disclosures

THE OFFICIAL MAGAZINE OF THE VIRGINIA SOCIETY OF CPAs

WINTER 2024

VSCPA.COM/DISCLOSURES

NAVIGATING THE PROFESSION'S *disruption*

+ Engagement letters | Updates to SSTSs | Unconscious bias

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Disclosures is published four times a year by the Virginia Society of Certified Public Accountants (VSCPA). The magazine's mission is to communicate information of value to VSCPA members, including professional issues and VSCPA initiatives.

Why we acquired Don Farmer's education business

In the fall, we announced a VSCPA first: the acquisition of revered tax education provider Don Farmer, CPA, PA. Some of you may wonder: Why would the VSCPA decide to make this move? What was the impetus behind the acquisition and why?

For a few years, the VSCPA Board of Directors has had a task force investigating areas of non-dues revenue that could supplement the Society's income and provide fiscal sustainability for the organization — with the goal of business model innovation to grow resources to better serve members and customers now and into the future. All member organizations are challenged to stay relevant and continue to provide cutting-edge education and benefits, and we are no exception.

The foreshadowing of Don Farmer's retirement and our desire to expand our education offerings to CPAs and finance and business professionals nationwide coalesced last year. Over the years, Don had begun to cut back working with as many state CPA societies because of the amount of travel and the challenges of running his own business. With Don also planning to retire, we didn't want his loyal following across the country to lose his unique brand of tax seminar "edutainment," so well-loved by CPAs for decades.

The acquisition made sense for us, for our members, and for Don. With Don's help, we are taking over his business and will expand classes, develop new speakers, offer new delivery methods, and more. VSCPA members will continue to receive the education they trust, and we (as well as Don's other state society clients) will maintain a valuable revenue stream to support other member services. Don will be able to see his legacy continue, as we plan to continue using the Don Farmer brand. He will stay on as a consultant and continue to teach and write in 2024,

while mentoring other content authors and presenters.

The spirit of the acquisition also dovetails with our commitment to thinking creatively and making big, innovative decisions. We challenge ourselves to constantly evolve, offering more value to our members and customers in addition to bringing the same level of commitment to advocacy for CPAs as we have for 110+ years.

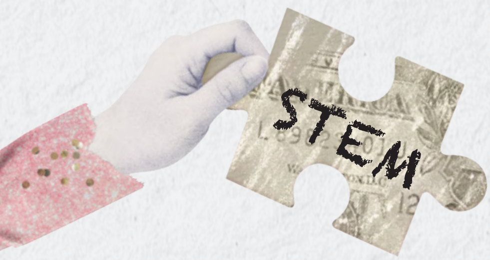
The VSCPA 2030 strategic vision is coming together, and innovation is a big part of our framework — woven throughout our goals and strategic planning processes each year. We'll unveil VSCPA 2030 after the Board of Directors approves the final plan early this year.

Need info on the Don Farmer acquisition? Find everything you need **on our website**. I'd love to hear any feedback you have on the acquisition or VSCPA 2030. Email me at **speters@vscpa.com**.

Stephanie Peters, CAE, has served as VSCPA's president and CEO since 2007.

speters@vscpa.com

Miles Education



SOLVING THE ACCOUNTANT SHORTAGE

- 200+ experienced Indian CPA candidates available for hire across your US offices
- MS Accounting (STEM) graduates
- No VISA formalities for 3 years

Success Stories & References

RSM

For the Fall 2022 cohort, RSM issued **14 offers out of 17 candidates they had** interviewed - a record 82% selection rate!

For Fall 2023, RSM is **hiring 50 candidates across 7 offices** and intends to scale to 250-300 hires from next year.

BDO ALLIANCE USA

Many firms actively hiring from the Miles pool, including:

- Blackman & Sloop
- Boos & Associates
- Burkett, Burkett & Burkett
- GBQ Partners
- Hancock Askews & Company
- Kindlinger & Company
- Marks Nelson
- SB & Company

Allinial GLOBAL®

Miles hosted an **e-placement drive** with Allinial Global in Aug 2023. Several firms including ATKG, BPM, Hantzmon Wiebel, RBG, Weaver, Wolf & Co. participated. And **7200+ Indian accountants** attended that session.

