowances

Worldwide changes in unrecognized tax benefits



Domestic state and local, net of federal effect

Foreign tax effects

ASU 2023-09 – Income taxes paid

Scope:

- All entities
- Each annual reporting period
- Comparative information by jurisdiction is not required (e.g. tabular presentation)

Amount of income taxes paid* –
disaggregated by jurisdiction where income
taxes paid* \geq 5% of total income taxes paid*



Amount of income taxes paid* –
disaggregated by federal, state, and foreign

**net of refunds received*

ASU 2023-09 – Income taxes paid (example)

	20X5	20X4
US federal	1,355	1,500
Domestic state and local		
California	215	250
Minnesota	180	*
New Jersey	*	180
New York State	*	200
New York City	*	220
Other	65	85
Subtotal	460	935

Note: This example is for illustrative purposes only and reflects one potential way to meet the requirements.

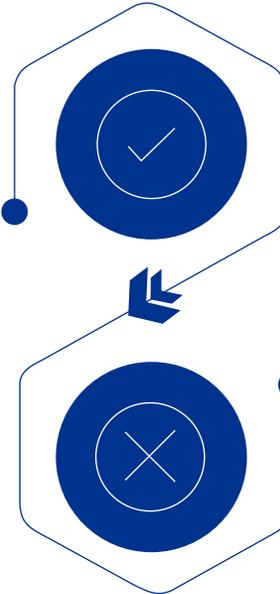
	20X5	20X4
US federal	1,355	1,500
Foreign		
U.K.	540	810
India	*	(200)
Ireland	155	*
Germany Federal	200	180
Berlin	210	190
Other	80	130
Subtotal	1,185	1,110
Total	3,000	3,545

* The amount of income taxes paid during the year does not meet the five percent disaggregation threshold.

ASU 2023-09 – Other changes

Additional disclosures

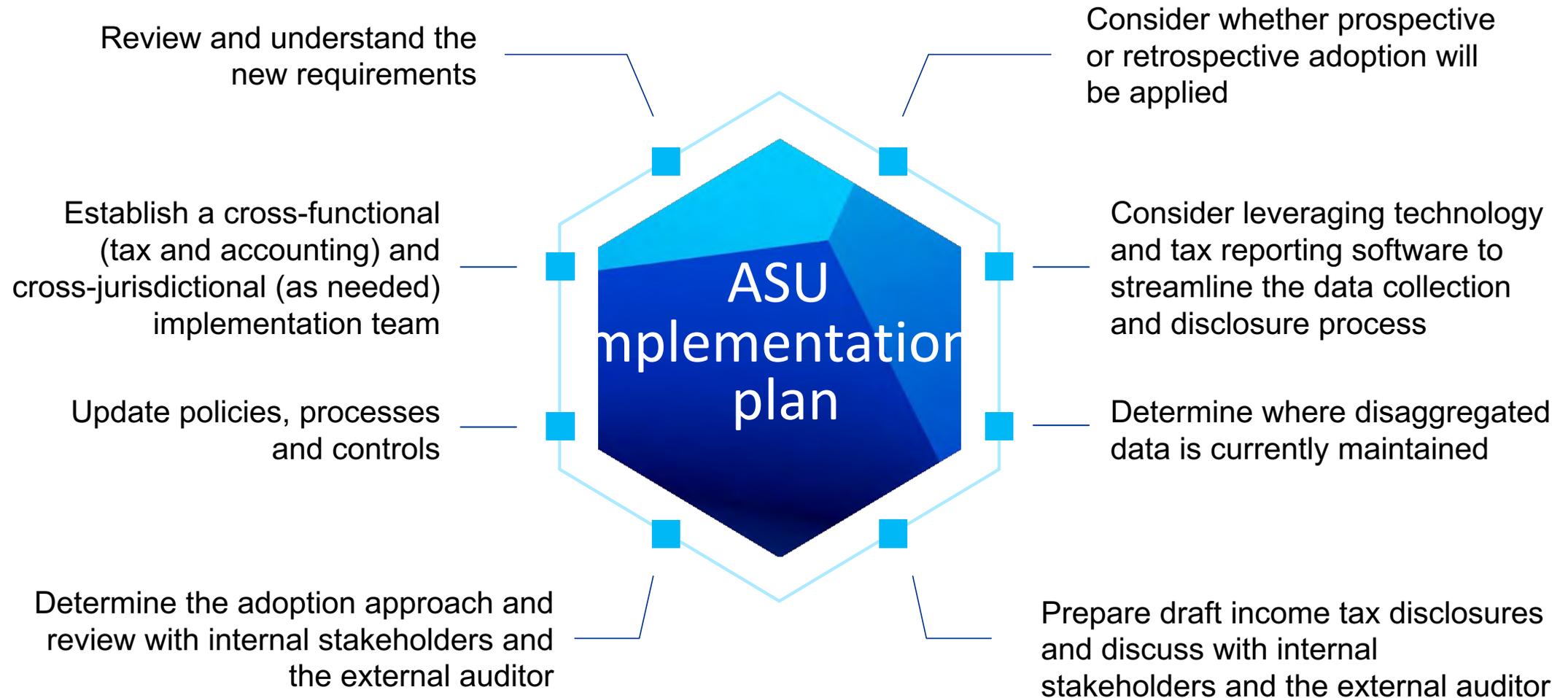
- ◆ For continuing operations
 - Income/loss before income tax expense/benefit disaggregated between domestic and foreign
 - Income tax expense/benefit disaggregated by federal, state and foreign



Disclosure eliminations

- ◆ Information about reasonably possible changes in unrecognized tax benefits for next 12 months
- ◆ Cumulative amount of each type of temporary difference when deferred tax liability is not recognized due to recognition exceptions

ASU 2023-09 implementation – Next steps



ASU 2025-05, Measurement of credit losses for accounts receivable and contract assets



What

- All entities may elect a practical expedient that assumes current conditions as of the balance sheet date persist through the forecast period.
- Entities other than public business entities that elect practical expedient can also make an accounting policy election to consider subsequent collections after the balance sheet date in estimating credit losses.



Why

- To reduce the time and effort for preparers to analyze and estimate credit losses on certain receivables while still providing decision useful information to investors.

Effective For all entities in **2026**

Early adoption permitted

Defining Issues

Handbook

ASU 2025-05, Measurement of credit losses for accounts receivable and contract assets



Disclose...

Entities are **required to disclose**:

- **whether they have** applied the practical expedient and/or the accounting policy election
- **the date** through which subsequent cash collections were evaluated if electing the accounting policy.



Transition

- **Prospective transition** approach
- If an entity other than a public business entity elects to apply the practical expedient and accounting policy, if applicable, after the effective date, it is not required to justify that such methods are preferable.

Simplified Approach

- **Practical expedient:** permits an entity to assume that current economic conditions as of the balance sheet date do not change for the remaining life of the current accounts receivable and current contract assets.
- **Accounting policy election:** Allows an entity to consider cash collection activity after the balance sheet date but before the date the financial statements are available to be issued (or before any alternative date selected by the entity that is after the balance sheet date but before financial statements are available to be issued) when estimating expected credit losses on current accounts receivable and contract assets.
 - Policy election is only available if practical expedient is applied
 - Election is only available for entities other than public business entities
- Both practical expedient and policy election would be applied consistently to all current accounts receivable and current contract asset balances.

Other ASUs effective for private entities in 2025 or 2026

Topic	Key Highlights	Effective in	KPMG resources in
ASU 2024-04 Debt – Debt with conversion and other options	Provides guidance on whether induced conversion or extinguishment accounting should be applied to certain settlements of convertible debt instruments that do not occur in accordance with the instruments' preexisting terms.	2026	<ul style="list-style-type: none"> • Defining Issues • Webcast • Handbook • Podcast
ASU 2024-02 Codification Improvements	Amendments to remove references to the concepts statements.	2026	----
ASU 2024-01 Compensation – Stock Compensation	Provides four cases illustrating the scope application of ASC 718 for profits interest awards.	2026	<ul style="list-style-type: none"> • Podcast • Webcast • Handbook
2023-08 Intangibles – Goodwill and Other – Crypto Assets	Introduces fair value measurement, separate presentation and new disclosures for in-scope crypto assets.	2025	<ul style="list-style-type: none"> • Defining Issues • Hot Topic

Other ASUs effective for private entities in 2025 or 2026 (continued)

Topic	Key Highlights	Effective in	KPMG resources
2023-05 Business Combinations – Joint Venture Formations	Specifies how net assets contributed to a joint venture are accounted for on the joint venture’s formation.	2025	<ul style="list-style-type: none"> • Defining Issues • Podcast • Handbook
2023-02 Investments – Equity Method and Joint Ventures	Expands use of the proportional amortization method to additional tax equity investments.	2025	<ul style="list-style-type: none"> • Defining Issues • Handbook
2022-03 Fair Value Measurement of Equity Securities subject to Contractual Sale Restrictions	Clarifies that contractual sale restrictions are not considered in fair value measurements.	2025	<ul style="list-style-type: none"> • Defining Issues • Podcast • Handbook
2018-12 Insurance – Targeted accounting improvements for long-duration contracts	Makes targeted improvements to the existing recognition, measurement, presentation, and disclosure requirements for long-duration contracts issued by an insurance entity.	Annual periods in 2025; interim periods in 2026	<ul style="list-style-type: none"> • Handbook • Podcast • Illustrative Disclosures

Other FASB developments



ASU 2025-07, ASC 815 – Derivative scope refinements

What



- Creates new scope exception for contracts with underlyings based on operations or activities specific to one of the parties to the contract.
- Clarifies that entities should apply ASC 606 (revenue) when recognizing share-based noncash consideration from a customer for the transfer of goods or services. The guidance in other ASC Topics (e.g., 815 and 321), is not applied unless and until the entity's right to receive or retain the consideration is unconditional under ASC 606.



Why



- Feedback received during 2021 FASB ITC, Agenda Consultation about challenges in applying derivatives standard to certain transactions with contingent features controlled by the entity.

Effective

For all entities in

2027

Early adoption permitted

Defining Issues

Handbook

Forthcoming ASU, ASC 815 – Hedge accounting improvements

What



- **Issue 1** – *Similar Risk Assessment for Cash Flow Hedges*: Allow more individual forecasted transactions to be hedged as a group if they have a similar risk exposure
- **Issue 2** – *Change in hedged risk for ‘Choose-Your-Rate’ Debt Instruments*: Provide specific guidance for hedging ‘chose-your-rate’ debt instruments
- **Issue 3** – *Cash Flow Hedges of Non-financial Components*: Provide new alternatives for hedging forecasted purchases and sales of nonfinancial assets
- **Issue 4** – *Net Written Options*: Permit net written options to qualify as hedging instruments
- **Issue 5** – *Foreign-currency-denominated debt instrument as hedging instrument and hedged item*: Allow a foreign-currency-denominated debt instrument to serve as both a hedging instrument and a hedged item.

Why



- Intended to more closely align the financial reporting of hedging activities with the economics of an entity’s risk management activities

ASU 2025-06, Targeted improvements – Accounting for internal-use software

Why



- Existing distinction between external-use software and internal-use software is outdated
 - Current guidance (ASC 350-40 and ASC 985-20) is not suitable for agile software development
- Modernize software cost accounting in US GAAP and enhance transparency
 - Targeted improvements to ASC 350-40 to reflect agile development and improve cost disclosures



Defining Issues

Handbook

ASU 2025-06, Targeted improvements – Accounting for internal-use software



Key decisions

- Internal-use software will be capitalized when:
 - Management has authorized and committed to fund the project, and
 - It is probable that the project will be completed and the software will be used to perform its intended function.
- Link ‘probable’ to the ASC Master Glossary definition.
- Software projects subject to significant development uncertainty will not be considered probable-to-complete until such uncertainty is resolved.
- Significant development uncertainty will exist when either the software or its core features/functions are novel, unique or unproven, or the significant performance requirements of the software (i.e. what the software is needed to do – e.g. its functions or features) remain unidentified or subject to substantial further revision.
- Significant development uncertainty stemming from novel, unique or unproven features/functions must be resolved through coding and testing that establishes the software can meet its performance requirements, similar to how ‘high-risk development issues’ are resolved for external-use software under ASC 985-20.

ASU 2025-06, Effective date and transition

01

All entities for interim *and* annual reporting periods beginning after December 15, 2027. Early adoption permitted as of beginning of the year adopted.



02

Transition method choices;

- retrospectively;
- prospectively only to software costs incurred on new and existing software projects after the adoption date; **or**
- prospectively to software costs incurred on new and existing software projects after the adoption date with a cumulative effect adjustment for existing, in-process project capitalized costs.



03

Entities would make the transition disclosures required under ASC 250 depending upon the transition method selected.



Interim reporting

Objective is to clarify interim reporting requirements by improving navigability of ASC 270 and more clearly specify what disclosures are required in an interim reporting period. Applicable to all entities that provide full sets of interim financial statements and notes in accordance with GAAP.

Objectives

- Specify the form and content choices for interim financial statements and accompanying notes.
- Include a comprehensive list of required interim disclosures in ASC 270.
- Introduce a disclosure principle that would require disclosure of events and changes since the end of the previous annual reporting period that materially affect the entity.

Non-SEC registrants may opt for either of the following related to form and content of financial statements and notes:

- Like annual financial statements and notes, subject to applicable disclosure requirements in GAAP; or
- ‘Condensed statements’ that are financial statements presented:
 - In a condensed aggregated format in accordance with Reg. S-X with notes like in annual financial statements;
 - Like annual financial statements with limited notes; or
 - In a condensed aggregated format in accordance with Reg. S-X with limited notes.

FASB Proposal

Comment Letter

Accounting for government grants

What



- Provide a framework for the recognition, measurement, and presentation of government grants received by business entities.
- The Board decided to develop an accounting model using the main principles in IAS 20 with targeted revisions, including scope and recognition threshold.



Scope



- Transfers of monetary and tangible nonmonetary assets, other than exchange transactions, from a government to a business entity.
- Scope exceptions:
 - Exchange transactions, such as those in the scope of ASC 606 on revenue from contracts with customers and ASC 610-20 on gains and losses from derecognition of nonfinancial assets
 - Items accounted for under ASC 740 on income taxes
 - The benefit of below-market interest rate loans
 - Government guarantees

FASB Proposal

Comment Letter

Accounting for government grants

Recognition and Presentation

- Grant recognized when it is **probable** that:
 - The entity will comply with the conditions attached to the grant; **and**
 - The grant will be received.
- Recognize benefit in earnings on a systematic and rational basis over the period(s) in which the entity expenses the related costs for which the grant is intended to compensate.
- **Grants related to assets:** account for as either:
 - An adjustment to the carrying amount of the asset (cost accumulation approach); or
 - Deferred income (deferred income approach)
- **Grants related to income:** present either
 - Separately as other income (gross presentation); or
 - As a deduction from the related expense (net presentation).

Accounting for environmental credit programs



Why



- Improve recognition, measurement, presentation and disclosure requirements for participants in compliance and voluntary programs that result in the creation of environmental credits and for nongovernmental creators of environmental credits.
- These credits include (but are not limited to):
 - Compliance credits
 - Renewable energy credits/certificates (REC)
 - Renewable identification numbers (RIN)
 - Carbon offset credits

FASB Proposal

Comment Letter

Accounting for environmental credit programs



New ASC 818 would...

- Define attributes of environmental credits and environmental credit obligations (ECOs) and limit the scope of ASC 818 to credits and obligations meeting these definitions.
- Require environmental credits to be accounted for based on how an entity intends to use the credit.
- Environmental credits that are probable of being used to settle an ECO or transferred in an exchange transaction would be recognized as an asset.
- The cost of all other environmental credits would be expensed as incurred.
- Require environmental credits that are probable of being used to settle an ECO (compliance credits) to be recognized at cost with no subsequent remeasurement. All other environmental credits recognized as assets would also be recognized at cost but be tested for impairment at each reporting date.
- Require entities to recognize ECO liabilities based on the amount of credits needed to satisfy the obligation as if the reporting date were the end of the compliance period. A liability would be measured based on the carrying amount of compliance credits on hand (the funded portion). Any unfunded portion would generally be measured based on the fair value of credits the entity would need to purchase to satisfy the obligation.

Accounting for debt exchanges

What



- When certain requirements are met, the satisfaction of an existing debt obligation and issuance of a new debt obligation to multiple creditors is accounted for as a debt extinguishment



Why



- Stakeholders expressed concerns that accounting for the exchange of debt instruments as a modification of the existing debt obligations rather than an extinguishment and issuance of new debt does not reflect the economics of the transaction

Private company council update



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Private Company Council

September 2025 meeting



PCC agenda priorities

Requested further research on:

- Lease accounting implications
- Subjective acceleration clauses within debt arrangements
- Interest method and determining the effective interest method

Research agenda projects

Update on research conducted and feedback received for:

- Accounting for and disclosure of intangibles
- Financial key performance indicators for business entities

Other business

- Update on Digital Asset research project related to improvements to the accounting for and disclosures of certain digital asset and related transactions



What **questions**
do you have?



Thank you!



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GASB Statement 103

Financial Reporting Model Improvements

Harold J. Griesshammer
Audit Manager
Gordon J. Maier & Company, LLP

Introduction to GASB Statement 103

1

Reporting Standards

GASB Statement 103 sets forth new reporting standards that aim to enhance the clarity and usefulness of financial statements in government accounting and financial reporting.

2

Financial Improvements

The statement introduces improvements to the financial reporting model, enhancing transparency and accountability in government entities by streamlining financial performance presentation.

3

User Guidance

GASB Statement 103 provides essential guidance for preparers and users of financial statements, ensuring they have the necessary tools to effectively interpret financial information.



Overview of Financial Reporting Model

Date Issued: April 2024

Effective Date:

Fiscal Years Beginning After June 15, 2025



Identifying Stakeholders and Users

1

Government Officials

Require accurate data for effective budgetary and financial management.

2

Taxpayers

Need transparent reporting to understand public fund allocation and usage.

3

Creditors

Assess financial health to make informed lending or investment decisions.

4

Financial Analysts

Evaluate entities' financial performance and trends for research and reports.

5

Management Teams

Leverage data for strategic planning and operational decision-making processes.

6

Legislators

Use reports to formulate policies and oversee budgetary appropriations effectively.

7

Citizens

Seek accountability regarding public resources and service delivery outcomes.

8

Auditors

Require comprehensive data to perform accurate evaluations of financial statements.



GASB Statement 103 – Areas Impacted:

- A. Management’s Discussion and Analysis**
- B. Unusual and Infrequent Items**
- C. Presentation of Proprietary Fund *Statement of Revenues, Expenses and Changes in Fund Net Position***
- D. Major Component Unit Information**
- E. Budgetary Comparison Information**

MANAGEMENT'S DISCUSSION AND ANALYSIS

- 1. Statement 103 continues the requirement that the Financial Statement's be preceded by Management's Discussion and Analysis (MD&A).**

- 2. Statement 103 requires that the information presented in the MD&A be limited to the following five sections:**
 - a. Overview of the Financial Statements.**
 - b. Financial Summary.**
 - c. Detailed Analysis.**
 - d. Significant Capital Assets and Long-Term Financing Activity.**
 - e. Currently Known Facts, Decisions or Conditions.**

Overview of the Financial Statements



1. The specific Financial Statements provided.
2. The information contained in each statement (i.e., what does each statement tell the reader).

Remember that many users of the Financial Statements may not have financial backgrounds.

Financial Summary

1. Condensed financial information on the government's *financial position* and *results of operations* at a minimum.
2. Information presented should compare the current and prior years.
3. Statement 103 provides specific guidance on what to include.

Detailed Analysis

Analysis of the government's financial position
and results of operations.

Include dollar amount and percent changes
from prior year.

Include explanations of year-over-year changes.



Significant Capital Asset and Long-Term Financing Activity

1. A description of significant capital asset activity during the year, including certain intangible assets. The description should include a discussion of significant additions and disposals of capital assets.
2. Information on any commitments made for the acquisition of capital assets.
3. A description of any significant policy changes and economic factors relevant to the capital asset activity that occurred during the year.
4. A description of significant long-term financing activity during the year, including debt, leases, public-private and public-public partnerships (PPPs), etc.
5. The economic, policy and other factors that drove the financing activity.