Chandrashekar. N (Chandu), CPA : chandu@mileseducation.com I +1 (302) 218-4321

Big Four *double down* on AI

While it may be hard to comprehend, the ChatGPT artificial intelligence (AI) tool only debuted in November 2022. Since then, AI has exploded in the zeitgeist, and now the Big Four accounting firms are announcing partnerships with AI tools and creators in efforts to boost productivity:

- **PwC is partnering with OpenAI**, the owner of ChatGPT, to use AI to consult on tax, legal and HR issues, offer clients advice, and more.
- **KPMG invested in Microsoft's generative AI and cloud service** to accelerate AI use and development for audit, tax and advisory clients.
- **EY launched EY.ai Workforce**, an HR solution in partnership with IBM, to help organizations integrate AI into key HR processes.
- **Deloitte is expanding its relationship with Google Cloud** to use generative AI to build industry solutions.

SURVEY SAYS

Accounting firms show revenue growth but struggle for talent

Results are in from the biennial National Management of an Accounting Practice (MAP) Survey. The bottom line? Big growth.

Median total net client fees for all firms clocked in at $1.1 million, demonstrating a 9% growth over 2021 results. Survey data shows firms picked up speed as the pandemic waned, regardless of firm size. Firms are also heading in a positive direction in other metrics besides net fees, including median fees per partner/owner, compensation for equity partner/owner, and others.

Results on turnover are a bit murkier due to median results. When investigated by firm size, turnover seems to increase as firms get larger. Firms with annual net client fees between $1.5 and 5 million report 6% turnover, but that increases to 14.25% for firms with $10 million and more in fees.

Check out **more stats from the national results** in the Journal of Accountancy.

Don Farmer, CPA, has educated and entertained thousands of CPAs.

The future of Don Farmer

Have you heard the news? On Nov. 1, 2023, the VSCPA acquired the business of Don Farmer, CPA, PA. (For more information on why, check out the CEO column on page 4).

For decades, Don Farmer has entertained Virginia CPAs with his entertaining and educational brand of tax seminars. As Don eyed retirement, the VSCPA came to an acquisition agreement with Don. He will continue as a VSCPA presenter, author and consultant, and the VSCPA will invest in the future success of Farmer seminars and additional tax education opportunities. We'll work with Don to identify new speakers to ensure his seminars remain accessible for years to come.

What does this mean for you? We'll offer Don's courses this fall as usual, and you can expect the same tax "edutainment" you're accustomed to. Watch the **VSCPA CPE Catalog**; dates will be announced soon!

TICKER

75

The percentage of companies planning to downsize office space in 2024.

36

The number of Virginia companies that made the 2023 Fortune 1000 list. Twenty-four made the Fortune 500.

45

The number on the Fortune 500 of Virginia's top-ranked company, Freddie Mac.

$163 BILLION

The amount awarded for federal government contracts to small businesses in fiscal year 2022.

26.5%

The percentage of federal government contracts going to small businesses, surpassing the Biden administration's goal of 23%.

$220,900

The average 401K balance of baby boomers.

34

The percentage of baby boomers who feel like they are on the right track with retirement savings. Among Gen Xers, it's 26%.

81

The percentage of full-time workers who want a four-day work week.

37

The percentage of workers who would be willing to change jobs or industries in exchange for a four-day work week.

DIGITAL EXTRA

Promoting problem-based learning in the classroom

Accounting employers expect workers to be well-versed in skills that constantly change due to advances in technology. Through problem-based learning in college accounting courses, students can learn communication, teamwork, critical thinking, and decision making.

VSCPA member Holly Caldwell, CPA, associate professor and accounting department chair at Bridgewater College, demonstrates how educators can incorporate problem-based learning into Principles of Accounting courses in this Disclosures digital extra: "**The Intersection of Problem-Based Learning and the MUSIC® Model of Motivation in Principles of Accounting**."

The key to retention?

Perhaps the biggest secret to retaining top-performing employees is fostering *true* engagement. The **2023 State of the Global Workplace Survey** from Gallup discovered fewer than one in four employees are engaged at work, and just more than half are looking for a new job.

But, for those employees who report being actively engaged at work, interest in a job change goes down considerably.

In a time of remote work, hybrid schedules, flexible scheduling, and all sorts of personalized work styles, cultivating strong engagement may seem like the management unicorn. But there *are* ways employers can engage and motivate — all with the ultimate grail of strong retention.

The **VSCPA Retention Guide** (PDF), a companion to last year's **Recruitment Guide** (PDF), can help employers craft an engagement strategy, as well as implement a variety of retention initiatives. The guide is one way the VSCPA aims to help solve your struggles with capacity. Visit the **VSCPA Capacity Resource Center** for more. (You must be logged in to access this members-only resource.)