Currently Known Facts, Decisions, or Conditions

1. A description of currently known facts, decisions, or conditions that have had a significant effect on financial position (net position).
2. Currently known facts, decisions, or conditions that are expected to produce significant differences from current-period results of operations (revenues, expenses, and other changes in net position).
3. Any other information that may be useful to users of the Financial Statements.
4. Statement 103 provides examples of the types of items to include, but no specific requirements.

Other Key Points About MD&A

1. MD&A should provide an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions.
2. MD&A should be written in a manner that can be understood by users who may not have a detailed knowledge of governmental accounting and financial reporting.
3. Statement 103 stresses that the detailed analyses should explain WHY balances and results of operations changed.
4. Statement 103 emphasizes that the analysis provided in MD&A should present only the most relevant information. Avoid redundant and unnecessary information.
5. MD&A should focus on the primary government unit.

UNUSUAL OR INFREQUENT ITEMS

1. GASB Statement 103 describes unusual or infrequent items as transactions and other events that are either unusual in nature or infrequent in occurrence.
2. GASB Statement 62 defines the terms *unusual in nature* and *infrequency of occurrence*.

UNUSUAL OR INFREQUENT ITEMS (cont.)

- 3. Inflows and outflows related to each unusual or infrequent item should be presented separately and not netted.**
- 4. Governments should disclose in notes to financial statements the program, function, or identifiable activity to which an unusual or infrequent item is related, if applicable, and whether that item is within the control of management.**

REVISED INCOME STATEMENT PRESENTATION



1. **Statement of Revenues, Expenses and Changes in Fund Net Position (Proprietary Funds).**
2. **GASB Statement 103 requires that the proprietary fund statement of revenues, expenses, and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses.**

REVISED INCOME STATEMENT PRESENTATION (cont.)

Nonoperating revenues and expenses include:

- 1. Subsidies received or provided.**
- 2. Contributions to permanent and term endowments.**
- 3. Revenues and expenses related to financing (e.g., interest).**
- 4. Resources from the disposal of capital assets and inventory.**
- 5. Investment income and expenses.**
- 6. Generally, any income or expense items not related to services provided.**

REVISED INCOME STATEMENT PRESENTATION (cont.)

Other Key Points

In addition to the subtotals currently required in a proprietary fund statement of revenues, expenses, and changes in fund net position, this Statement requires that a subtotal for *operating income (loss) and noncapital subsidies* be presented before reporting other nonoperating revenues and expenses.

REVISED INCOME STATEMENT PRESENTATION (cont.)

Noncapital subsidies are defined as:

1. Resources received from another party or fund:
 - a. for which the proprietary fund does not provide goods and services to the other party or fund and
 - b. that directly or indirectly keep the proprietary fund's current or future fees and charges lower than they would be otherwise.

2. Resources provided to another party or fund:
 - a. for which the other party or fund does not provide goods and services to the proprietary fund and
 - b. that are recoverable through the proprietary fund's current or future pricing policies.

MAJOR COMPONENT UNIT INFORMATION



GASB Statement 103 requires governments to present each major component unit separately in the reporting entity's statement of net position and statement of activities *if it does not reduce the readability of the statements*. If the readability of those statements would be reduced, combining statements of major component units should be presented after the fund financial statements.

BUDGETARY COMPARISON INFORMATION

GASB Statement 103 requires governments to present budgetary comparison information using a single method of communication—RSI. Governments also are required to present:

- 1. Variances between original and final budget amounts.**
- 2. Variances between final budget and actual amounts.**
- 3. An explanation of significant variances is required to be presented in notes to RSI.**
- 4. Usually presented for General Fund only.**

Audit Considerations Under GASB 103



01

Operational Risks

Identify areas prone to errors under new reporting standards.

02

Compliance Review

Ensure adherence to revised GASB requirements during audits.

03

Training Needs

Assess staff knowledge of new financial statement formats.

04

Technology Impacts

Evaluate systems for accommodating changes in financial reporting.

Thank You



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GASB Statement 104

Disclosure of Certain Capital Assets



Purpose and Objectives of GASB 104

Clarity

Provides clear guidelines for financial reporting standards.

01

Transparency

Enhances transparency in governmental financial statements.

02

04

Accountability

Promotes greater accountability in financial reporting.

03

Consistency

Ensures consistent application across various entities.

Insights

Standardization

Encourages uniform practices among governmental bodies.

Enhancement

Improves the accuracy of financial disclosures.

Collaboration

Fosters collaboration among financial stakeholders.

Adaptation

Facilitates adaptation to changing fiscal environments.

Purpose and Objectives of GASB 104

Objective:

1. Provide users of government financial statements with essential information about certain types of capital assets.
2. Requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34.
3. Requires additional disclosures for capital assets *held for sale*.

Purpose and Objectives of GASB 104

Date Issued: September 2024

Effective Date:

Fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.

Separate Disclosure of Certain Capital Assets

Within the note disclosures about capital assets required by Statement 34, information about the following capital assets and related amortization should be disclosed separately:

1. Lease assets reported in accordance with Statement 87 by major class of underlying asset.
2. Intangible right-to-use assets recognized by an operator in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, by major class of underlying public-public partnership asset.

Separate Disclosure of Certain Capital Assets

3. Subscription assets reported in accordance with Statement 96.
4. Intangible assets other than those in subparagraphs (a), (b), and (c), by major class of asset.

Intangible assets that represent the right to use a type of underlying asset should not be disclosed in the same major class as any owned assets of that type.

Capital Assets Held for Sale

A capital asset is a capital asset held for sale if:

1. The government has decided to pursue the sale of the asset and
2. It is probable (likely to occur) that the sale will be finalized within one year of the financial statement date.



Capital Assets Held for Sale

Factors to consider when evaluating whether it is probable that the sale will be finalized *within one year of the financial statement date* include, but are not limited to, the following:

1. Whether the asset is available for immediate sale in its present condition.
2. Whether an active program to locate a buyer has been initiated.
3. Market conditions for selling that type of asset.
4. Regulatory approvals needed to sell the asset.

Capital Assets Held for Sale

1. A capital asset held for sale should continue to be reported within the appropriate major class of capital asset.
2. Additionally, a government should disclose capital assets held for sale in notes to financial statements, with separate disclosure of historical cost and accumulated depreciation (or amortization), by major class of asset.



Capital Assets Held for Sale

3. A government also should disclose the carrying amount of debt for which capital assets held for sale are pledged as collateral, for each major class of asset.
4. The disclosure of capital assets held for sale should be made for both governmental activities and business-type activities.

A government should evaluate whether a capital asset is a capital asset held for sale each reporting period.

GASB Statement 104 – Other Key Points

1. The provisions in this Statement are limited to the disclosure of certain types of capital assets and do not include any changes to current recognition or measurement requirements.
2. Although Statement 87 requires disclosure of lease assets by major class of underlying asset, this Statement extends the requirement to report lease assets by major class of underlying asset to the capital asset disclosures required by Statement 34 (including beginning balances, acquisitions, dispositions, and ending balances).
3. This Statement does not require capital assets to be idle in order for them to be capital assets held for sale.

Challenges in Compliance with GASB 104



Data Accuracy

Ensuring all financial data is precise can be complex.

01

Resource Allocation

Allocating sufficient resources for compliance can be challenging.

02

Training Needs

Training staff on new regulations can require substantial time.

03

System Integration

Integrating existing systems with new requirements may present issues.

04

Stakeholder Communication

Effectively communicating changes to all stakeholders is essential.

05

Consistency Enforcement

Maintaining consistent application of the standards is difficult.

06

Potential Audit Implications

Training Staff

Provide training to staff on GASB 104 implications for financial reporting.

Documentation

Maintain thorough documentation supporting compliance with GASB standards.

Internal Controls

Assess internal controls to ensure reliable financial information reporting.

Review Process

Ensure adherence to GASB 104 requirements throughout the review process.

Risk Assessment

Identify potential risks associated with non-compliance of GASB 104.



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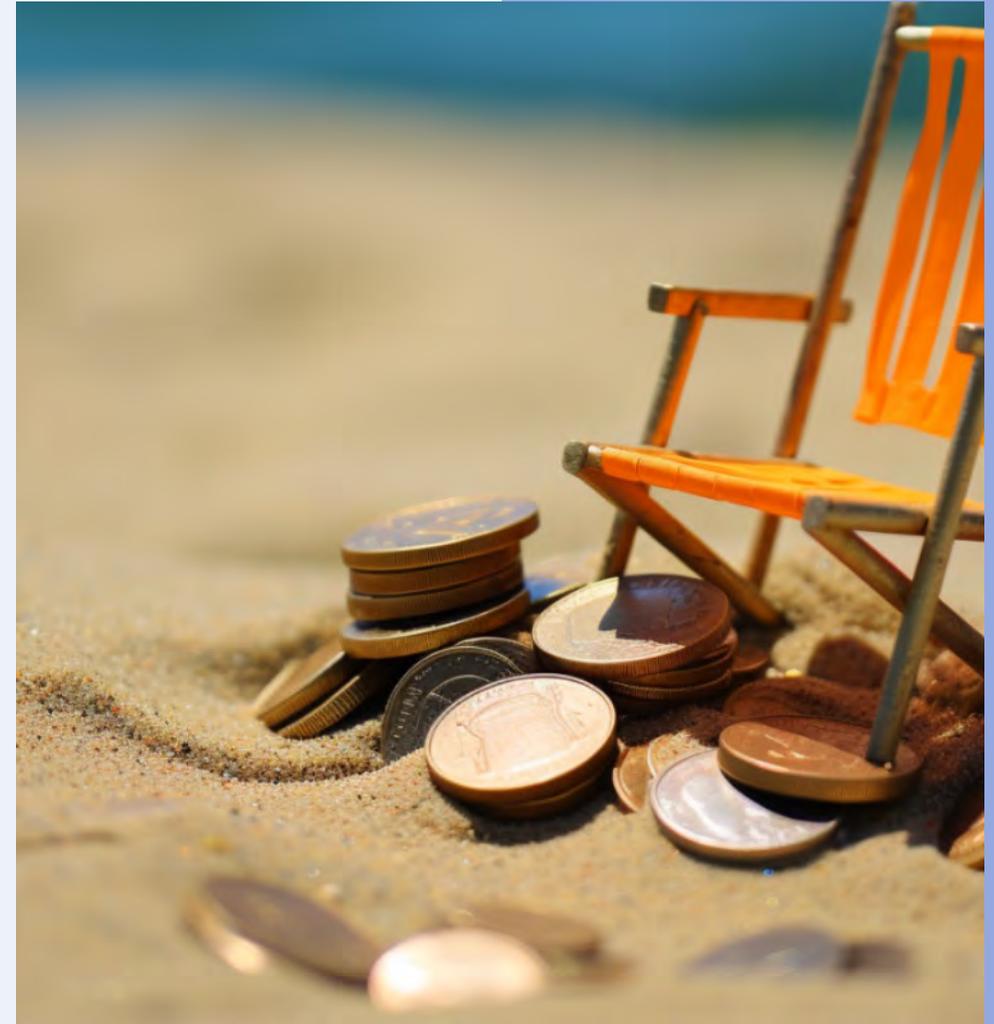
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GASB Statement 101

Compensated Absences



GASB Statement 101 – Compensated Absences

Issued: June 2022.

Effective Date: Statement 101 is effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter (i.e., calendar year 2024).

Objective: To better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. ***The Statement primarily improves consistency by providing one model for all types of compensated absences.***

Introduction to GASB Statement 101



Accrual Basis

01

GASB Statement 101 mandates that compensated absences should be accounted for on an accrual basis, ensuring that expenses are recognized when earned, not when used.

Measurement Standards

02

The statement provides clear guidelines on how to measure and disclose the liability associated with compensated absences, leading to more consistent financial reporting.

Reporting Requirements

03

Entities must report their compensated absences liabilities in the financial statements, which enhances transparency and informs stakeholders about the organization's financial health.

Key Definitions and Terminology



Accumulated Leave

- 01 Leave time that can be used or cashed out later.

Earned Benefits

- 02 Compensation earned by employees over their working period.

Usage Patterns

- 03 Trends in how employees take sick and vacation leave.

Financial Reporting

- 04 How these liabilities are reflected in financial statements.

GASB Statement 101 – Compensated Absences

What Constitutes a Compensated Absence?

Definition: A compensated absence is leave for which employees may receive one or more:

1. Cash payments when the leave is used for time off;
2. Cash payments, such as payment for unused leave, upon termination of employment; or
3. Noncash settlements, such as conversion to defined benefit postemployment benefits;
4. Examples of compensated absences include vacation (or annual) leave, sick leave, paid time off (PTO), holidays, parental leave, bereavement leave, and certain types of sabbatical leave.

Recognition of Compensated Absences

Identify

Determine the types of compensated absences applicable.

01

Measure

Calculate the total liability for the absences.

02

Recognize

Record the liability in financial statements correctly.

03

Report

Disclose relevant information in annual reports.

04

Review

Evaluate the compensated absences on a regular basis.

05



Recognition and Measurement

Liabilities for compensated absences should be measured and recognized in financial statements prepared using the economic resources measurement focus for:

- A. Leave that has been earned but not used and
- B. Leave that has been used but not yet paid or settled.

Recognition and Measurement

A liability should be recognized for leave that has not been used if ALL of the following are true:

1. The leave is attributable to services already rendered.
2. The leave accumulates (i.e., can be carried forward to future periods).
3. The leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means.

Recognition and Measurement

A government should evaluate whether leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means by assessing relevant factors, including the following:

1. The government's employment policies related to compensated absences (e.g., limits on carryover resulting in forfeited time).
2. Whether leave that has been earned is, or will become, eligible for use or payment in the future.
3. Historical information about the use, payment, or forfeiture of compensated absences.
4. Information known to the government that would indicate that historical information may not be representative of future trends or patterns.

Recognition and Measurement

- A. Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be recognized as a liability for compensated absences.
- B. This scenario is covered by the rules governing accounting for postemployment benefits.

Recognition and Measurement

C. For types of compensated absences that are dependent upon the occurrence of a sporadic event that affects a relatively small proportion of employees in any particular reporting period (i.e., unpredictable events) a government should not recognize a liability until the leave commences. For the purposes of this Statement, examples include:

1. Parental leave,
2. Military leave, and
3. Jury duty .

Recognition and Measurement

- D. A liability for compensated absences should be measured using an employee's pay rate as of the date of the financial statements, unless it is known that the compensated absence will be paid at a different rate. The current pay rate is the best estimate of the government's obligation.
- E. Changes to the measurement of the liability in future periods due to a change in pay rate should be recognized in the period of the change.

Recognition and Measurement

- F. A liability should be reported when leave is used for time off but has not yet been paid in cash or settled through noncash means. This amount may be included in other liabilities such as accrued payroll and not aggregated with the liability for other compensated absences.

- G. The measurement of the liability for compensated absences should include salary and wage related payments such as employer portion of FICA, workers compensation insurance, health insurance premiums, etc.

Recognition and Measurement

Reasonably Estimable – This standard is applied to many liabilities but does not apply to compensated absences. The necessary information is assumed to be available from Human Resources and payroll records.

Amount due within one year and the long-term portion should be estimated if any of the liability will be due in more than one year.

Implications for State and Local Governments

Financial Reporting

- 01 Accurate measurement of compensated absences enhances financial transparency for governmental entities.

Budgeting Practices

- 02 Entities must incorporate compensated absences into their budgets to ensure adequate funding for liabilities.

Policy Development

- 03 Governments should establish clear policies on accrual and usage of compensated absences for consistency.

Auditing Standards

- 04 New auditing practices will emerge to address the recognition and measurement of compensated absences.



Audit Considerations for GASB Compliance



Policy Review

Examine the organization's compensated absences policies thoroughly.



Accrual Calculation

Verify the methodology used for calculating leave accrual rates.



Compliance Check

Confirm adherence to GASB Statement 101 requirements effectively.



Financial Statements

Review the presentation of compensated absences in financial reports.



Leave Balances

Assess accuracy of recorded leave balances for all employees.



Audit Trails

Ensure proper documentation is maintained for all leave transactions.



Estimated Liability

Evaluate the estimation process for future compensated absences liabilities.



Internal Controls

Assess the effectiveness of internal controls over leave management.

Best Practices for Record-Keeping



Track Absences



Maintain accurate records of employee paid and unpaid absences.

Document Policies



Clearly outline and document compensated absences policies for employees.

Regular Updates



Ensure records are updated regularly to reflect current employee status.

Use Technology



Leverage HR software to automate tracking of compensated absences.

Train Staff



Provide training for staff to ensure compliance with record-keeping practices.

Review Records



Conduct regular audits of absence records to ensure accuracy and compliance.

Maintain Confidentiality



Protect employee privacy while maintaining accurate records of absences.

Summary of Key Takeaways

Definition

Compensated absences include holidays, sick leave, and vacation time accrued by employees.

Recognition of Liabilities

Entities must recognize liabilities for compensated absences when they are earned by employees.

Measurement of Liabilities

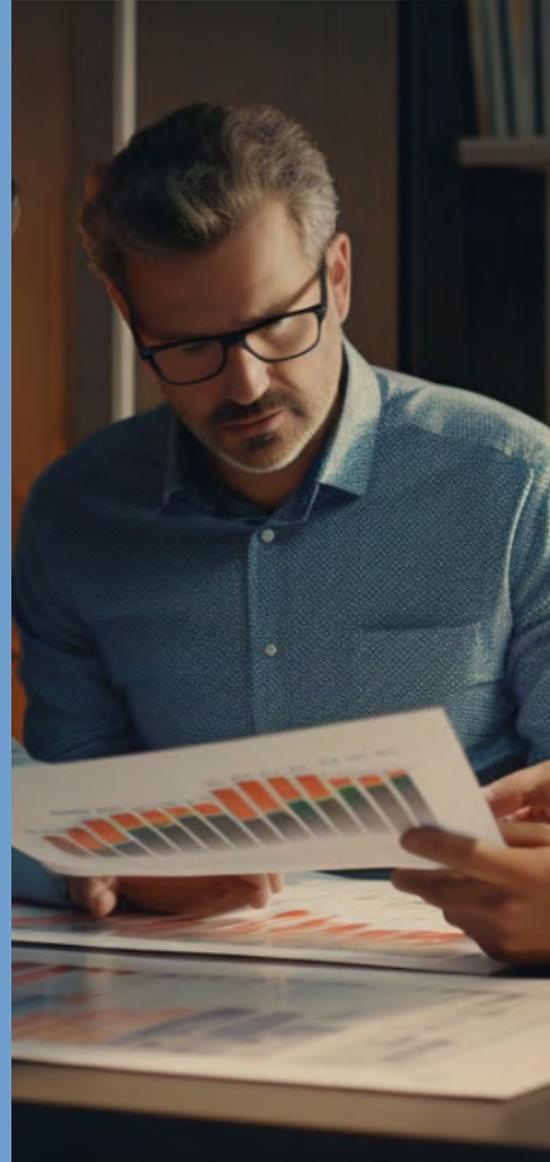
Liabilities should be measured at their current value of expected payments.

Disclosure Requirements

Required disclosures must detail total liability amounts and payment expectations.

Financial Reporting

Compensated absences affect an entity's financial position and activity reports.



THANK YOU



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GASB Statement 102

Certain Risk Disclosures

Introduction to GASB Statement 102

Objective: To provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain *concentrations* or *constraints*.

Issued: December 2023

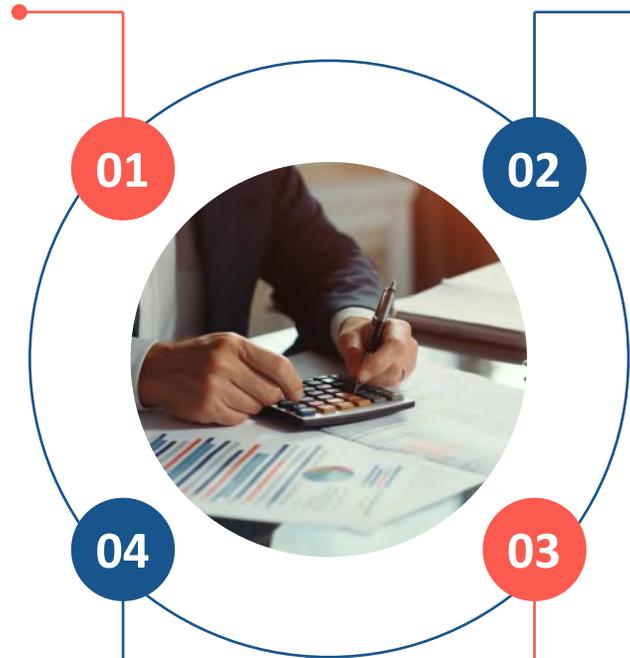
Effective Date: Fiscal Years beginning after June 15, 2024



Importance of Risk Disclosure

Enhanced Awareness

Promotes a comprehensive understanding of financial uncertainties.