Virginia legislative session *heats* up

After last year's rolling income tax conformity legislation, it's our first time in two decades without pushing for emergency tax conformity.

Emily Walker, CAE

Virginia legislators convened on the Richmond capital on Jan. 10 for a long, 60-day session. This year finds lawmakers, staff, lobbyists and constituents scrambling to understand the Assembly's new makeup.

Redistricting brought a wave of retirements, followed by a few incumbents losing primary elections last year. In the November elections, additional incumbents lost seats and the Virginia House of Delegates flipped from Republican to Democratic control. In all, there are 35 new delegates and 18 new senators. Sen. Scott Surovell (D) is the new Senate majority leader and Sen. Ryan McDougle (R) the new minority leader. With the change in control of the House, Virginia will have its fourth new speaker in the last six years in speaker-designee Don Scott (D). All House committees have new and there are several new chairs in the Senate.

Our advocacy efforts this year are underway, with a legislative fix for last year's rolling income tax bill the top priority. Here is what we're watching.

ROLLING CONFORMITY TECHNICAL BILL

VSCPA member Del. Joseph McNamara, CPA, is sponsoring an uncontroversial bill to correct last year's conformity legislation and Sen. Dave Marsden has the Senate version of the bill. H.B. 261 and S.B. 459 clarify that the intent of the $75 million cap was to limit automatic conformity of the provisions with a fiscal impact under $15 million to no more than $75 million without specific action by the General Assembly. The bills make clear that provisions with a fiscal impact over $15 million will NOT be included in determining whether the $75 million threshold has been met.

VIRGINIA BOARD OF ACCOUNTANCY (VBOA) POWERS AND DUTIES

We're supporting HB 1337 and SB 463 that make minor updates related to the VBOA. In particular, the legislation formally moves the VBOA from the Secretary of Commerce and Trade to the Secretary of Finance, which had previously been done via Executive Order. In addition, the bill clarifies that

certain historically accurate, biographical references to prior licensure are acceptable.

OTHER ISSUES

We haven't taken positions on any other legislation as of press time, but we're watching and monitoring several tax-related bills. You can find the full list in our **Online Bill Tracker**. Questions about our legislative priorities and other advocacy? Reach out to me at **ewalker@vscpa.com**.

VSCPA Vice President, Advocacy Emily Walker, CAE, is a 20-year veteran of the VSCPA. She supports all legislative and advocacy-related initiatives, including efforts to address the CPA pipeline. She sits on the AICPA National Pipeline Advisory Group.

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VSCPA Community+ is a new way for your company to engage with VSCPA membership.

VSCPA Community+ member companies get:

- Concierge-style service for group learning, events and membership needs.
- A simple membership renewal process with a single-dues invoice.
- Recognition in VSCPA publications and on vscpa.com.
- Professional issues updates from our CEO.

■ To become a VSCPA Community+ member and learn more contact Julia Henderson at **jhenderson@vscpa.com** or visit **vscpa.com/Communityplus**.

ESSENTIAL™ ETHICS

Powered by the VSCPA

Kick start 2024 with ethical empowerment!

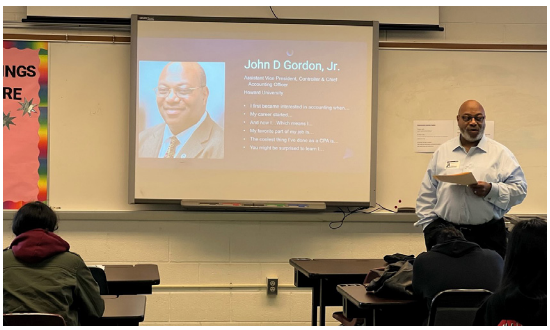
Essential Ethics courses are live. Join us for a course on demand or at an upcoming webcast to fulfill your ethics requirement early and set the tone for a year of ethical choices.

Check out ***AI Ethics 2024: Balancing on the Tightrope*** to learn all about the responsible adoption of AI technologies.

■ Browse dates and register at **Essential-Ethics.com**.

Charting the CPA *pipeline*

Latest trends in accounting grad supply and demand show mixed results.



John D. Gordon Jr., CPA, CGMA, chief accounting officer and controller at Howard University, visited Hayfield Secondary School in Alexandria during Accounting Careers Month. John is a member of the VSCPA Innovation Advisory Council.

CPAs from a wide variety of backgrounds and specialties spoke to students about the possibilities in accounting in this year's Accounting Exploration webinar.