Risk Management

Facilitates better risk management and strategic planning.

Compliance

Ensures adherence to GASB Statement 102 requirements.

Public Trust

Builds trust among investors, donors, and the public.

Implications

- **Transparency**
Encourages open communication about potential risks.
- **Risk Mitigation**
Supports strategies for minimizing adverse impacts.
- **Financial Health**
Affects overall stability and long-term sustainability.
- **Public Trust**
Enhances reputation and credibility in the community.

01

Market

Assess exposure to fluctuations in market conditions and performance.

02

Credit

Identify creditworthiness of counterparties to mitigate financial risks.

03

Liquidity

Evaluate ability to meet short-term financial obligations as they arise.

04

Operational

Understand risks associated with internal processes and systems failures.

05

Legal

Disclose potential legal challenges that may impact financial stability.

Types of Risks to Disclose

GASB Statement 102 – Definitions

Concentration - A lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. Examples Include:

1. Cash balances in excess of FDIC insured amounts.
2. Significant portion of funding from one source.

Constraint - A limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority.

1. Restricted contributions or grants.
2. Bond issues for a specific purpose.

GASB Statement 102 - Disclosure Criteria

1. A concentration or constraint is known to the government prior to the issuance of the financial statements.
2. The concentration or constraint makes the reporting unit vulnerable to the risk of a substantial adverse impact.
3. An event or events associated with the concentration or constraint that could cause a substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.

GASB Statement 102 Disclosure Requirements

1. The nature of the concentration or constraint and the potential impact.
2. Each event associated with the concentration or constraint that could cause a substantial impact if the event had occurred or had begun to occur prior to the issuance of the financial statements or is more likely than not to occur in the next 12 months.
3. Actions taken by the government prior to the issuance of the financial statements to mitigate the risk.

GASB Statement 102 – Other Key Points

- A. Stakeholders have expressed concerns about “Off Balance Sheet” liabilities.
- B. These concerns were amplified by the COVID-19 pandemic.
- C. GASB Statement 102 requires a broader view of risk that could disrupt operations than was previously required.
- D. Application of Statement 102 requires professional judgement and is based on both qualitative and quantitative factors.
- E. APPENDIX C of Statement 102 provides examples of how this Statement should be applied.

Impact of Technology on Risks



01

Data Breaches

Increased vulnerability due to cyber threats requires strong security protocols.

02

Automation Risks

Reliance on automation can lead to errors without proper monitoring.

03

Compliance Challenges

Rapid technology changes create difficulties in maintaining compliance standards.

04

Disaster Recovery

Technology impacts effectiveness of disaster recovery plans and response times.

05

Data Privacy

Need for greater safeguards as large volumes of data are processed.

06

Vendor Management

Increased dependency on third-party vendors complicates risk assessment.

07

Continuous Monitoring

Implementation of real-time monitoring is essential to mitigate technology risks.

Future Trends in Risk Disclosure

Increased Transparency

Organizations will provide more detailed and clearer risk information.

01

Technology Integration

Utilizing technology to enhance risk assessment and reporting processes.

02

Stakeholder Engagement

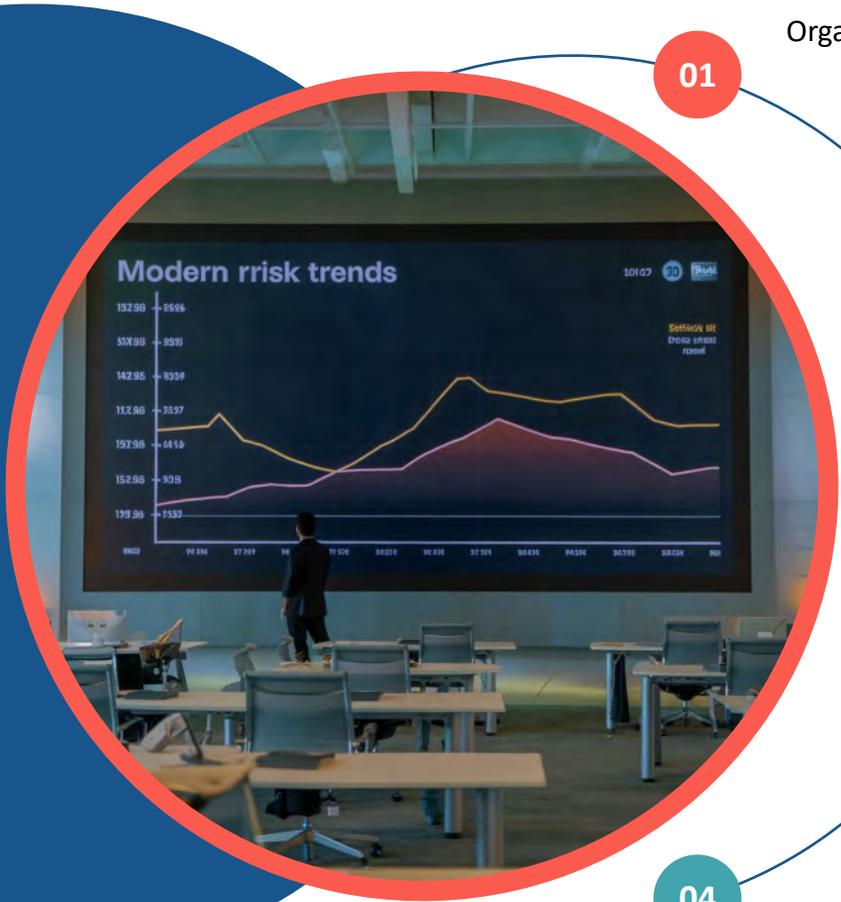
Engaging stakeholders to obtain feedback on risk disclosures provided.

03

Harmonization Efforts

Aligning risk disclosure practices with global standards and frameworks.

04





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Top reasons CPAs lose clients to financial advisors, and how to stop it.



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Strategic partnerships:



- **Our commitments:**

- Speak to an advisor within hours, not days or weeks, with lightning fast administrative support.

- Provide access to in-house tax, legal, investment, and estate planning strategies and professionals who will work in collaboration with your existing counsel.

- **Silvertree, LLC** is a wealth management firm primarily working with individuals and families in manufacturing with 3 distinct divisions.



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Retirement Planning

Services tailored for middle-class and mass affluent workers, often in manufacturing.

Services include:

- ▶ Investments
- ▶ Financial Planning
- ▶ 401k and work benefits management
- ▶ Tax Planning
- ▶ Estate Planning
- ▶ Retirement Income Planning
- ▶ Social Security Planning
- ▶ Pre and post age 65 Health Insurance Planning
- ▶ Budgeting and Debt Management
- ▶ Asset Protection



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Specialized services for business owners and executives in manufacturing.

Services include:

- ▶ Key Employee Retention
- ▶ Value Acceleration Methodology™
- ▶ Business Valuation
- ▶ Mergers & Acquisitions
- ▶ Exit Planning
- ▶ Strategic Planning
- ▶ Succession Planning
- ▶ Weaponized ERISA compliant plans
- ▶ Employee financial wellness
- ▶ Liquidity Event Planning
- ▶ Asset Protection
- ▶ Admin Efficiency



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- ▶ Succession Planning
- ▶ Weaponized ERISA compliant plans
- ▶ Employee financial wellness
- ▶ Liquidity Event Planning
- ▶ Asset Protection
- ▶ Admin Efficiency

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Private Client Group

Bespoke, high touch, advanced services for those with investable assets of \$3 million or more, or net worth of \$5 million or more.

Services include:

- ▶ All Silvertree Retirement planning services
- ▶ Advanced sophisticated tax strategies
- ▶ In-house support from tax attorneys, CPAs, and MBAs with no additional cost
- ▶ Alternative Investment platforms
- ▶ Multi-custodial arrangements
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- ▶ Family Office Services
- ▶ Multi-Generational Estate Planning
- ▶ Personal Cyber Security

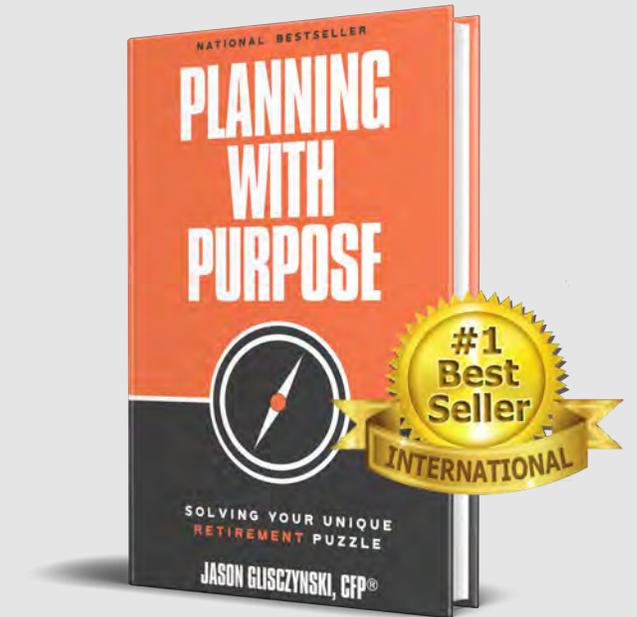


Jason Glisczynski - CFP[®], CPWA[®], CEPA[®]

Managing Partner

Investment Advisor Representative

- Co-Founder and Managing Partner: Silvertree, LLC.
- CFP[®] - CERTIFIED FINANCIAL PLANNER™ practitioner
- CPWA[®] - Certified Private Wealth Advisor professional
- CEPA[®] - Certified Exit Planning Advisor
- International Best-Selling Author: *Planning with Purpose*
- Veteran USAF (United States Air Force)
- AICPA – American Institute of Certified Public Accountants: Candidate
- Avid supporter of the manufacturing industry and CPA profession
- Volunteerism:
 - CWSO Treasurer (Central Wisconsin Symphony Orchestra)
 - Finance Committee Celebrate Plover Foundation
 - Finance Committee Boys & Girls Club of Central Wisconsin
 - Instructor: National Council on Aging (NCOA)
 - Speaker for WICPA (Wisconsin Institute of Certified Public Accountants)





Please allow me to share **my personal story**, why I have the privilege of speaking with you, and why you can **believe what I have to say.**



What were the primary causes for my situation?

- Lack of coordination between tax, legal, wealth advisory, and enterprise value advisory
- Misunderstood (and flat out incorrect) valuation
- Failure to proactively plan, leaving decisions to the last minute
- Breakdown of communication within the family unit



Learning Objectives

- Identify the top reasons CPAs are losing business, and losing clients to financial advisors
- Practical solutions to counter the potential for client loss
- Bonus (if time permits): Two sophisticated tax savings strategies
- Double Bonus (if time permits): How to kill email



How do CPAs view financial advisors?

CPAs' views on financial advisors depend largely on **prior experiences, trust, professionalism**, and whether both parties **genuinely collaborate** with the **client's best interests** **in mind.**



How do CPAs view financial advisors?

- **Sales Focused:** Focused on commissions or products rather than client interests, causing trust issues and skepticism



I just so happen to have the perfect car for you on my lot right now.



*perfect for
Everyone!*



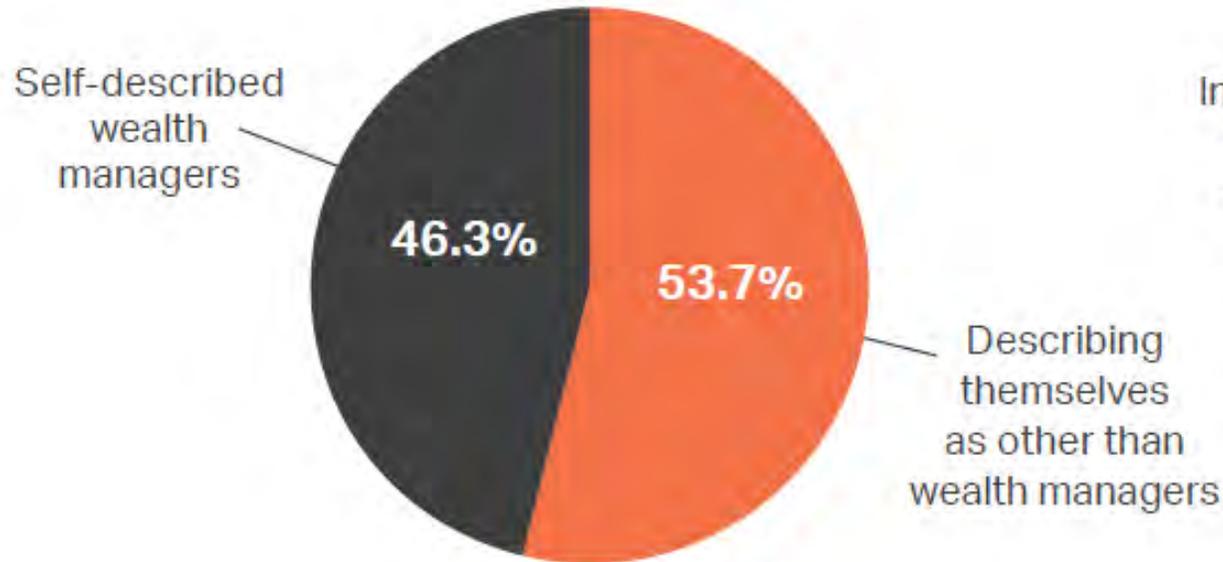
How do CPAs view financial advisors?

- **Sales Focused:** Focused on commissions or products rather than client interests, causing trust issues and skepticism
- **Failure to consider taxes:** Many advisors do not fully consider current and future tax implications

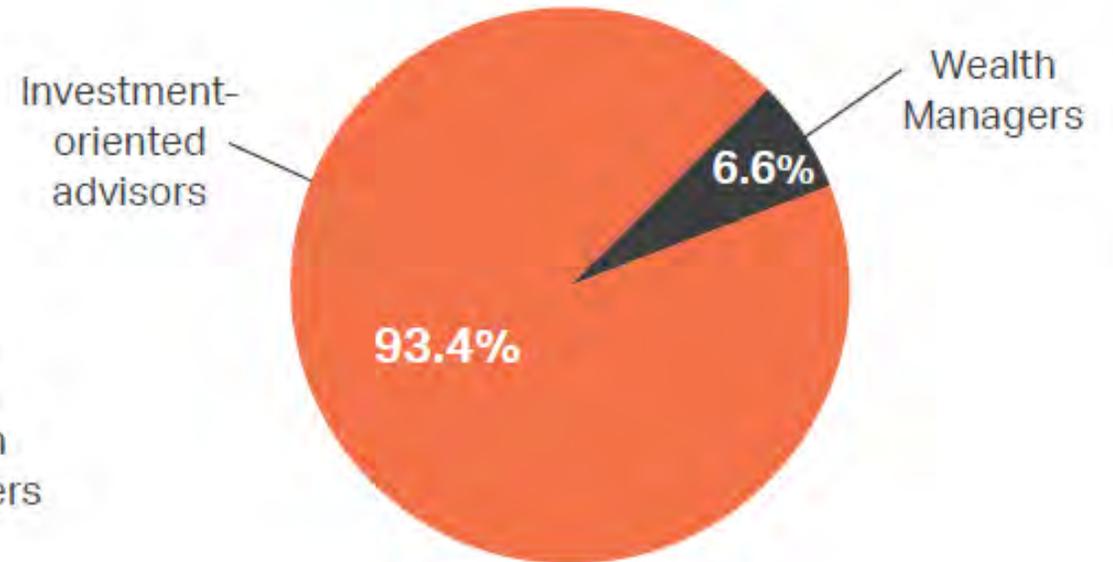


The Business Models of Financial Advisors

Many Advisors Call Themselves Wealth Managers



Few Advisors Are Actually Wealth Managers



N = 2,094 financial advisors. Source: CEG Worldwide, 2007.

Less than 7% of financial professionals are knowledgeable AND able to execute strategies in the 4 key areas of advanced planning:



How do CPAs view financial advisors?

- **Sales Focused:** Commissions or products rather than client interests come first, causing trust issues and skepticism
- **Failure to consider taxes:** Many advisors do not fully consider current and future tax implications
- **Referrals are risky:** An advisor giving poor advice reflects poorly on the CPA who referred them
- **Competitive pressure:** Financial advisors are seen as competitors, and roles are blurred



How do financial advisors view CPAs?

Financial advisors mostly hold CPAs in high regard due to their **essential tax and financial expertise**, viewing them as **vital collaborators** for delivering **holistic client solutions**. Nonetheless, the relationship requires **good communication**, **mutual respect**, and **role clarity** to avoid tension or misunderstandings.



How do financial advisors view CPAs?

- **Historical Focus:** CPAs can be overly conservative or focused on historical tax compliance and immediate tax relief rather than forward-looking strategies
- **Sales Friction:** Financial and tax strategies may involve the sale of a financial product, which CPAs may interpret as a “win” for the advisor only
- **Competing interests:** Some CPA firms may offer financial planning or wealth management services, blurring professional boundaries.
- **Misalignment on client priorities:** CPAs tend to be taxed focus only



Analysis Matrix

Aspect	Why Clients Leave their CPA	Solutions

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Tax Savings Analysis for 2025



Opportunities Identified to Reduce Your Annual Tax

Retirement	\$115,288
Income Shifting	\$41,650
Personal - Other	\$5,178
Personal investment	\$30,370
Business - Other	\$140,134
Depreciation	\$41,650
Itemized Ded	\$0
Cap Gains	\$31
Business Sale	\$0
Pre-Tax Benefits	\$2,143

Estimated Year 1 Tax Savings \$376,444

Year 2 & Forward Savings

Retirement	\$115,288
Personal investment	\$30,370
Business - Other	\$140,134
Itemized Ded	\$0
Pre-Tax Benefits	\$2,143
Personal - Other	\$0

Estimated Year 2 & Forward Tax Savings (per year) \$287,935

Your investment in :

Reoccurring Fee \$103,921

Net Deductible Increase in Investment to us: \$103,921

After tax investment: \$65,470

After Tax Yearly Investment to us after Year 1: \$65,470

Projected Gain on Your Investment by End of Year 1: \$310,974

Return on investment: 475%

Projected Net Tax Savings for Year 2 to 10: \$2,002,185

Total Tax Savings Over the Next 10 Years \$2,313,159

Disclaimer of Professional Advice. The information provided through the Products is not and shall not be construed as tax, accounting, legal, regulatory or other professional advice or sufficient to satisfy any tax, accounting, legal, regulatory or other professional requirements. Customer and/or each User should consult tax, accounting, legal, regulatory or other professional advisor(s) for advice. None of the Products nor any related services or any portion thereof shall constitute or be construed as (a) a solicitation, offer, opinion or recommendation by TaxPlanIQ its affiliates or any supplier, for any transaction in any financial instrument, including but not limited to securities or (b) forming an attorney-client relationship.

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Client Relationship Management	Neglect beyond tax season leads to attrition, leaving clients feeling "uncared for"	Ongoing engagement beyond compliance, continuously monitoring relationship fit

5 Action Steps

1. Review current service offerings, explore additional services or collaboration opportunities
2. Establish client communication standards and protocols
3. Demonstrate value through dollars and time saved
4. Implement joint communication standards with internal and external partners.
5. Regularly evaluate relationship fit of clients and internal/external partners.



BONUS: Tax Mitigation Strategies

- Cash Balance Plans



C A S E S T U D Y

- Small construction firm with 6 employees
- Two owners, ages 47 and 41
- Four remaining employees
- Goal is to maximize contributions in favor of the owners while providing benefits to the staff.
- Clients reviewed traditional defined benefit and cash balance options.