VSCPA Academic & Diversity Outreach Director Molly Wash and VSCPA member Hemant Shah, CPA, at VCU's Accounting Extravaganza last November. Shaw is director of fund accounting for WaterEquity.

The pool of accounting graduates continues to shrink, according to the biennial **2023 Trends report** from the American Institute of CPAs (AICPA), "A Report on Accounting Education, the CPA Exam and Public Accounting Firms' Hiring of Recent Graduates." However, colleges and universities are projecting enrollment will flat line or increase slightly this academic year, providing a bright spot in the data.

The report breaks down trends in accounting graduate supply and demand, as well as the CPA Exam. Notable insights include the following.

SUPPLY: DOWNWARD TREND SINCE 2015–2016

Approximately 47,000 students earned a bachelor's degree in accounting in the 2021–2022 school year, down 7.8% from the previous year. This is a steady decline of 1 to 3% per year since 2015–2016. And while the number of students earning a master's degree in accounting dropped 6.4% to 18,238, the percentage decline is significantly less than in 2019–2020.

Breakdowns by gender continue to hold steady. Graduates who are women made up 52.1% of the 2021–2022 total, similar to last year. The racial/ethnic mix of candidates also remained steady with two exceptions. The number of Hispanic/Latino graduates increased by almost a percentage point, while nonresident alien grads decreased by almost a percentage point year over year. Black graduates rose slightly from 6.8% to 7.1%.

"We're still on a downward trajectory for accounting graduates, although it's worthwhile to note U.S. university enrollment and earned degrees collectively shrank during this period," said Jan Taylor, CPA, CGMA, Ph.D., the AICPA's academic in residence.

From 2012 to 2021, undergraduate enrollment regardless of field dropped 13%. The academic community is watching these trends closely, with a looming higher education enrollment cliff beginning in 2025 due to lower birth rates starting in 2008.

But, there is reason to be slightly optimistic when it comes to future enrollment. A majority of colleges and universities expect higher enrollment in 2023–2024. Forty-four percent of bachelor's programs expect increased enrollment (and 31% expect numbers to remain the same), while 45% say enrollment will increase in master's programs and 32% say it will remain steady.

These projections could demonstrate that the CPA profession's concerted effort to encourage accounting careers to students nationwide are beginning to have a positive effect.

DEMAND: NEW GRADS STILL WANTED

Data is lacking in demand statistics. The report states that due to a lack of responses, the total number of new grad new hires could not be projected with confidence for 2021, and new hire and firm demographics are not reported.

But, among CPA firms that hired new graduates in 2021 into accounting and finance functions, hiring is optimistic. Ninety-one percent say they will hire the same number or more in the next year, and 60% expect to have the same or higher number of CPAs on staff in 2023 compared to 2022.

CPA EXAM: CANDIDATES NEEDED!

The number of unique CPA Exam continues its downward slide. From the most recent high in candidates in 2016 of 102,291, numbers have declined every year to 67,336 in 2022. Only 18,847 candidates passed their fourth section in 2022, down from 19,544 in 2021.

The number of Exam sections taken in 2023 is on the upswing, in part because test takers are looking to complete their requirements before the 2024 onset of CPA Evolution.

With academia optimistically projecting increased or steady accounting enrollment next year, the challenge for the profession is crystal clear: Students must be educated on the benefits of sitting for the Exam and receiving the lifetime career value of the CPA credential.

VSCPA associate member and CPA candidate Carla Quinteros was featured on the Instagram feed for Accounting+.

BY THE NUMBERS

TELLING IT LIKE IT IS: ACCOUNTING CAREERS ROCK!

Part of the VSCPA's extensive CPA pipeline strategy for 2023–2024 includes reaching out to high school and college students to demonstrate just how exciting a career in accounting can be. Last fall, our efforts kicked up in earnest with Accounting Careers Month. Here's a snapshot of our success, by the numbers:

29

The number of VSCPA members who conducted a visit for our **CPAs in the Classroom** program. We're visiting schools all year long and we'd love to have you! You can opt in to our **volunteer pool** to be notified of upcoming opportunities, or you can reach out to a local school and **schedule your own visit**! Either way, we provide resources and speaking tips to make it as easy as possible!

170

The number of students who attended the Accounting Exploration: Unveiling Pathways and Possibilities webinar hosted by the VSCPA, Maryland Association of CPAs and North Carolina Association of CPAs on Nov. 8, 2023. Kimberly N. Ellison-Taylor, CPA, CGMA, led students in engaging conversations and attendees heard directly from accounting pros about exciting careers in the field.