BENEFIT-FOCUSED RETIREMENT PLAN

Year one contribution comparison

PLAN TYPE	MAXIMUM CONTRIBUTION	TAX SAVINGS**
A traditional defined benefit plan design	\$397,926	\$198,963
Benefit-focused basic plan design	\$663,293	\$331,647
Benefit-focused standard plan design	\$1,143,556	\$571,778

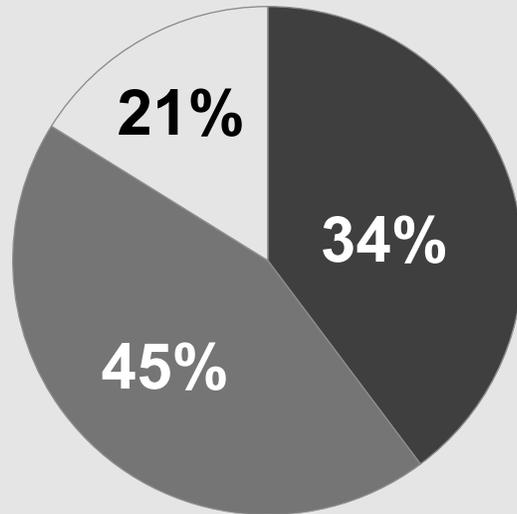
**The Internal Revenue Code established Revenue Rulings which allow options in designing life insurance benefits provided by the plan.*

***Based on an income tax rate of 50%.*

CONTRIBUTION DISTRIBUTION BETWEEN PARTICIPANTS

Traditional defined benefit plan

CONTRIBUTION PERCENTAGE

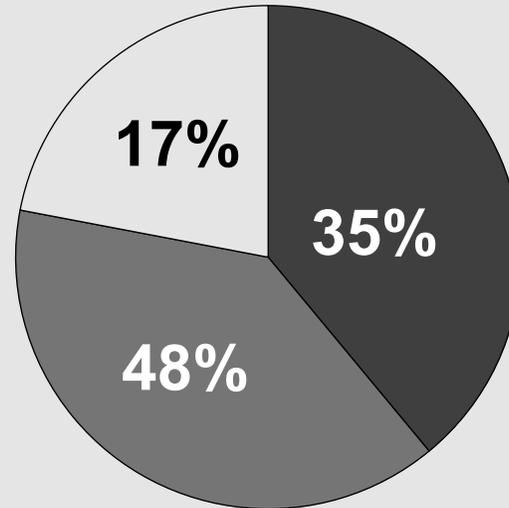


■ Owner 1 ■ Owner 2 □ Employees

Total contribution: \$397,926
79% by owners

Benefit-focused basic insurance defined benefit plan

CONTRIBUTION PERCENTAGE

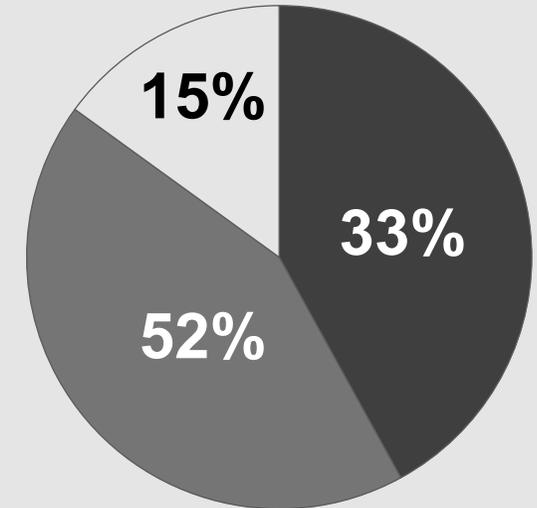


■ Owner 1 ■ Owner 2 □ Employees

Total contribution: \$663,293
83% by owners

Benefit-focused standard insurance defined benefit plan

CONTRIBUTION PERCENTAGE



■ Owner 1 ■ Owner 2 □ Employees

Total contribution: \$1,143,556
85% by owners

Key Takeaways

- Business owners looking for ways to reduce tax, and increase their personal wealth may benefit from a cash balance plan
- A cash balance plan must be actuarially compliant
- The business **MUST** have the ideal employee census for it to work
- Not all plans are created equal, only work with qualified counsel



BONUS: Tax Mitigation Strategies

- Cash Balance Plans
- Tax Loss Harvesting – Section 1250 recapture management

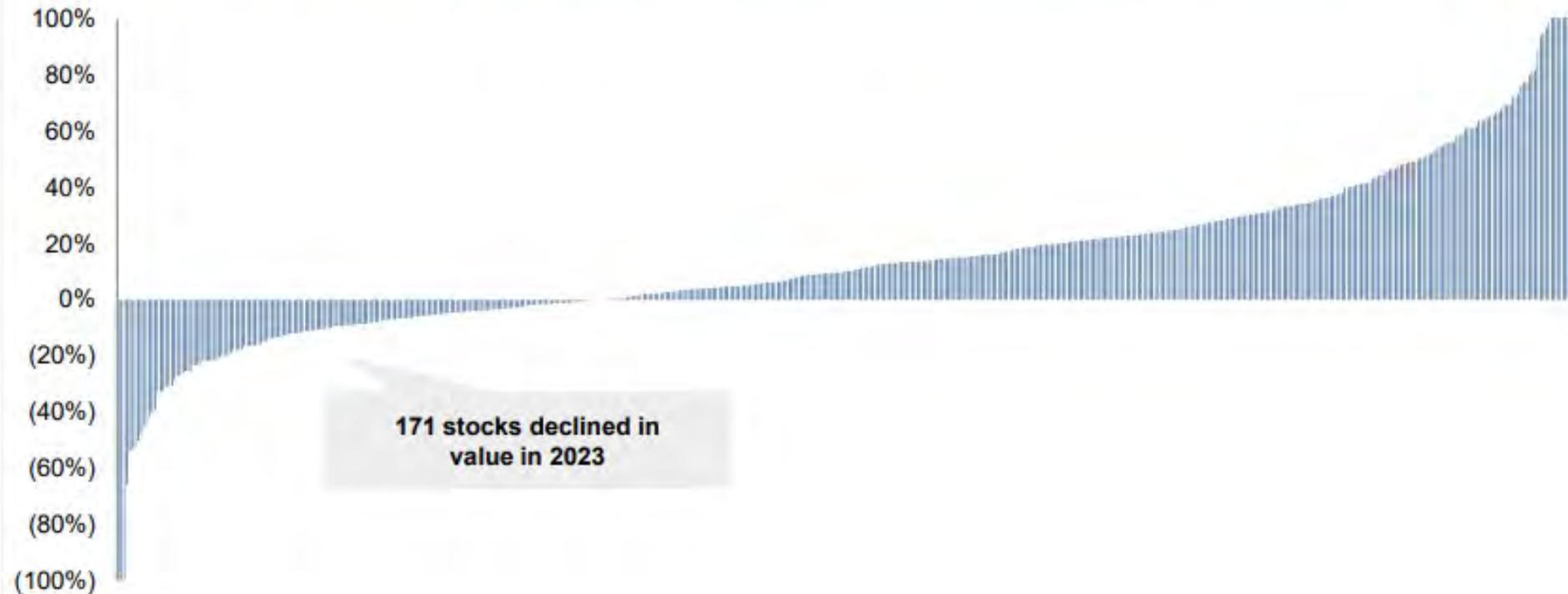


When Markets Appreciate Significantly...

2023: S&P 500® return 26.29%

72% of the stocks in the S&P 500® had a maximum drawdown of more than 15% at some point during 2023.

Return (%)

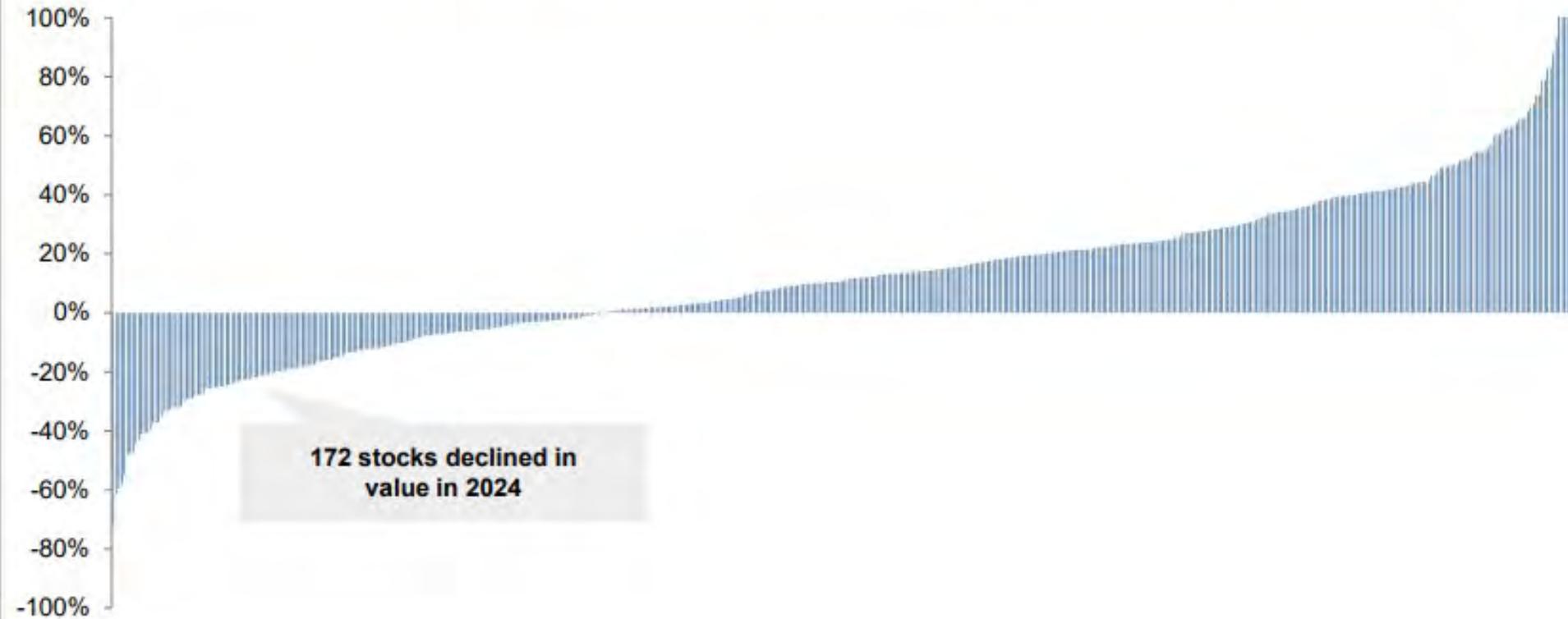


Losses Aren't the Goal, yet Every Investor Experiences Them

2024: YTD S&P 500® return 25.02%

69% of the stocks in the S&P 500® had a maximum drawdown of more than 15% at some point during 2024.

Return (%)



172 stocks declined in value in 2024



Reference Return based on 70% Russell 3000 (IWV) / 30% MSCI ACWI ex-US (ACWX)

Trailing 12-Month Performance

Period	Net Return	Ref Return	Outperf	Tax Benefit	Value-Add	Ending Value	Realized ST GL	Realized LT GL	Net Losses
Oct-2024	-0.9%	-1.9%	1.0%	0.3%	1.3%	\$8,102,585	(\$67,970)	\$16,646	(\$51,324)
Nov-2024	4.6%	4.7%	-0.1%	0.6%	0.5%	\$8,469,979	(\$132,412)	\$24,823	(\$107,589)
Dec-2024	-3.1%	-3.0%	-0.1%	0.3%	0.2%	\$8,200,445	(\$67,677)	\$5,767	(\$61,910)
Jan-2025	3.9%	3.2%	0.7%	0.3%	1.0%	\$8,515,099	(\$56,591)	\$9,278	(\$47,313)
Feb-2025	-0.1%	-0.6%	0.5%	0.2%	0.7%	\$8,505,881	(\$43,430)	\$15,482	(\$27,948)
Mar-2025	-4.5%	-4.0%	-0.6%	0.2%	-0.4%	\$8,115,974	(\$38,443)	\$3,402	(\$35,041)
Apr-2025	0.2%	0.2%	0.0%	0.4%	0.5%	\$8,128,795	(\$84,792)	\$1,987	(\$82,805)
May-2025	5.7%	5.8%	-0.1%	0.2%	0.1%	\$8,589,976	(\$40,238)	\$4,703	(\$35,535)
Jun-2025	4.9%	4.7%	0.2%	0.3%	0.5%	\$9,007,145	(\$64,977)	\$1,976	(\$63,001)
Jul-2025	1.0%	1.3%	-0.3%	0.2%	-0.1%	\$9,090,698	(\$57,057)	\$15,656	(\$41,401)
Aug-2025	2.6%	2.9%	-0.2%	0.1%	-0.1%	\$9,323,528	(\$40,434)	\$14,011	(\$26,423)
Sep-2025	3.8%	3.5%	0.3%	0.2%	0.5%	\$9,669,766	(\$67,769)	\$21,991	(\$45,778)
Year 2023	10.9%	10.4%	0.5%	2.3%	2.8%	\$6,899,134	(\$464,628)	\$181,483	(\$283,145)
Year 2024	19.6%	17.8%	1.8%	4.1%	5.9%	\$8,200,445	(\$825,517)	\$83,906	(\$741,611)
Year 2025	18.5%	17.9%	0.6%	2.1%	2.7%	\$9,669,766	(\$493,732)	\$88,485	(\$405,247)
Cumulative	57.2%	53.3%	3.9%	8.5%	12.3%	\$9,669,766	(\$1,783,877)	\$353,874	(\$1,430,003)
Ann. Return	21.4%	20.1%	1.3%	3.6%	4.9%				
Ann. Rlzd Risk	11.5%	11.9%	1.6%	0.4%	1.6%				
Ann. Ret / Risk	1.9	1.7	0.8	10.3	3.1				

Net Return: Account Net Return

Ref Return: Reference Return

Outperf: Account Net Return - Reference Return

Tax Benefit: Tax Savings as % of starting period account value

Quantinno Value-Add: Outperformance from Quantinno + Tax Benefit

Realized ST GL: Realized Short Term Gains (Losses)

Realized LT GL: Realized Long Term Gains (Losses)

Cumulative: Cumulative, Since Inception

Ann. Return: Annualized Return, Since Inception

Ann. Rlzd Risk: Annualized Realized Risk, Since Inception

Ann. Ret / Risk: Annualized Return / Risk, Since Inception

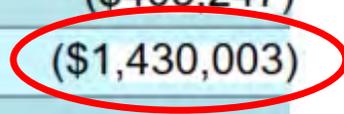
Reference Return based on 70% Rus

Trailing 12-Month Performance

	Ending Value	Realized ST GL	Realized LT GL	Net Losses
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\$1,567,181 increase in wealth



Capital loss carryforward



Net Return: Account Net Return
 Ref Return: Reference Return
 Outperf: Account Net Return - Reference Return
 Tax Benefit: Tax Savings as % of starting value
 Quantinno Value-Add: Outperformance
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BONUS: Tax Mitigation Strategies

- Cash Balance Plans
- Tax Loss Harvesting – Section 1250 recapture management

“When short-term capital loss and long-term capital loss (including carryover losses) exceed the combined 28% gain and unrecaptured section 1250 gain, no amount appears on Schedule D (1040), line 19. Thus, when Schedule D, lines 15 or 16 are losses, there is no net capital gain, and no ensuing need to consider what part of the gain is taxed at unrecaptured Section 1250 rates.” ~George Dimov, CPA



DOUBLE BONUS: Kill Email

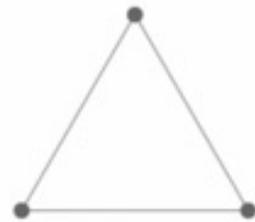
- In Box Zero and delegated access



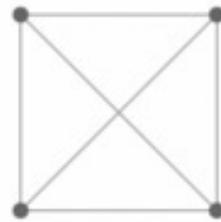
Operational Efficiency



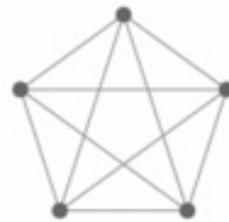
Operational Efficiency



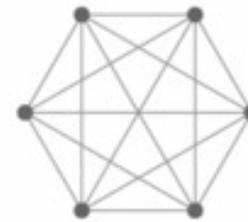
3 people, 3 lines



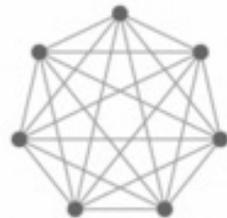
4 people, 6 lines



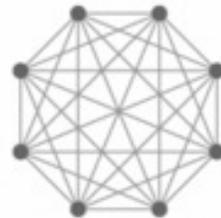
5 people, 10 lines



6 people, 15 lines



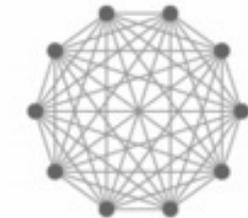
7 people, 21 lines



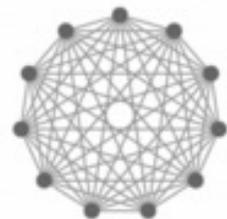
8 people, 28 lines



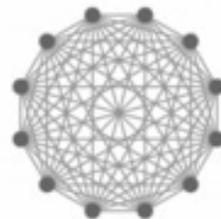
9 people, 36 lines



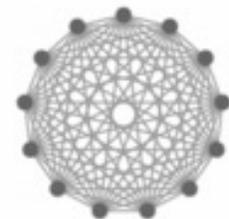
10 people, 45 lines



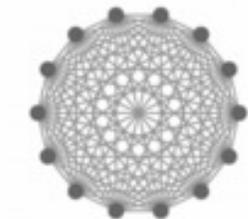
11 people, 55 lines



12 people, 66 lines



13 people, 78 lines



14 people, 91 lines

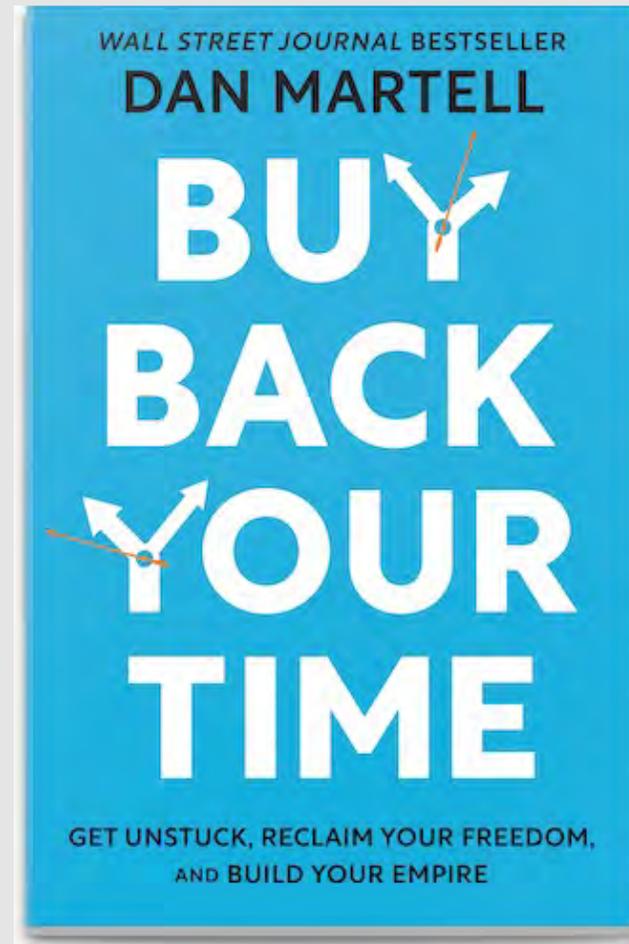
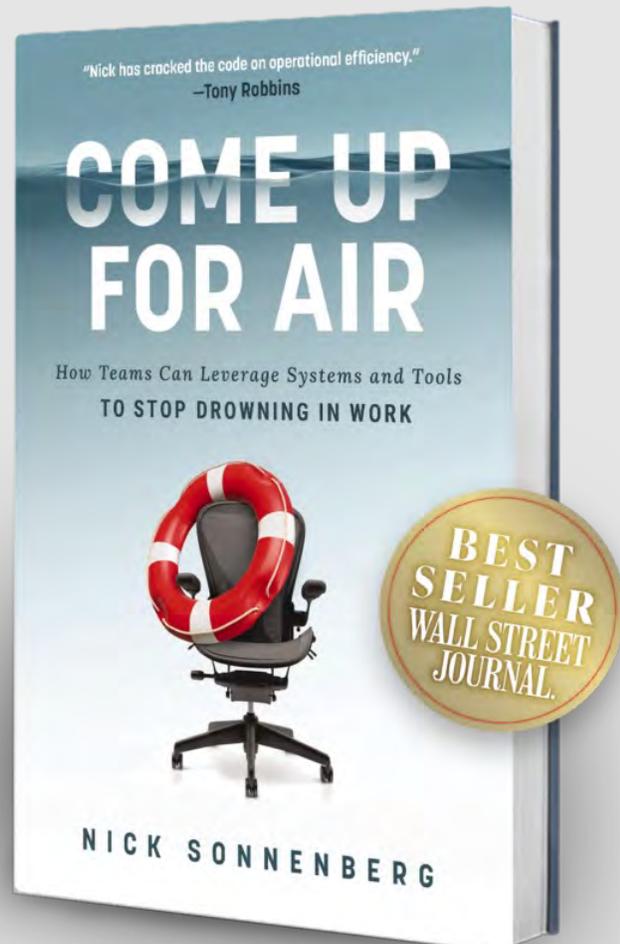