362

The number of students who attending Virginia Commonwealth University's Accounting Extravaganza on Nov. 19, 2023. Attendees heard from professionals themselves about the unexpected side of accounting.

1

VSCPA associate member and CPA candidate picked to appear on the national social media for Accounting+, the Center for Audit Quality's initiative to encourage minorities to pursue accounting careers. Carla Quinteros gave advice for future accountants on how to choose the right college.

Updates to *Virginia* tax legislation

A variety of legislation was passed by the Virginia General Assembly in 2023. The below items all went into effect on July 1, 2023, unless otherwise noted. For a full report on all the changes, as this list is not all-inclusive, read the "**2023 Legislative Summary**" (PDF) from the Virginia Department of Taxation (TAX).

ROLLING INCOME TAX CONFORMITY

For the first time in 20 years, the VSCPA's legislative agenda is not topped by a push to get fixed-date conformity quickly passed by the Virginia General Assembly — thanks to rolling income tax conformity legislation passed in 2023.

The House and Senate bills (HB 2193 and SB 1405) both provided for Virginia generally conforming to federal tax laws on a rolling basis, "meaning that Virginia tax laws incorporate changes to federal income tax law as soon as Congress enacts them on or after Jan. 1, 2023," the bills stated. The bills were reconciled in conference to a $15 million impact threshold and $75 million aggregate cap, meaning Virginia will automatically conform to changes under the $15 million threshold but that automatic conformity is limited to an aggregate of $75 million worth of changes. Extenders to which Virginia already conforms will also be automatic and are not subject to either the threshold or the cap.

1099-K REPORTING THRESHOLD DELAYED AGAIN

In November 2023, the **IRS again delayed the $600 Form 1099-K reporting threshold requirement** for tax year 2023, making 2023 another transition year to implement the new requirements adopted under the American Rescue Plan. That means the previous threshold of $20,000 and 200 transactions remains in place for 2023. In addition, the IRS announced a phase-in amount of $5,000 for tax year 2024.

PASS-THROUGH ENTITY TAX

After legislation passed in 2022 to allow qualifying pass-through entities to pay entity-level taxes (the State and Local Tax cap workaround), companion bills were introduced in 2023 to repeal the definition of "qualifying entity" and replace it with "eligible owner," and ensure the calculation of tax is based on the share of Virginia income, gain, loss or deduction attributable to the eligible owners. Ultimately, the bills were passed and signed by the governor on March 27, 2023. On March 29, TAX released **Tax Bulletin 23-3** to respond to the new law and clarify the new definition of "eligible owner."

FILING TAX RETURNS OR SENDING PAYMENTS BY MAIL

HB 1927 stated TAX would deem a tax return or tax payment received on time if, through no fault of the taxpayer, no postmark was affixed or if the postmark affixed by the U.S. Postal Service was illegible — as long as the correspondence was received within five days of the due date.

LIMITATION ON TAX COLLECTION

According to HB 1625, the seven-year period of limitations on state collections actions will be suspended while any administrative or judicial proceeding contesting the assessment is pending.

STATE TAX REBATES

Due to a surplus in the state coffers, $906,800,000 was used to issue one-time individual income tax rebates of up to $200 for single taxpayers and $400 for married taxpayers filing jointly. All rebates were sent out prior to Nov. 30, 2023.

STANDARD DEDUCTION INCREASE

Effective Jan. 1, 2024, and through Jan. 1, 2026, the standard deduction increases from $8,000 to $8,500 for single filers and from $16,000 to $17,000 for married taxpayers filing jointly.

CORPORATE INCOME TAX DEDUCTION INCREASES

The individual and corporate income tax deduction for business interests increased from 30% to 50% of the business interest disallowed as a deduction under the federal business interest limitation.

CHANGES TO CONSOLIDATED FILING STATUS

The requirements were amended for an affiliate group to elect to change its corporate income tax filing status to or from the consolidated filing status by removing the condition that its tax liability for the previous tax year not be decreased by such a change in filing status.