Operational Efficiency

- 1. Implement a process for efficient communication**
- 2. Deploy the right tools to handle—**
 - a. Internal communication**
 - b. External communication**
 - c. Project management**
 - d. Information storage and recall**
- 3. Delegate and/or outsource non-core activities**
- 4. Utilize “time blocking”**



Operational Efficiency



Jason Glisczynski, CPWA[®], CFP[®]

Private Wealth Advisor

Investment Advisor Representative

www.silvertreeplan.com

715-544-1610

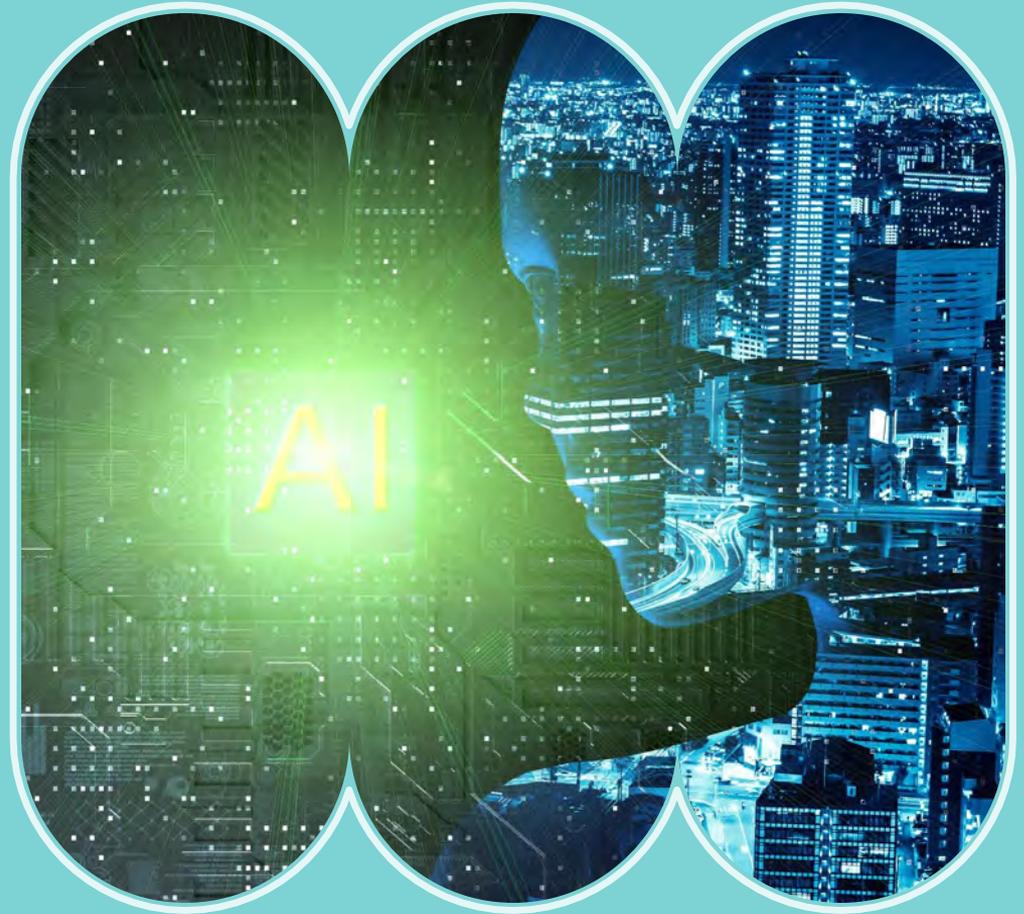
jason@silvertreeplan.com

Schedule time with me



AI AND EXCEL PRACTICAL TOOLS AND INSIGHTS FOR ACCOUNTANTS

November 20, 2025



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Purpose and Learning Objectives



Understanding Industry Changes

Explore technological and client expectation changes reshaping the accounting profession today.

Adapting to Rapid Change

Learn effective strategies to adapt to rapid advancements in AI and Excel tools within accounting.

Practical AI and Excel Applications

Examine real-world examples of AI and Excel applications that can be implemented immediately in accounting tasks.

Enhancing Workflow and Service

Gain actionable knowledge to improve workflows and better serve clients in a digital environment.





AI Relevance in Accounting



Our people want better experiences at a faster pace

Our people shouldn't have to “pay their dues”

And they're going to use AI whether we want them to or not



Reason #1: Our People



Rick's First Year

I'm ready to make a positive impact on my clients



Young Rick began with pride and flair, bright-eyed, sharp-suited... and full of hair.



But stacks of returns began to rise, and 1099s blurred his eyes.

... I suppose my fast 10-key skills are a kind of positive impact...



Yes, I thought they qualified for the credit, but that software isn't intuitive

As April loomed, tempers flared, frustration echoed—no one cared.



At least the 4/15 party was kinda fun...

No client calls, no thrilling pitch—Just spreadsheets, stress, and keyboard twitch.

Our clients expect more... and expect it faster

Possibilities are rapidly evolving

And our competitors are going to use AI whether we want them to or not



Reason #2: Our Clients

(external and internal clients)



AI Is Coming for the Consultants. Inside McKinsey, ‘This Is Existential.’

If AI can analyze information, crunch data and deliver a slick PowerPoint deck within seconds, how does the biggest name in consulting stay relevant?

By [Chip Cutter](#) [Follow](#)

Aug. 2, 2025 11:00 am ET

BUSINESS INSIDER

FINANCE

PwC is training junior accountants to be like managers, because AI is going to be doing the entry-level work

By [Polly Thompson](#)

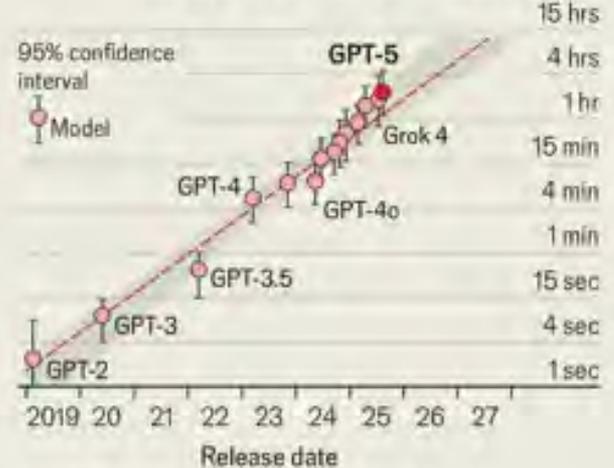


Thrive-backed accounting firm Crete to spend \$500 million in AI roll-up

Right on time

Software-engineering tasks where selected LLM achieves a 50% success rate

Average task duration for humans, log scale



Source: Model Evaluation & Threat Research

BUSINESS INSIDER

AI

Anthropic CEO says AI could wipe out half of all entry-level white-collar jobs

By [Ana Altechek](#) and [Sarah Perkel](#)



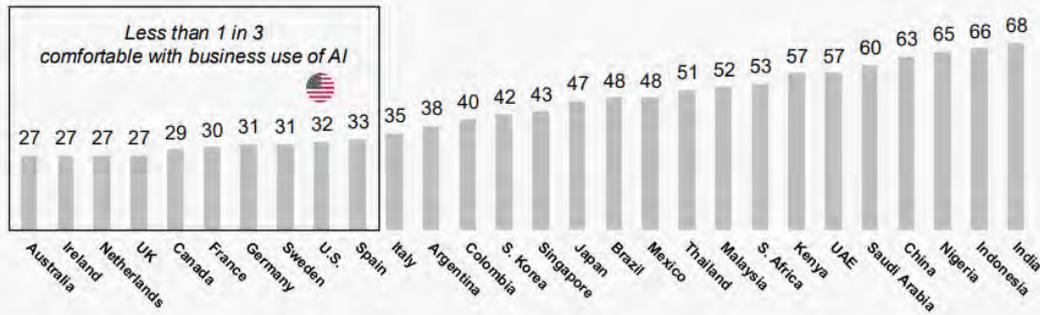
Nearly 1 in 2 Skeptical of Business Use of Artificial Intelligence

Percent who say

GLOBAL 28

I am comfortable with business using AI

ONLY
44%



2025 Edelman Trust Barometer. AI (INT. KPI). For each of the following institutions, please indicate whether their general use of artificial intelligence such as machine learning, natural language processing, and generative AI is something you are comfortable with or something you are concerned about (5-pt scale; top 2 box, comfortable). Question asked of half the sample. General population, 28/mk avg.





The What





EMBRACE THE
CHANGE

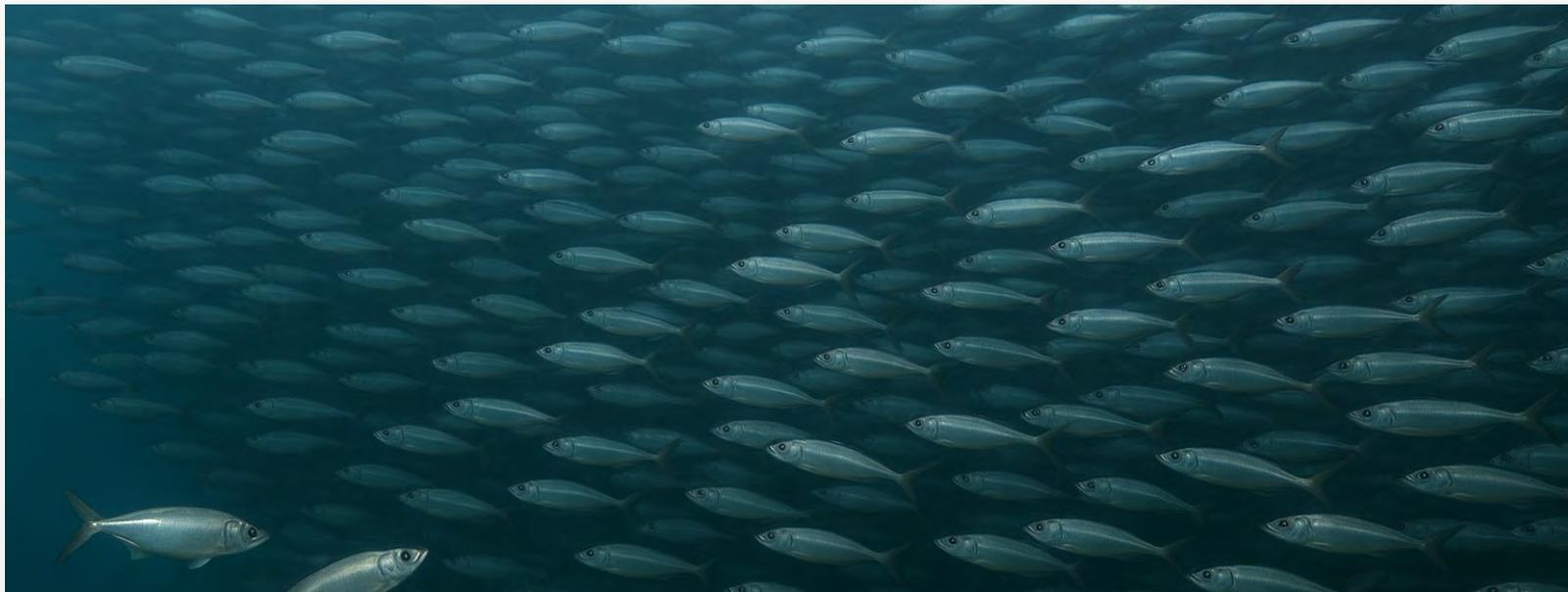


DEMOCRATIZE AI AND
DIGITAL TECHNOLOGY



TRANSFORM OUR
TALENT

Committed Sardine





The How



Let's Choose a few Examples...

Working in Excel (AI Analysis)

How can I better understand and analyze my data? (Copilot)

Document Extraction

How can AI extract and summarize batches of documents? (Copilot)

Reporting and Analysis

How can AI help review reports and identify insights? (LLMs)

Working in Excel (Transformations)

How can I clean, combine, and summarize my data? (Power Query)

Agents

How can I create an agent to guide teams through recurring tasks?





[Placeholder for Videos /
Demos]



Key Takeaways

AI as Essential

AI is critical for competitiveness and meeting both internal and external business demands today.

Available AI Tools

Tools like Excel, Copilot, Power Query, and AI agents are ready for immediate use to enhance workflows.

Cultural Shift Required

Successful AI adoption needs a cultural change emphasizing democratized access and talent development.

Accountants Leading Change

Accountants must lead AI adoption to increase their impact and market value through proactive adaptation.





The Onboarding Experience — Making a Lasting Impression

**How to Engage and Support New
Employees Effectively**

November 20, 2025





Onboarding Success Roadmap

- **Understanding the Goals of Onboarding**
- **Facilitator's Insights:** Decades of HR Experience
- **Best Practices and Key Stats** for Effective Onboarding
- **Interactive Exercise:** Mapping Your Onboarding Process
- **Takeaway Tools:** Customizing Your Onboarding Experience

Understanding the Goals of Onboarding

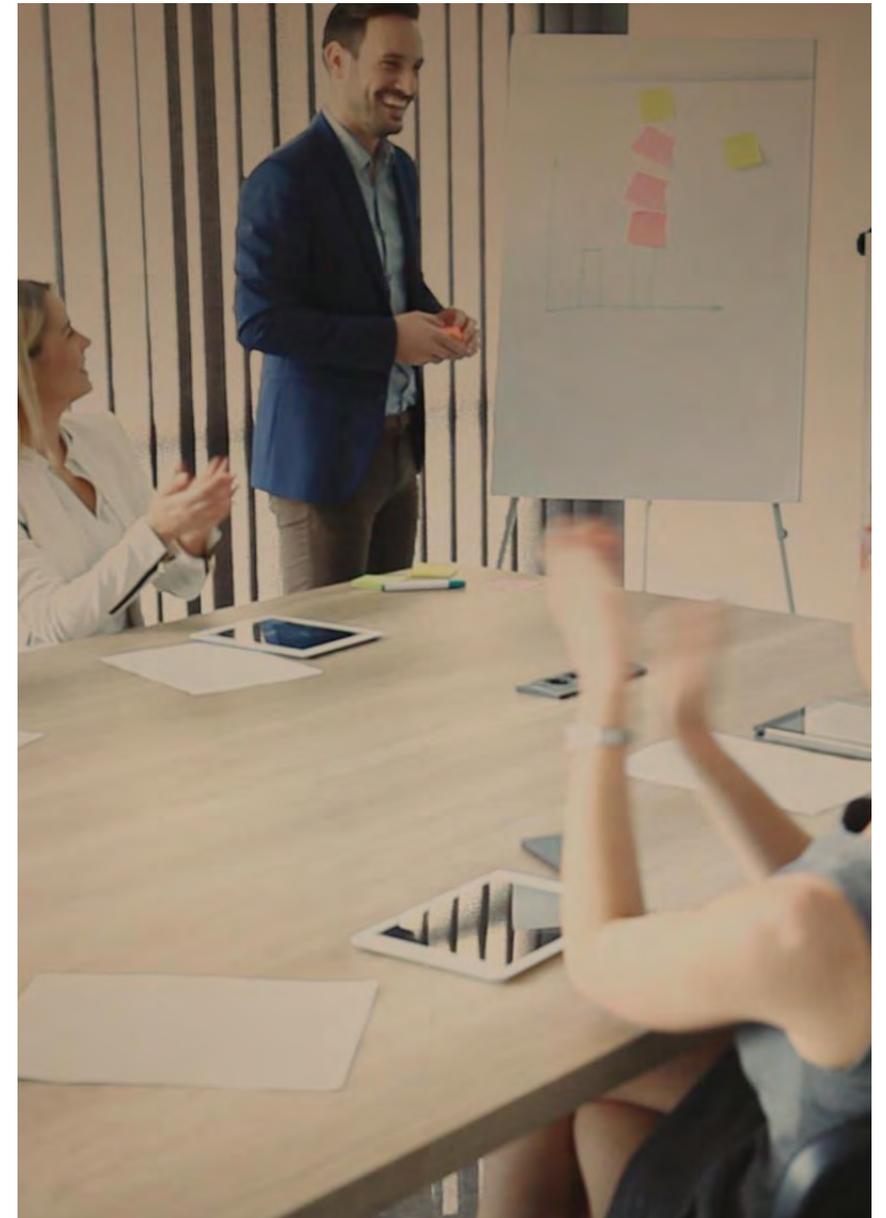
Defining Onboarding and Its Importance

- **Onboarding Overview:** Onboarding helps new employees get into the company culture and daily workflows.
- **Impact on Retention and Productivity:** Good onboarding keeps employees around and boosts productivity.
- **Designing Effective Programs:** Knowing about onboarding helps create programs that get employees engaged and successful early on.



Balancing New Hire Experience with Organizational Efficiency

- **Welcoming New Hires:** Creating a supportive environment helps new employees feel valued and engaged from day one.
- **Aligning with Operational Goals:** Onboarding strategies should fit with team goals to keep things running smoothly.
- **Balancing Support and Efficiency:** Good onboarding balances personal support with productivity to benefit both employees and teams.



Learning Objectives for the Workshop



Understanding Best Practices

Learn key onboarding best practices to help new employees succeed.



Identifying Common Challenges

Find out about typical onboarding challenges you might face.



Customizing Onboarding Tools

Get tools to tailor onboarding processes to your organization's needs.

Insights: Decades of HR Experience



Overview of HR Background

HR Management Expertise

Decades of experience managing HR functions across different industries and company sizes.

Employee Engagement

Skilled in boosting employee motivation, satisfaction, and retention.

Talent Development

Expert in creating programs to grow employee skills and careers.

Lessons Learned From Working with Small to Mid-Sized Businesses

Common Themes in SMBs

Small to mid-sized businesses share common challenges like limited resources and personalized culture.

Unique Onboarding Needs

SMBs require onboarding processes tailored to their specific structures and cultural values.

Maximizing Integration and Retention

Tailored approaches enhance new hire integration and improve employee retention outcomes.



Common Onboarding Challenges and Solutions



Inconsistent Processes

Onboarding often suffers from varying approaches causing confusion and inefficiency among new hires.

Communication Gaps

Lack of clear communication leads to misunderstandings and delays in onboarding progress.

Resource Constraints

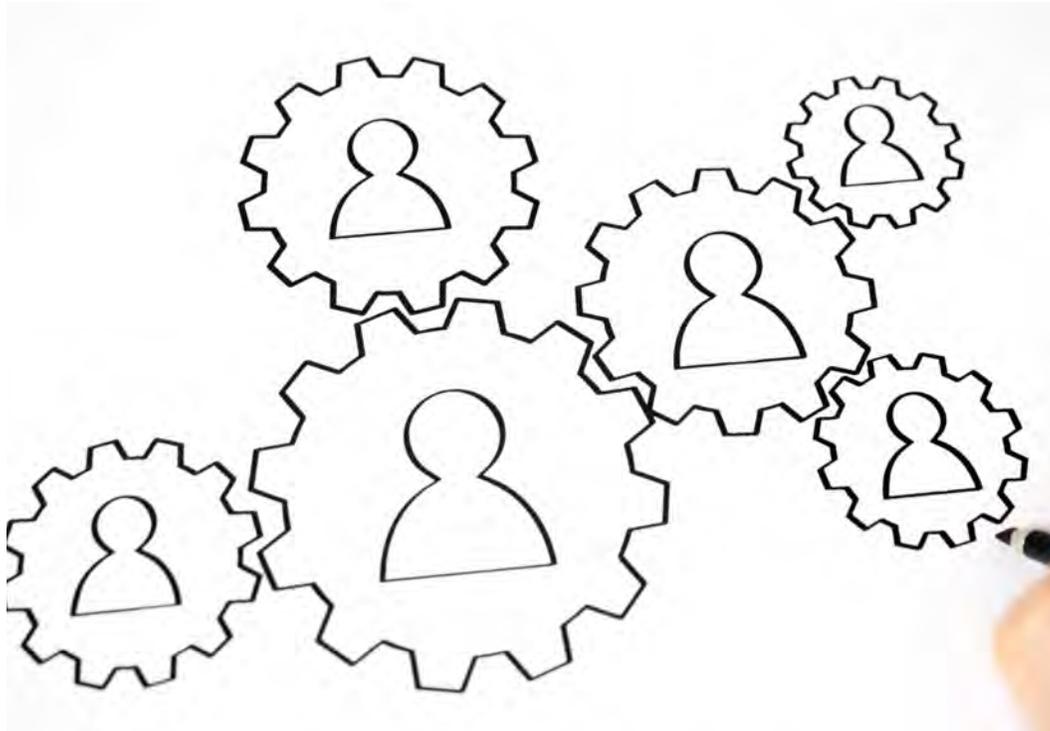
Limited availability of tools and personnel hinders smooth onboarding experiences.

Effective Solutions

Standardizing processes and enhancing communication help overcome onboarding challenges successfully.

Best Practices and Key Statistics for Effective Onboarding

Essential Components of a Positive Onboarding Experience



Clear Communication

Effective onboarding relies on clear communication to set expectations and provide essential information to new hires.

Structured Training

Providing structured training ensures new employees gain the necessary skills and knowledge efficiently.

Cultural Immersion

Immersing new hires in the company culture helps them feel connected and engaged from the start.

Ongoing Support

Continuous support after onboarding helps new employees feel valued and confident in their roles.

Relevant Onboarding Statistics and Industry Benchmarks

Retention Rates

Effective onboarding significantly improves employee retention by helping new hires integrate smoothly and feel valued.

Employee Performance

Structured onboarding boosts employee performance by providing clear expectations and necessary resources early on.

Employee Satisfaction

New hires report higher job satisfaction when onboarding programs address their needs and offer continuous support.



“Employees with a great onboarding experience are **2.6 times more likely** to be extremely satisfied at work” workday.com

“Employees who go through a standardized onboarding process are **50% more productive**”
Shrm.org

“An effective onboarding process boosts retentions of new hires by **82%**” –
Glassdoor

The first **44 days** are critical to leave a positive impact on new hires.

For new hires **30%** decide whether to leave or stay in the first week and **70%** decide in the first month whether to leave or stay.

“About 40% of Gen Y choose travel destinations based on how instagrammable the pictures will turn out”
passport-photo.online

Strategies to Ensure Efficiency for Teams and Managers

Streamlined Processes

Efficient onboarding helps streamline workflows, making processes smoother for teams and managers.

Reduced Adjustment Period

Onboarding minimizes adjustment time, allowing new members to integrate quickly and effectively.

Promoting Collaboration

Effective onboarding fosters teamwork and collaboration, enhancing overall productivity.



Interactive Exercise: Evaluating Your Onboarding Process

Onboarding Experience Design Worksheet

Customizable Document Use

Participants utilize a fillable document tailored to their onboarding needs and goals.

Capturing Goals and Strategies

The document helps capture key onboarding goals and strategies efficiently for future reference.

Action Plan Implementation

Participants outline actionable steps to implement their onboarding process after the workshop.



Hands-On Activity Using Handout

Practical Application

The activity promotes hands-on learning through guided exercises for real-world onboarding improvements.

Evaluating Current Onboarding Process (1. & 2.)

Participants review the onboarding process to understand current state, including how core values are connected.

Identifying Gaps and Opportunities (3.)

The worksheet helps pinpoint strengths and areas needing improvement in the onboarding journey.



Incorporating Organizational Core Values Into the Onboarding Process

Strengthen Cultural Alignment

Embedding core values during onboarding ensures new hires align with the corporate culture early on.

Clarify Organizational Mission

Onboarding introduces new employees to the organization's mission to promote understanding and commitment.

Encourage Value Embodiment

Early exposure to core values helps new hires embody and practice these principles in daily work.



Takeaway Tools: Customizing Your Onboarding Experience



Collaborative Sharing of Onboarding Ideas and Approaches

Peer Learning Exchange (4.)

Participants share insights and experiences to facilitate collective learning and growth.

Sharing Best Practices

Exchanging proven onboarding approaches inspires improvements and innovation.

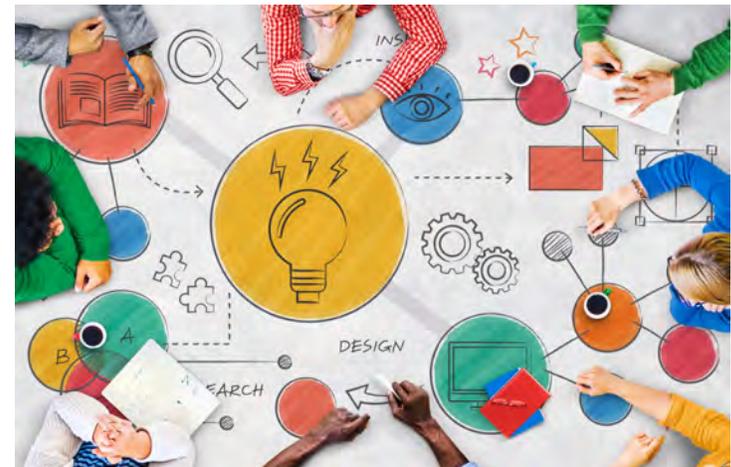
Let's share!

- What interesting ideas did you hear that you may want to incorporate into your onboarding experience?



Some more ideas

- Prior to Day 1
 - Send a box full of your company swag & a welcome card from the team/department
 - Have the CEO/President/Owner call the new hire welcoming them
 - Share a creative announcement with fun facts about the new hire, encouraging all to stop by & say hi
- Day 1
 - Have new hire's favorite snack on desk encouraging all employees to visit during the first week
 - Lunch at new hire's favorite restaurant or order in so the entire team can attend
- Friday of first week
 - Manager check in
- Day 30
 - Coffee chat with HR to check in on onboarding experience, training, all good?



Integrating Best Practices and Personal Insights



Reflection on Concepts

The tool promotes thoughtful reflection on onboarding concepts to enhance learning and retention.



Adaptation to Context

Adapting best practices to fit the unique organizational culture ensures onboarding effectiveness.



Effective Onboarding Experience

Combining reflection and adaptation creates a tailored and successful onboarding journey.



Creating Action Steps for Implementation

Importance of Clear Steps (5.)

Clear action steps turn ideas into practical tasks that can be executed effectively.

Measurable Goals

Measurable steps allow for tracking progress and evaluating onboarding improvements accurately.

Ensuring Implementation (6.)

Defined action steps ensure onboarding improvements are properly implemented and their success monitored.

Conclusion: Crafting a Memorable Onboarding Journey

Importance of Effective Onboarding

Effective onboarding creates a positive first impression and supports new hires' successful integration.

Understanding Goals

Clear onboarding goals ensure alignment between new hires and organizational expectations.

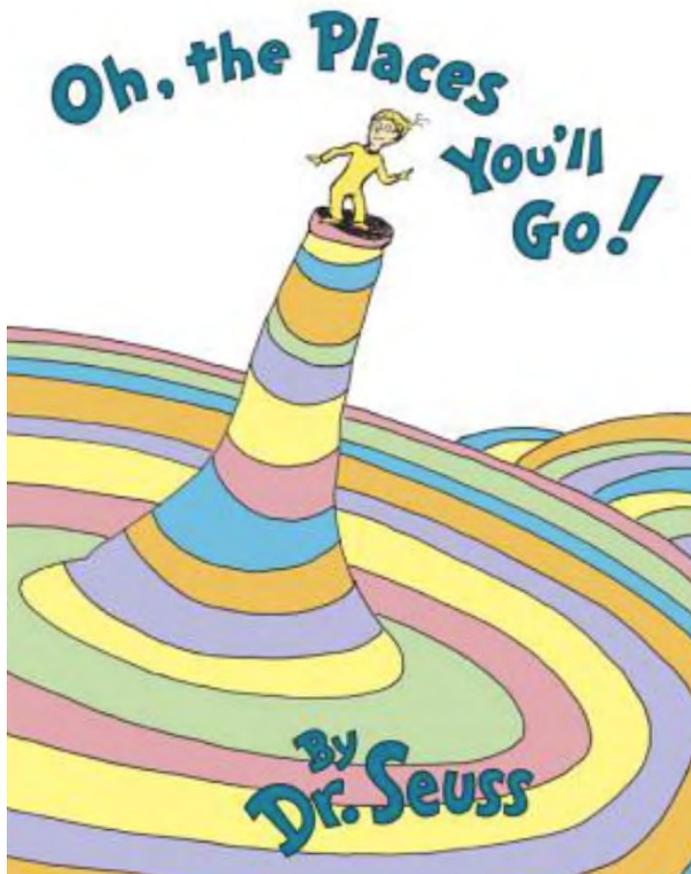
Leveraging Experience and Best Practices

Using proven strategies and past experience enhances the onboarding process effectiveness.

Customizing Onboarding Processes

Tailoring onboarding to individual needs results in a smoother, more impactful journey.

Thank you!



Connect with me!

The logo for "aHRrow" features the text "aHRrow" in a blue, sans-serif font. A yellow arrow points to the right, passing through the "R". To the left of the "a" is a yellow hash symbol (#).



Onboarding Experience Design Worksheet

Name: _____ Organization: _____

1. Current State Snapshot

Reflect on your current onboarding process.

A. How long does your onboarding process last?

1 day 1 week 30 days 60-90 days Other: _____

B. What elements are included in your onboarding? (Check all that apply)

- Welcome email/packet
- First-day agenda
- Equipment & workspace setup
- Orientation sessions
- Role-specific training
- Culture/values presentation
- Assigned buddy/mentor
- Regular check-ins
- Feedback collection

C. How would you describe your current onboarding experience?

From the new hire's perspective:

From the company's internal workflow/efficiency perspective:

2. Core Values Connection

Your organization's top 3 core values:

1. _____

2. _____

3. _____

How are these values currently reflected in your onboarding?

Ideas for embedding your values more deeply into onboarding:



Onboarding Experience Design Worksheet

3. Identify Gaps & Opportunities

What's missing or underdeveloped in your current onboarding?

(Think about consistency, engagement, compliance, clarity, connection.)

4. Learning from Others

What onboarding best practices have you seen or heard about that you'd like to adopt?

5. Action Planning

Choose one improvement you'd like to focus on in the next 30 days:

Improvement Area: _____

Steps to take:

1. _____

2. _____

3. _____

Who will be involved or consulted? _____

When will you start? _____

6. Takeaway Commitment

One thing I learned today that I will apply:



HOT TAX PRACTICE, PROCEDURE AND ETHICS ISSUES 2025

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Michael Goller leverages his more than three decades of experience, accounting degree and strong relationships within the IRS to be an especially effective tax lawyer. He assists clients with federal and state tax controversy, tax litigation and tax planning. He is a shareholder in Reinhart's Tax and Corporate Law practices.

His clients vary from large public corporations to mid-sized, private businesses. He's a self-described "tax geek who litigates," pairing his outgoing personality with extensive, detailed knowledge and a dedicated work ethic. He represents clients involved in complex disputes with the IRS, the U.S. Department of Justice and various other authorities and has an impressive track record of favorable settlements.

Michael enjoys sharing his expertise through writing and speaking engagements on a variety of tax controversy, litigation and planning topics. He is a longtime faculty member at the University of Wisconsin-Milwaukee's Lubar School of Business and teaches Tax Practice and Procedure in the Graduate Tax Program. Michael is the founder of the Hastings Society for Economic Development, a group dedicated to the discussion of economic principles and how they can further the common good.

Outside the office, he enjoys cooking haute cuisine, having taken cooking classes in both Italy and France. In fact, over the years, Michael has raised significant funds for a variety of charities by auctioning his services as a chef. He spends time with his wife and daughter, plays golf and loves to travel.

Education

- ♦ J.D., cum laude, Marquette University Law School
- ♦ B.S., Marquette University (Accounting)

Bar Admissions

Wisconsin

Contents

- IRS Update – Hiring, What’s “Hot” – What’s Not
- Loper Bright – What do IRS Regulations now mean? Ethical Concerns
- Ethical Issues when challenging a Regulation
- IRS Appeals Office Issues
- Cost Segregation Issues – Hot Issue, Ethical Concerns
- Employment Tax Issues
- Valuation Issues and Ethical Concerns
- Valuation Penalties and Reasonable Cause
- Privilege Waiver Issues

Contents (cont.)

- Other “Hot” Issues
- High “Net Worth” Audits
- Airplane Cases
- Family Office – Planning
- Responding to Information Requests – Ethical and Practical Issues
- Hobby Loss Issues
- Burden of Proof Issues
- Deadline Traps - Refunds
- Passive Loss Cases

IRS Update

Hiring

- Significant hiring had occurred, however, audits have not picked up a lot yet
- FY 9/30/25 – Was expected to see big increase in audits
- FY 9/30/26 - ??
- But
 - D. of G. E. - DOGE
 - Shut Down – Fall 2025
- Still some very “Hot Issues”

What is Ethics?

- Practical
- Literal/Technical

Loper Bright – How important is an IRS (o any) regulation?

- Loper Bright Enterprises et al. v. Raimondo et al. and Relentless, Inc. v. Dept. of Commerce, 603 U.S. 369, 144 S.Ct. 2244 (2024) and companion case

Corner Post v. Board of Governors of the Federal Reserve System, 603 U.S. 799, 144 S.Ct. 2440 (2024)

Loper

- The Court, not the Agent determines the “best reading of the statute”.
- Loper overruled Chevron U.S.A. v. NAT. Resources Defense Counsel, Inc. 467 U.S. 837 (1984)
- Administrative Procedures Act
 - Section 706 – Courts will decide “all relevant questions of law.”
 - Section 553 – Contains a detailed notice and comment period for government regulations
 - Section 533(b) – APA Section 553 procedures apply to “legislative” regulations. Do not apply to “interpretive” regulations

Loper (cont.)

Why all the concern with the IRS?

- I.R.C. §§ 7805(a) “. . . the Secretary shall prescribe all needful rules and regulations for enforcement of this title [26 of the U.S.C.], . . .”
- Mayo Foundation for Medical Education and Research v. U.S., 562 U.S. 44 (2011) FICA Reg. upheld under Section 7805(a)

Loper (cont.)

- The Administrative Procedures Act (5 U.S.C. §§ 551 et seq.) **requires courts to exercise independent judgment when deciding whether an Agency has acted within its statutory authority; courts may not defer to the Agency interpretation of the law simply because the statute is ambiguous**
- Corner Post
- Statute of limitations to challenge regulations starts when there is a harm suffered by virtue of the Reg.

Background

Relevant Cases

- Skidmore v. Swift Co., 323 U.S. 134 (1944) Skidmore Deference - courts will defer to an agency depending on the thoroughness of its consideration, validity of its reasoning, consistency with other pronouncements and all those factors which give it a power to persuade
- The doctrine survives after Loper. Loper holds that courts may defer to the agency if the agency's interpretation has the "power to persuade." The "**best read of a statute is that the agency may well be authorized to exercise a degree of discretion.**"
Loper, Slip. Op. at 17

Background (cont.)

- Chevron USA Inc. v. National Reserve Defense Counsel, 467 U.S. 837 (1984) – two famous factors used to make a Reg. legally binding
 - Regulation must be consistent with the plain meaning of the statute
 - Regulation is not an unreasonable interpretation of the statute

Post Loper

- Varian Medical Systems v. Comm’r, 163 T.C. No. 4 (Aug. 26, 2024)
 - Section 254A v. Section 78 effective dates
 - Treas. Reg. 1.78-1 clarifies dates. Reg. was issued under Sections 245A and 7805. The court noted a “change in unambiguous provisions of the statute” is not allowed. *Id.*
- There is a basic difference between filling a gap left by Congress and rewriting rules Congress enacted. *Id.* (Citing Loper at 2263)
- When, however, Congress has delegated authority to an agency, the court’s role is to fix the boundaries of that delegated authority. *Id.*

Post Loper (cont.)

- Schwarz et al. v. Comm’r, Dkt. No. 12347-20 (Tax Court Order (November 5, 2024)). Case was decided Schwarz v. Comm’r, T.C. Memo 2024-55. Granted Rule 161 Motion to Reconsider. Farming and ecotourism business. The issue is deference to IRS resolutions under Section 183. Parties are briefing the issue.
- 3M Company et al. v. Comm’r, [No. 23-3772] _ F.3d_ (8th Cir. 10.1.25)
- Citing Loper, the Court, when making the required “best reading of the statute” found that some parts of the Section 482 regulations went beyond Section 482

Case To Watch

- Tribune Media Co. v. Comm’r, T.C. Memo. 2021-122 Appeal Pending Dkts. 23-1135, 23-1136, 23, 1243 (7th Cir.)
- Section 1374 built-in gain on contribution of controlling interest in Chicago Cubs to a partnership.
 - At issue is the partnership anti abuse rule under §1.701-2(a)(1).
 - Is this a Reg. authorized under 7805(a) a mere summary of anti abuse law traceable to Gregory v. Helvering or, should the Reg. be afforded nothing more than Skidmore deference

SALT Ramifications – Examples

- WI – Tetra Tech EC, Inc. v. W. WDOR, 382 Wis.2d 496 (2018)
 - Not bound by agency but will give “due weight” to the agencies experience, technical competence, and specialized knowledge under Section 227.57(10), Wis. Stats.
 - Very disjointed opinion
- IL – Hartney Fuel Oil v. Hamer, 998 N.E. 2d 1227 (Ill. 2013)
 - Illinois Department of Revenue regulations are entitled to substantial weight and deference. Regulations enjoy a presumption of validity
- FL – Amendment 6 to Florida’s Constitution now requires courts to interpret statues de novo. FLA. CONT. art. V §21(11/6/2018)

Ethical Issues When Challenging a Regulation

Ethical Issues When Challenging a Regulation

- Form 8275 v. Form 8275-R
- Disclosure Issues
- Circular 230, AICPA Rules, State Bar Rules
- Practical Realities

IRS Appeals Office Issues – Challenging a Regulation

IRS Appeals Office

How does appeals work

- Section 7803(e) – Codified the Internal Revenue Service Independent Office of Appeals §7803(e)(1). Purpose is to resolve cases, without litigation on a basis which is “fair and impartial.” §7803(e)(3)(A)
- Final Regulations (effective 1.15.2025) – Clarifies when Appeals is not available to a Taxpayer - §301.7803-2.

Getting to Appeals

- 30 day letter
- Protest – Skinny or fat – pros and cons
- Do an FOIA request
- Exam's "T-letter"

Settling the Case at Appeals

- Hazards of litigation
- Does the IRS have uniform settlement guidelines?
- What to do if you hit a “brick wall”?

IRS Appeals Office Issues – Challenging a Regulation (cont.)

- There are 24 specific exemptions to Appeals jurisdiction. See §301.7803-2(c). Examples:
 - Exemption (12) – cannot appeal a notice under 7345 of Revocation of Passport for a Delinquent Tax Debt
 - Exemption (19) – Appeals cannot consider whether a regulation is invalid unless there is an unreviewable decision from a federal court invalidating the part of the regulation at issue
 - Exemption (20) – Same as 19 only for an IRS Notice or Rev. Proc.

Comment: A Loper type challenge will likely not be considered by Appeals.

Should an Accuracy Related Penalty Still Apply (*for those who ponder deep tax thoughts*)

- Section 6662(a) & (b)(1)
 - Statute that imposes a 20% penalty for disregard of the rules and regulations
 - Now that a regulation is entitled to for less deference, what does this do to the statute? Especially with a Section 6664 Reasonable Cause Defense. Should Congress change the Statute (LOL)

Note: You can avoid this trigger with disclosure if there is good faith and adequate books and records are maintained. Reg. § 1.6662-3(c)(i)

Disregard of Rules or Regulations

- Is defined as any "careless, reckless, or intentional disregard"
 - Section 6662(c)



Cost Segregation Cases - Hot

Cost Segregation

What is it and what is the planning goal?

- Engineering based analysis that breaks down real property components into different asset classes.
 - Rather than depreciating a building over 27.5 years (residential) or 39 years (commercial), identify property that typically has a 5, 7, or 15 year class life. These items generally qualify for bonus depreciation.

Cost Segregation (cont.)

- Hotter issue after OBBB reinstated 100% bonus depreciation for qualified property (e.g., MACRS – 20 years or less placed in service on or after 1/19/25).
 - Immediately expense shorter life assets

Cost Segregation (cont.)

- New Section 168 (n) - 100% depreciation for Qualified Production Property
- For a mixed use facility the Taxpayer will need to allocate to production and non-production components
 - ❖ Comment: What do “manufacturing” and “production” mean? Not defined.

This is Real Money, Not Just a Timing Issue

A cost segregation analysis can help with more than just timing.

1. Partial Asset Disposition – If segregated assets are disposed of during their holding period, the remaining basis is written off.
2. When selling assets, allocate less value to shorter life assets to limit depreciation recapture (*i.e.*, less OI more 1231 gain).
3. Basis step up on death. So buy → 1031 → *die (morbid, but good tax planning)*

IRS Attack on Cost Segregation Studies

- Publication 5653 (Rev. 6-2022) “Cost Segregation and Audit Technique Guide”
- Revisions were not large but whenever the IRS revises an audit manual, there will be audits

IRS Attack on Cost Segregation Studies (cont.)

- IRS cites AmeriSouth v. Comm’r TC Memo 2012-67 (2012)
- IRS Pub. 5653, Cost Segregation Audit Technique Guide
- **Trap – Cost segregation study right after a 1031.**

Ethical Concerns

Watch the numbers on audit.

- IRS cannot disallow the depreciation and disallow the same expense as passive
 - Recalculate and check any revised gain
- Need a good cost segregation study
- How to correctly retain an expert
- May need credible testimony about holding property until death
- Diligence – Cir. 230 § 10.22
- Reliance on written advice – Cir. 230 § 10.22, 10.37(b)
- Document any purchase price allocation
- Penalty issues
 - Educate client about risks

Ethical Obligation to Talk About Penalty Avoidance

- Under IRS Circular 230, practitioners must advise the client of any penalties that are reasonably likely to apply and the practitioner must discuss the possibility of penalty avoidance via disclosure. §10.34(c)

Cost Seg. and the Change in Accounting Method Trap

- This can be big.
- Need to educate the client
- Section 6501(a) and a Section 481 adjustment
- § 446(a) – “Taxable income is computed under the method of accounting on the basis of which the taxpayer regularly computes his income . . .”
- § 446(c) – Lists permissible methods - cash, accrual, any other method permitted by Chapter 1 of the Code and “any combination of the foregoing methods permitted under regulations prescribed by the Secretary.”
- A change in accounting method occurs when, under the lifetime income test, income changes. Does the change result in more or less income over the taxpayer’s lifetime? If so, it is not a CIAM. *Hyatt Hotels Corp & Subsidiaries*, 2023-122 (2023) (citing *Peoples Band & Tire Co. v. Comm’r*, 412 F.2d. 1341, 1344 (7th Cir. 1969))

Cost Seg. and the Change in Accounting Method Trap (cont.)

- Treas. Reg. 1.446-1(e)(ii)(d)(2)(i) – A change in the “depreciation or amortization period of recovery, or convention of a depreciable or amortizable asset” is a CIAM. (Reg. was issued under 7805)
- IRS view is that the statute and this reg. cover a change from depreciable to non depreciable classification (*i.e.*, depreciable property to land)
- The argument will be that an allocation to land increases basis. Basis reduces gain and thus Gross Income and (after deductions) Taxable Income. Depreciation does not reduce Gross Income but is deducted from Gross Income to arrive at Taxable Income. So, assuming the property is sold, life time Taxable Income is the same.
 - Comment: What about 1031 exchanges and step-up-at-death? Or, what if land is sold and the increased basis will reduce the Section 1231 gain, and possibly reduce future 199A deductions, which is a new deduction for years 2018, forward. Some of the properties at issue were depreciated pre 2018. So the change results in less life than Taxable Income than if no change occurred??

Employment Tax Issues

- Employer v. Independent Contractor
- ERC

Section 530 of the Revenue Act of 1978



- Generally allows taxpayer to treat worker as not being an employee for employment tax, but not income tax or other purposes
- Must have reasonable basis and meet certain requirements

Section 530 of the Revenue Act of 1978 (cont.)

- *Reasonable basis* for treating a worker as an independent contractor exists if the taxpayer reasonably relied on
 1. Past IRS audit practice with respect to the taxpayer, or
 2. Published rulings or judicial precedent, or
 3. Long-standing recognized practice in the industry of which the taxpayer is a member, or
 4. If the taxpayer has any "other reasonable basis" for treating a worker as an independent contractor.

Section 530 of the Revenue Act of 1978

- Additional requirements
 1. The taxpayer must not have treated the worker as an employee for any period
 2. All federal tax returns, including information returns, must have been filed on a basis consistent with treating such worker as an independent contractor
 3. The taxpayer (or a predecessor) must treat all workers holding substantially similar positions consistently for purposes of employment taxes
 - The "similar worker consistency requirement"

Statute of Limitations in Employment Tax Cases

Section 6513 governs when a return is deemed to be filed for purposes of Section 6511 (i.e., for purposes of whether a claim for refund is timely filed). Subsection (c) pertains to Social Security Taxes and Income Tax Withholding (i.e., the taxes reported on a Form 941). Section 6513(c) provides that:

If a **return** for any period ending with or within a calendar year **is filed before April 15** of the succeeding calendar year, such return shall be considered filed on April 15 of such succeeding calendar year. § 6513(c)(1). (Emphasis added.)

Thus, when a Form 941 for a period is filed before April 15 of the following period, the tax return is considered filed on April 15 of that following year.

Interest-Free Adjustments

- Generally, for employment tax (*i.e.*, Form 941 obligations), if the adjustment to the Form 941 (*i.e.*, the tax deficiency) is
 - paid on or before the due date of the 941 for the period in which the error is “ascertained”,
 - the amount of the underpayment shall be paid without interest being charged.
- An error is ascertained when resolved at examination or with appeals.

Interest-Free Adjustments (cont.)

- IRC Section 6205(a); Treas. Reg. 31.6205-1 Rev. Rul. 2009-39 and I.R.M. 4.23.8.3 (5-17-2018)
- Generally, for employment tax (*i.e.*, Form 941 obligations), if the adjustment to the Form 941 (*i.e.*, the tax deficiency) is
 - Paid on or before the due date of the 941 for the period in which the error is "ascertained,"
 - The amount of the underpayment shall be paid without interest being charged
- An error is ascertained when resolved at examination or with appeals

Interest-Free Adjustments (cont.)

- If, however, the case is not resolved at Appeals and the taxpayer receives a notice and demand for payment from the IRS, the adjustment will not be interest free
- In addition, the taxpayer will not be allowed an interest free adjustment where a prior audit found that additional tax was due with respect to the same issue

ERC Ethics Issues

- Merits of the credit
- 6063 – Civil fraud
- 6662 – Accuracy related penalty
- 6651 – Failure to pay .5% per month to 25%
- Probably Section 6676 does not apply (Statute refers to income tax)

Appraisal/Valuation Report Challenges – “Hot” IRS Issue

Valuation Checklist

What does the client want:

- High value
- Low value
- The Cover Letter – Summary
- Who is the retaining party and other intended users?
- Use the Correct Definition of Fair Market Value ("FMV"), FMV for a gift, Treas. Reg. Section 25.2512-1 defines fair market value as
 - [T]he price at which property would change hands between a willing buyer and a willing seller, Neither being under any compulsion to buy or sell and both having reasonable knowledge of the Relevant facts

Valuation Checklist (cont.)

- The "as of" or date
- Purpose of the valuation and intended use (e.g. estate and gift tax purposes)
- Type of asset and interest being valued (*i.e.* a minority interest . . .)
- Control Rights - in any
- Access to Liquidity
- The Scope of Work
- Information Considered
- Methodologies Utilized
- Fair Market Value Conclusion

Valuation Checklist (cont.)

- The Report- Body
- Standard of value – Define FMV again
- Purpose of the valuation
- What is being valued?
- Prior transactions if any
- Rights, preferences, and privileges of interest being valued
- Economic overview / market conditions
- Company specific information
- Methodologies used to determine FMV (Holding Company v. Active Business)

Valuation Checklist (cont.)

- Discounts. Do not rely only on case law. Berg Estate v. Comm’r, T.C. Memo 1991-279
- Explain the weight given to each methodology used. Otherwise if one methodology is rejected, the whole report may fail. True Estate v. Comm’r T.C. Memo 2001-167 aff’d., 390 F.3d 1210 (10th Cir 2004)
- Tax Affecting Earnings if an S Corp. or Partnership. Calculation both ways. Recent Cases, Kress, Estate of Jones. If do not tax affect, can the marketability discount be increased
- 2703 – Watch it
- Do I need a “good” Form 8283?
- Do I need a “good” receipt/acknowledgement

Valuation Checklist (cont.)

- Justify the discount rate being used in the calculation
- Statement of qualifications that meets Tax Court Rule 143
- Exhibits showing calculations
- What is the FMV of the interest being valued?
- Signed certification

Traps for the Unwary When Obtaining Valuation/ Appraisal Reports

- *Exelon v. Comm'r*, 906 F.3d 513 (7th Cir. 2018)
 - SILO tax shelter
 - Appraisal of power plant found to lack credibility because the attorney interfered with the integrity and independence of the appraiser by providing wording and conclusions the lawyer expected to see so that the lawyer could issue a tax opinion
 - Loss on (1) valuation issue; and (2) reasonable cause defense to a penalty
- Need an appraiser who understands the process
- Be careful about "educating" an appraiser
- Assume whatever is sent to the expert will be made available to the IRS – What can I ethically say valuation expert.

Low Valuation Issues (e.g., Charitable Donations)

Three Concerns

- Form 8283
- Qualified Appraisal
- The Receipt/Acknowledgement from the Donee
- Section 170(f)(11)(A)(i) provides that no charitable contribution deduction is allowed unless the taxpayer meets certain requirements
- (B) requires the taxpayer to “include with the return . . . a description of such property and such other information as the Secretary may require . . .”
- (D) requires that for donations over \$500,000 the taxpayer must “attached to the return a qualified appraisal of [the donated] . . . property.”
- (H) – IRS can issue regulations

Qualified Appraisal and Form 8283 Issues

Appraisal Issues for In Kind Donation

- Reg. 1.170A-13(c)(2)(A) must attach a qualified appraisal to the return; and (2)(B) must attach the appraisal summary (*i.e.*, Form 8283)
- Reg. 1.170A-13(f)(2) and (3) – Donee must provide a contemporaneous written acknowledgement as to whether the
- Donor received any goods or services from the Donee. Must be received by the earlier of the filing or extended due date of the tax return.
- Reg. 1.170A-13(c)(4)(iv)(H) – Reasonable Cause for Failing to Attach Appraisal Summary (may help with appraisal and receipt)

Qualified Appraisal and Form 8283 Issues

Appraisal Issues for In Kind Donations (cont.)

- Arguments

Qualified Appraisal

- Taxpayer must provide sufficient information to permit the IRS to evaluate the reported contributions, as intended by Congress. See Mohamed v. Comm'r T.C. Memo 2012-152, quoting the Estate of Clause v. Comm'r 122 T.C. 115, 122 (2009). The qualified appraisal and Form 8283 that was attached to the 1040 meet this test

Form 8283

- Note: RERI Holding I, LLC et al v. Comm'r, 149 T.C. No. 1 No. 17-1266 (5/24/19) Aff'd USCA DC (2019) case disallowed a \$33 Million charitable contribution deduction because basis was missing on the Form 8283. Does not indicate if the taxpayer attempted to “fix” the Form 8283

Bad Form 8283 – Solutions

- Further, Treasury Regulation Section 1.170A-13(c)(4) and (c)(4)(iv)(H) note that a taxpayer is allowed to explain if he or she has reasonable cause for an inadequate Form 8283. The same regulation allows the IRS to request that a taxpayer provide a correct Form 8283 within 90 days. If this request is complied with the charitable deduction will not be disallowed as long as the taxpayer's error was in good faith. See Treas. Reg. § 170A-13(c)(4)(iv)(H).
- In the instant case the Service has not requested that the alleged defects noted in the Revised Lead Sheets on the Form 8283 be corrected."

Inadequate Form 8283 - Solutions

- Strategy
- “While the Service has never requested that the defects on the Form 8283 alleged in the Revised Lead Sheets at issue be corrected, a new Form 8283 is being faxed to you. The Taxpayer is providing the IRS with a new Form 8283 that is signed by the appraiser and donee. Also, the basis of the donation at issue is included on this form.
- As noted in the instructions to Form 8283, failure to attach a correct Form 8283 to a tax return will not result in a contribution deduction being disallowed if the failure is due to reasonable cause and not willful neglect. See instructions to Form 8283 at 8 (Rev. December 2021).

WT Apt Partnership LP v. Comm'r, T.C. Memo 2025-030 (4.9.2025)

- Reasonable cause exemption does exist.
 - May help with an inadequate qualified appraisal or receipt/acknowledgement

Get a Good Appraisal – Section 2703 Trap

- 2703(a) – When valuing property for Gift, estate or GST purposes, cannot consider any option agreement or right to acquire or use the property at a price below fair market value.
- 2703(b) – Exception to (a) if the restriction is
 1. A bona fide business arrangement;
 2. Not a device to transfer property to Members of the transfer's family for less than fair market value; and
 3. Terms similar to arms-length transactions. See Est. of Amlie v. Comm'r, T.C. Memo 2006-76

Valuation Traps

1. Assumption Letter and/or in the Report – avoid this assumption:

“This valuation assumes there are no Internal Revenue Code Chapter 14 or other federal or state laws or regulations that will have a material impact on the value of the property being appraised. Specifically, we assume the LLC meets the legal requirements of IRC Sections 2703 and 2704 of Chapter 14 if the Internal Revenue Code as they apply to the specific facts and the LLC Agreement. In addition, we have assumed that the terms and conditions of the ____ Agreement are not more restrictive than applicable state law.”

Helpful Report Language – Assumes agreement is not considered to the extent it is more restrictive than state law.

“The following factors generally have an upward impact on the discount for lack of marketability but were not given weight in the valuation due to the special valuation rules in Chapter 14 of the Internal Revenue Code.”

Valuation Traps

2. Helpful Report Language – Assumes agreement is not considered to the extent it is more restrictive than state law.

“The following factors generally have an upward impact on the discount for lack of marketability but were not given weight in the valuation due to the special valuation rules in Chapter 14 of the Internal Revenue Code.”

Traps and Models (cont.)

3. Watch Local Law - Wisconsin LLC law – Pre and Post 12/31/2022. Common trap if states that adopted the Uniform Limited Liability Company Law (WULLCL) (e.g., Missouri LLC formed before 8.28.2022 could so elect)

Pre 1.1.2023 (caution if the LLC predates 2023, it may have elected to stay under this law – Check the State Department of Financial Institutions for a “Statement of Nonapplicability”) Wisconsin example

183.0604. Distribution upon dissociation. Except as otherwise provided in this subchapter, upon an event of dissociation under s. 183.0802 that does not cause dissolution of the limited liability company, a dissociating member is entitled to receive any distribution to which the member is entitled under an operating agreement and, if not otherwise provided in an operating agreement, **within a reasonable time after dissociation, the dissociating member is entitled to receive a distribution in complete redemption of the fair value of the member's interest in the limited liability company as of the date of dissociation based on the member's right to share in distributions from the limited liability company.**

Traps and Models (cont.)

Post 12.31.2022

183.0404 Sharing of and right to distributions before dissolution.

(1) Except to the extent necessary to comply with any transfer effective under s. [183.0502](#) or charging order in effect under s. [183.0503](#), any distributions made by a limited liability company before its dissolution and winding up must be made proportionally among members and dissociated members on the basis of the value of the contributions made by each such member, as stated in the records required to be kept under s. 183.0402(2) or, in the case of a company treated as a partnership for tax purposes, the partnership capital account of each such member as computed for tax reporting purposes.

(2) A person has a right to a distribution before the dissolution and winding up of a limited liability company only if the company decides to make an interim distribution. A person's dissociation does not entitle the person to a distribution.

Ethical Concerns

- Need a good appraisal
- How to correctly retain an expert
- Watch the details and requirements
- Hot audit issue
- Diligence
- Reliance on written advice
- Valuation penalties under 6662(h), 20% and 40% Substantial (65% or less of "correct" amount) and Gross (40% or less of the "correct" amount)

Valuation Penalties

- Four Penalties - two in the gift tax context and two in the income tax context. These "triggers" are mathematical:
 - Substantial Valuation Misstatement (income tax)¹
 - Substantial Estate or Gift Tax Valuation Understatement²
 - Gross Valuation Misstatement (income tax)³
 - Gross Estate or Gift Tax Valuation Understatement⁴

1. Return value is 150% or more of the correct value - 20% penalty.
2. Return value is 65% or less of the correct value - 20% penalty.
3. Return value is 200% or more of the correct value - 40% penalty.
4. Return value is 40% or less of the correct value - 40% penalty.

Valuation Penalties (cont.)

- Estate and Gift Tax Understatement of Value
 - Substantial Valuation Misstatement
 - There is a 20% penalty of the portion of the underpayment of tax attributed to undervaluation if the value on the estate or gift tax return is 65% or less of the amount determined to be correct
 - Section 6662(a), (b)(5), (g)
- Gross Valuation Misstatement
 - There is 40% of the tax attributable to the undervaluation if the amount reported on the estate or gift tax return is 40% less of the value determined to be correct
 - Section 6662(h)(1), (2)(C)
 - There is no penalty if the underpayment of tax is \$5,000 or less
 - Section 6662(g)(2)

Income Tax Overstatement of Value *e.g.*, a Charitable Contribution

- Substantial Valuation Misstatement
 - There is a 20% penalty applicable to any underpayment attributable to a Substantial Valuation Misstatement
 - Section 6662(b)(3)
 - A substantial valuation misstatement occurs if the value (or adjusted basis) of any property claimed on a return claimed income is 150% or more of the correct amount
 - Section 6662(e)
 - The penalty is not imposed unless the misstatement results in an underpayment of greater than \$5,000 (\$10,000 for a C-corporation)
 - Section 6662(b)(2)

Gross Valuation Misstatement

- There is a 40% penalty in the case of a Gross Valuation Misstatement.
- A Gross Valuation Misstatement occurs if the value of the property is 200% or more of the correct value section.
- The standard is automatically met if the correct value is zero.
 - Treas. Reg. Section 1.6662-5(g).
- Example
 - Donor claims a deduction under Section 170 for the donation of property to a qualified charity

Reasonable Cause and the Income Tax Valuation Penalties

- A reasonable cause exception under Section 6664 can apply when the underpayment is attributable to a substantial (but not a Gross) understatement with regard to a charitable contribution if the following occurs:
 - The claimed value of the property is based upon a qualified appraisal by a qualified appraiser;
 - The taxpayer also made a good faith investigation of the value of the contributed property; and
 - The taxpayer acted with reasonable cause and in good faith
 - Section 6664(c)(3)

Comment

Review the definitions of a qualified appraiser and appraisal in Treas. Reg. Section 1.170A-13(c)(3) and (5)

Reasonable Cause

- A showing of reasonable cause and good faith avoids the estate and gift tax penalties except does not apply to a gross valuation misstatement on a Charitable Contribution Section 6664(c)(2)
 - Section 6664(c)(1)

Reliance - General Rule

Reasonable Cause – IRS Regulation

- In order to establish reasonable cause and good faith the taxpayer must show the following:
 - The advice received was based on all pertinent facts and circumstances and the laws that relate to those facts and circumstances.
 - The advice was not based on unreasonable assumptions and did not unreasonably rely on the taxpayer's or someone else's statement findings, etc.
 - The advice was not based on the invalidity of a regulation unless certain disclosure requirements are met.
 - See Treas. Reg. Section 1.6664-4(c)

Reasonable Cause

- Defined as Ordinary Business Care and Prudence
- Section 6662 Penalty can be avoided by showing reasonable cause (in most-cases)
- Proof of Reasonable Cause, when arguing reliance on a professional – 3 part test
 - Advisor was competent and had significant expertise to justify reliance
 - Taxpayer gave advisor adequate and necessary information
 - Taxpayer relied in good faith upon the advisor

Privilege Issues

Privileges In a Tax Setting

- Federal Rules of Evidence – Rule 501- Privileges in General
 - Rule 501 provides that common law governs a claim of privilege unless provided otherwise by the Constitution, a federal statute, or rules prescribed by the Supreme Court. In a civil case, state law governs
- There are a Number of Relevant Privileges
 - Attorney-Client
 - Accountant-client or practitioner privilege
 - Work Product Doctrine
 - Each can be waived
 - There are exceptions to this privilege
 - Spousal Privilege

Attorney-Client Privilege (cont.)

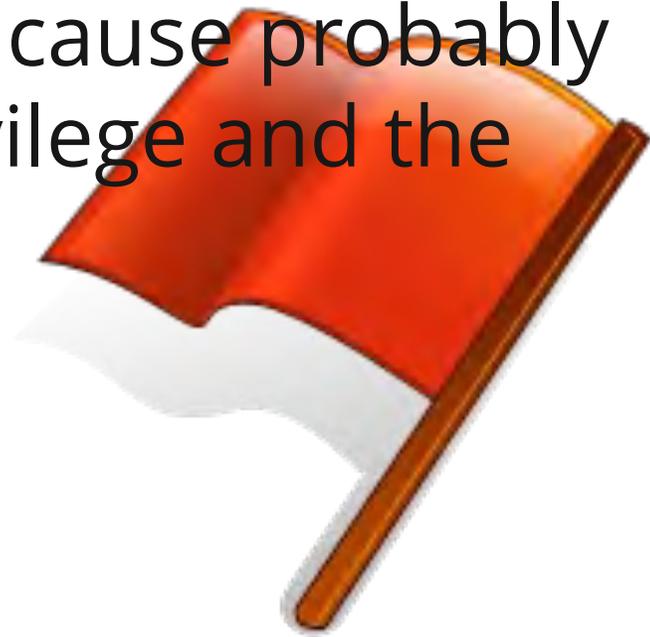
- The Kovel Letter
- The Privilege Can Extend Communications with the Attorney's Agents
- So long as a client's communication is made to an agent of an attorney (*i.e.*, a CPA that has been retained by the attorney) in confidence, for the purpose of obtaining Legal Advice from the lawyer, it is privileged. United States v. Schwimmer, 892 F.2d 237, 243 (2d Cir. 1989)
- What is a Kovel Letter?
- This rule, generally known as the Kovel rule. The application of the Kovel rule can be difficult in situations where non-legal services, such as preparing a tax return, are provided with legal services because it is difficult to distinguish between communications made for the preparation of a tax return and those made for the provision of legal services. Because the Kovel rule rests on the attorney-client privilege, the protection of the Kovel rule is lost anytime the attorney-client privilege is lost.
- When to use a Kovel Letter
- Comment: The key is the facilitation of communication between the lawyer and client

Section 7525 Privilege

- With respect to tax advice, the same common law protections of confidentiality which apply to a communication between a taxpayer and an attorney shall also apply to a communication between a taxpayer and any federal authorized tax practitioner to the extent the communication would be considered a privileged communication if it were between a taxpayer and an attorney. Section 7525(a)
- Keep the privileged, privileged

Raising Reasonable Cause Can Waive a Privilege

- CAUTION:
- Raising the assertion of reliance on professional advice constitutes reasonable cause probably waives the attorney/client privilege and the Section 7525 privilege



Raising Reasonable Cause Can Waive a Privilege (cont.)

- IRM 20.1.5.6.4 (January 24, 2013)
(If the taxpayer claims a tax memorandum or advice is privileged, the IRS will not abate the penalty)
- Comment: Would the IRS assert a penalty to force a privilege waiver?

Other “Hot Issues”

- Partnership Audits (BBA)
- High Net Worth Audits
- Real Estate Professional Status
- Airplane Cases
- Family Office Planning
- The Research Credit – IRS and State cases
- Refund claim Traps
 - Ethics and ERC Audits

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- IRS Announces New Pass-Through Unit to Scrutinize Wealthy
- By David van den Berg
- Law360 (September 20, 2023, 6:33 PM EDT) – The Internal Revenue Service will launch a new group focused on scrutinizing pass-through organizations as part of its broader plan for beefing up enforcement work against the wealthy, according to an agency statement. . . [A] new unit scrutinizing pass-through organizations is part of a previously announced plan. . . to ramp up enforcement work against high-income earners, corporations and partnerships.
- The agency said the initiative will drill down on large or complex pass-throughs. . . to ramp up enforcement work against high-income earners, corporations and partnerships. . .
- The pass-through group will be housed in the IRS' Large Business & International Division, according to the agency. The pass-through entity's workforce will eventually also include current employees in both Large Business & International and the Small-Business & Self-Employed divisions, the agency said. The IRS' statement also said the pass-through group will include the more than 3,700 revenue agents it plans to hire for expanded enforcement work geared toward large corporations and complex partnerships. . .

IRS Announces New Pass-Through Unit to Scrutinize Wealthy (cont.)

- The IRS' strategic plan for the funding increase provided by the Inflation Reduction Act called for expanded enforcement work against large partnerships and said the agency would hire specialized compliance workers and train others to help ensure pass-through entities comply with the law. . .
- Greater resources are needed to evaluate the compliance of pass-through entities, especially large and complex ones, and pass-through audit rates dropped because of funding cuts, the agency said. . . [its] the strategic plan. The agency audited 4.4% of pass-throughs in 2010, and the rate dropped to 0.1% in 2017, the most recent year with nearly all audits closed, according to the plan, which was released in April.
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High Net Worth Issues

- Responding to Information Document Requests can be very burdensome, with a number of practical and ethical concerns
- IRS Counsel is often involved through the audit
- Often if information is not produced by the IDR deadline the IRS will issue a pre-summons letter and then an IRS summons

High Net Worth Issues

- Some examples of the broad scope of high net worth audits include
 - Estate and Gift Tax Issues
 - **Valuation Issues**
 - Executive Compensation
 - C corporation and S corporation Issues
 - **Noncash Charitable Contributions**
 - **Partnership and LLC Issues**
 - Passive Activity Loss
 - Foreign Trusts
 - Foreign Bank Account Reporting
 - Basis and At-Risk Issues
 - Transfer Pricing Issues
 - **Private Airplane Issues**
 - **Business v. Personal Use of Assets – Section 183 & 162**

Private Airplanes Cases - Hot

What is the Tax Planning Technique?

- Sutherland Lumber – Southwest Inc. v. Comm’r, 255 F.3d 495 (8th Cir. 2001)
- SIFL planning

Airplane Cases

- Need 51% business use to take accelerated depreciation. The first 25% of business use cannot be a rental to a related party or personal use treated as a fringe benefit.
- Depreciation and the Section 280F trap
- Entertainment Facility trap
 - No deduction is allowed for an entertainment facility. §274(a)(1)(B). Exception Transportation entertainment facilities are deductible if the facility is used in pursuit of a trade or business. §1.274-2(b)(1)(iii)(1); TAM9608004. (Planning – Document business need for the plane)
 - Take the time to do good flight logs
 - Watch the 280F depreciation recapture
 - FAA rules require a dry lease. Make sure you do not violate Section 280F

Airplane Cases

- IRS Activity
 - IRS Notice – IR – 2024-46 (2/21/24) – IRS Notice of more audits
 - LB&I “Campaign” Issue
 - Checklist
 - Flight Logs
 - Business Purposes – Document (162 + 183)
 - 280F
 - PE v. PNE Flights – Document
 - Entity – Partnership or Corporation
 - Dry Lease
 - FAA – Part 91 or 135
 - State Tax Issues – Fly Away States

Airplane Cases (cont.)

- Use a Partnership or Corporate structure
- SIFL or §274-10(e)
- Personal Entertainment v. Non-Personal Entertainment
- SIFL is much more favorable than §274-10(e)
- Avoid Schedule C Structure – CCA 202117012 (4/30/21)
 - IRS: Can not pay a fringe benefit to a sole proprietor so income is not SIFL income. Simply disallow all personal expenses. Unclear how to measure expenses.

Airplane Cases (cont.)

- Section 280F
 - Leasing and Fringe Benefit Traps
 - Here's a new one – a single member LLC is not a single member LLC
 - New IRS training materials issued November, 2024

Airplane Cases (cont.)

- Section 183 – Hobby Loss
 - Business Plan
 - Factors §1.183-2(b) – See Schwarz v. Comm’r, Tax Court Dkt. 12347-20 (case pending)

Family Office Planning

- Lender Mgmt LLC V. Comm'r,
T.C. Memo 2017-25
- Family office takes a profits interests in investments and is treated as a trade or business
- Has to be a real trade or business – 162 and 183 issues
- Pending issues
 - Planes
 - Cost Seg
 - Real Estate Professional
 - Not For Profit
 - Professional Gambler

Family Office Planning

- Section 183 concerns
 - Section 183(a) – Disallows expenses of not-for-profit activities
 - Section 183 on its face applies to “an individual on an S- corporation” Section 183(a) applies to partnership and trusts as well.
Note Section 183 creates presumptions
 - Section 183 does not apply to C-corporations. However 162 still applies to a C-corporation and IRS regulations state that “no inference can be drawn from Section 183 and the regulations thereunder that any activity of a [C] corporation. . . is or is not a business or engaged in for profit.” Treas. Reg. 1.183-7(a)
 - Sorry – Slapping a hobby into a C-corporation does not work (at least not well)

Responding to Information Requests – Ethical Issues

Due Diligence – Ethical Issues

- Due Care – AICPA Code of Professional Conduct, Section 50 Article V.
- Model Rule of Prof. Res. 1.3
- Wis. SCR 20:1.3
- Missouri Supreme Court Rule (4-1.3)

Circular 230 - Prompt Disposition of Matters and Responses to Requests for Information §10.20 and §10.23

- If the IRS makes proper request for records or information, a practitioner must promptly respond to the request unless the practitioner reasonably has the good-faith belief that the information is privileged
- A practitioner may not unreasonably delay the prompt disposition of any matter before the IRS



Prompt Disposition of Matters and Responses to Requests for Information §10.20 and §10.23 (cont.)

- The practitioner must make a reasonable inquiry of the practitioner's client as to who has possession or control of the requested information
 - However, a practitioner need not make inquiry of any other persons or verify information provided by the client

Comment: Consider these rules when responding to a "wealth squad" IDR, a detailed LB&I IDR or a very broad discovery request.

Prompt Disposition of Matters and Responses to Requests for Information §§10.20 and 10.23 (cont.)

- Where the documents or information requested by the IRS are not in the possession of the practitioner or client, the practitioner must promptly provide the IRS employee seeking the information with any information the practitioner has about who has possession or control of the requested information

Comment

This rule certainly seems to raise Section 7525 and attorney-client concerns

Acknowledgement of IDR after 1.1.26



IRS Acknowledgement IDR-- Happens at the end of the audit

- In recent years IRS issued to most LB&I taxpayers an IDR that attempts to box the taxpayer into certain facts
- How to respond to the IDR?
- Why noncompliance is not an option:
 - Burden of proof issues
 - Rule of evidence issues (must make info available to opponent)
 - Penalty issues--arguing reasonable cause
 - IRS appeals uses a nonresponse as a basis for not appealing
 - Qualified offer issues

Acknowledgement IDR

- Use the acknowledgement IDR to support your claim
- See this in most cases
- IRS is no longer issuing these after 1.1.2026

Burden of Proof

Switching the Burden of Proof to the IRS

- Burden of proof can be important in valuation cases
- This is especially so if the IRS does not obtain a good valuation report

Make Sure During the Audit That the Burden of Proof Will Switch at Trial

- Burden to IRS
 - In most civil controversies, a rebuttable presumption existed that the IRS's determination of tax liability is correct
 - *i.e.*, the taxpayer has the burden of proving the IRS is wrong
 - Section 7491 switched the burden to the government in any non-criminal court proceedings, regarding a factual issue, if the taxpayer introduces credible evidence, which is relevant to determination of its liability

Make Sure During the Audit That the Burden of Proof Will Switch at Trial (cont.)

- Qualification
 - Code section 7491, which switches the burden of proof to the IRS, applies only to litigation in the courts between the taxpayer and the IRS
 - In order to obtain a shift in the burden of proof, the taxpayer must first comply with all requirements of the code section

Make Sure During the Audit That the Burden of Proof Will Switch at Trial (cont.)

- Comply with substantiation requirements contained in the Code and Regulations;
- Cooperate fully with the IRS;
- Exhaust all administrative remedies available to the taxpayer, such as going to the IRS Appeals office; and
- Produce credible evidence at trial.

Make Sure During the Audit That the Burden of Proof Will Switch at Trial (cont.)

The requirement to prove credible evidence means that the burden technically starts out on the taxpayer, but shifts to the government unless the taxpayer produces evidence that would enable the court to find in favor of the taxpayer, absent any contrary evidence being produced by the IRS and ignoring the judicial presumption of IRS correctness

Make Sure During the Audit That the Burden of Proof Will Switch at Trial (cont.)

Finally, the shift in the burden of proof applies to all income, gift, estate, generation-skipping, taxes and all penalties in addition to tax

- However, it does not apply to corporations, partnerships or trusts with the net worth exceeding \$7 million (book value)
- **Is some planning possible**

Deadline Traps - Refunds

DO NOT BLOW CRITICAL DEADLINES

- The Three Principal Claim for Refund forms are as follows:
- Form 1040X is used to claim a refund of individual income taxes
- Form 1120X is used to claim a refund of an overpayment of corporate income tax
- Form 843 is used to claim a refund of any tax other than income tax as well as penalties and interest
- Informal claims are possible - but not recommended

DO NOT BLOW CRITICAL DEADLINES

- If a return is filed or the tax is paid prior to the due date, for statute of limitations purposes, the return is treated as filed and the tax is treated as paid on "the last possible day" the return could have been filed without being delinquent
- The early payment of the tax rule occurs when a taxpayer's wages are subject to withholding or estimated tax payments are made
- The amount of the claim is limited by whether the taxpayer has fallen under the three-year statute of limitations or two-year statute of limitations

DO NOT BLOW CRITICAL DEADLINES

- Code Section 6511 provides that a claim for refund must be filed within three years of the date the underlying return was filed or within two years of the date the tax was paid, whichever is later

Amended Returns and Mail Box Rule of Section 7502

- An amended return showing tax due - no mail box rule (not “required” to be filed)
- Return claiming a refund of tax – mail box rule applies (return is “required” to be filed) CCA 20152003 - but be smart. Avoid the fight

The Protective Refund Claims

- Use the correct form
- Can you just send a letter?
- Comment: Big problem if this is missed

Hot Issue, Refund Claim Traps For The Unwary

- Trap for the Unwary
 - The claim is formally denied on IRS Letter 105C. This starts a two-year clock from filing a complaint in Court. The IRS is now routinely issuing Letter 105C.
- Comment: Trap for the unwary—a Form 907, which extends the two-year clock, requires a special power of attorney. The form also requires high level authority to sign.

Contents of Refund Claim

- Make your claim as broad as possible
- Watch out for the "variance doctrine"
- Courts will only allow a taxpayer to bring suit on a claim for refund on the grounds raised in the claim for refund. Thus, care should be taken to assure that all grounds have been stated in the claim for refund

Do Not Wait to File a Refund Claim

- NOL Example
- Audit Example
- IRS Letter 105C Example

Passive Loss Cases



Passive Losses and the Real Estate Professional

- Section 469
- Rental Real Estate
- Real Estate Professional
- Proving Material Participation
- Make a Grouping Election – watch limited partnership trap

Passive Loss Rules

- Limit a taxpayer from deducting losses and excess credits from a passive activity against income from nonpassive activities. I.R.C. § 469(a)
- A passive activity is one that:
 - Involves the conduct of a trade or business in which the taxpayer does not materially participate. I.R.C. § 469(c)(1)
 - Is a rental activity. I.R.C. § 469(c)(2)

Passive Loss Rules (cont.)

- Establishing Material Participation
 - A taxpayer materially participates in an activity if, and only if, the taxpayer meets one of the following seven tests:
 - Work done in a taxpayer's capacity as an investor does not count toward the 500 Hour test, unless the taxpayer is directly involved in the day-to-day management or operations of the activity. Treas. Reg. § 1.469-5T(f)(2)(ii)
 - Investor activities include studying and reviewing financial statements or reports on an activity, preparing studies or analyses of the activity's finances or operations for the taxpayer's own use, and monitoring the activity's finances or operations in a nonmanagerial capacity

Passive Loss Rules (cont.)

- Facts and circumstances. Treas. Reg. § 1.469-5T(a)(7)
 - Taxpayer can establish material participation by regular, continuous and substantial involvement in an activity based on all the facts and circumstances
 - Must participate in activity for more than 100 hours. Treas. Reg. § 1.469-5T(b)(2)(iii)
 - Caution! Services performed in the management of an activity are disregarded unless:
 - No other individual is compensated for performing management services in connection with such activity; and
 - No other individual performs management services that exceed the hours spent by the taxpayer. Treas. Reg. § 1.469-5T(b)(2)(ii)

Passive Loss Rules (cont.)

- A taxpayer must establish hours of participation under the seven tests
 - Any reasonable means of proof is sufficient to establish hours of participation. Treas. Reg. § 1.469-5T(f)(4)
 - Courts and the IRS are skeptical when a taxpayer makes extravagant claims on the number of hours of participation
 - Courts generally do not accept "post-event ballpark guesstimate" of hours unless supported by credible testimony and other objective evidence
 - Taxpayers are recommended to keep careful records of participation
 - Practice Tip
 - Use an affidavit
 - A client interview
 - Keep good logs

Passive Loss Rules (cont.)

- Special Rules for Real Estate Rental Activities
 - Taxpayers who qualify as "real estate professionals" may treat their real estate rental activities as nonpassive upon a showing of material participation.
I.R.C. § 469(c)(7)
 - To qualify as a "real estate professionals"

Passive Loss Rules (cont.)

- For individuals:
 - The taxpayer must satisfy the two following requirements:
 - More than one half of all personal services performed in trades or businesses must be performed in the real property trades or businesses; and
 - More than 750 hours of services must be performed in real property trades or businesses in which the taxpayer materially participates.
I.R.C. § 469(c)(7)(B)
 - Personal services include any work performed by the individual in the connection with a trade or business, except for:
 - Worked performed by an individual in the individual's capacity as an investor. Treas. Reg. § 1.469-9(d)(4)

Passive Loss Rules (cont.)

- Services performed as an employee, unless the employee is a 5% owner of the employer. I.R.C. § 469(c)(7)(D)(ii)
 - Practice Tip: When looking to purchase Real Estate (*e.g.*, Apartment Buildings), document that the activity is not investment activity
- Services of the taxpayer's spouse cannot be combined to satisfy either of the two requirements. Treas. Reg. § 1.469-9(c)(4)
- Caution! Rental activities held through a passthrough entity constitute a single interest if the entity grouped its real estate as a single activity. Treas. Reg. § 1.469-9(h). However, if a taxpayer owns directly or indirectly a 50% or greater interest in the passthrough entity, each interest in rental real estate is treated as a separate interest unless the taxpayer makes his or her own election to treat all interests in real estate as a single activity.

Questions?

THANK YOU!

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