VIRGINIA TAX CREDIT CHANGES

Legislation passed by the Virginia General Assembly in 2023 addresses the following changes to tax credits:

- **Land Preservation Tax Credit:** The deadline for filing an application for this credit is extended for conveyances made on or after Jan. 1, 2017.
- **Firearm Safety Device Tax Credit:** A new $300 credit for the cost incurred to obtain one or more firearm safety devices if purchased from a federally licensed dealer.
- **Food Crop Donation Tax Credit:** Sunset date for this credit extended by five years to Jan. 1, 2028, amount increased from 30% to 50% of the fair market value of qualifying donations, and expanded to include wholesome food donations.
- **Livable Home Tax Credit:** Aggregate cap increased from $1 million to $2 million per fiscal year and amount a taxpayer can claim per year increased from $5,000 to $6,000.
- **Green and Alternative Energy Job Creation Tax Credit:** The Green Job Creation Tax Credit was renamed the Green and Alternative Energy Job Creation Tax Credit. Additionally, methane extracted from Planning District 2 was added to the alternative energy sources eligible.

IRS EXTENDS DIGITAL SIGNATURES INDEFINITELY

Flexibility allowing for secure and effective communications like digital signatures — initiated during the pandemic — were well received by tax pros and taxpayers, the IRS said. In October 2023, the agency decided to accept digital signatures indefinitely "until more robust technical solutions are deployed." In addition, encrypted email when working directly with IRS personnel was extended to Oct. 31, 2025.

Internal Revenue Manual (IRM) 10.10.1 was updated to allow the acceptance of alternatives to handwritten signatures for certain tax forms and the ability to accept images of signatures and digital signatures in compliance interactions. A list of allowable signature options can be found in **IRM Exhibit 10.10.1-2**.

The pulse of the *cryptocurrency* landscape

Peter Kwon, CPA

It's payday — time to go shopping! You fire up the laptop and log in to your online checking account at Silicon Valley Bank. You quickly realize that your funds are frozen and that you do not have access to any of your hard-earned money to pay the bills. Deficiencies in risk management and a lack of proactive supervision by executives caused a bank run to lead to the collapse of your financial institution. Not good.

You are a startup and a small business owner who is always fighting to make ends meet. You finally get paid for your hard work only to get hit with service fees from online payment processors like PayPal or even your traditional bank. Payments from international clients are even more frustrating due to currency conversion fees. Further adding to frustration can be the delay in receiving customer payments that can sometimes take days in the traditional banking system.

What if you could cut out the burdensome and fee-heavy intermediaries? In times of high costs and high inflation, can businesses leverage digital currency to improve their bottom line? Yes. Enter the world of digital assets.

WHAT IS CRYPTOCURRENCY?

Cryptocurrency is digital currency that is verified and maintained by a decentralized blockchain. Payments can be made directly from person to person and are not controlled by any central authority such as a bank or the government, potentially reducing the risk of censorship or interference. All transactions are recorded on the blockchain, which is a secure and distributed ledger across participants and is available for anyone to see. The underlying technology that supports the blockchain provides a transparent and tamper-proof medium for which anybody with an internet connection can actively monitor and verify digital transactions.

Although it has only existed since around 2008, I believe cryptocurrency has the staying power to improve the business world as we know it in so many positive ways — as long as there continues to be regulatory clarity and a supportive legal framework for mainstream adoption.

MAJOR NFT/CRYPTOCURRENCY LAW CHANGES FOR 2024 AND BEYOND

In March of 2022, President Biden issued Executive Order 14067, "Ensuring Responsible Development of Digital Assets," with, among others, a directive for the U.S. government to "take strong steps to reduce the risks that digital assets could pose to consumers, investors, and business protections…"

At press time, digital asset payments [cryptocurrency and non-fungible tokens (NFT)] received in excess of $10,000 will be subject to Form 8300 reporting requirements effective on Jan. 1, 2024. The prior iteration of this form only included cash payments, but new legislation, unless delayed or changed, now includes digital currencies and assets as a reporting requirement moving forward. Any trade or business that receives payment in excess of $10,000 from a customer, in a single or set of related transactions, must file a Form 8300 within 15 days of the first part of that transaction. The Form 8300 reporting requirements include name, SSN/ITIN, address, a verifying document (i.e., passport, DL, alien registration card, or some other official government document), and a description of the transaction that must be included with the amount of payment received.

Please note that the Form 8300 still has not been revised to include these updated regulations as of this writing. We are still waiting to see whether this administrative change stays in place starting on Jan. 1, 2024, or if it will be further delayed.

PROPOSED REGULATIONS

Biden's Infrastructure Investment and Jobs Act or "Infrastructure Bill," which was passed in late 2021, included changes in which cryptocurrency exchanges such as Binance, KuCoin, and Coinbase would be required to issue a Form 1099-DA to users showing all cryptocurrency trading activity starting from January 2025.

Also beginning in tax year 2025, brokers and trading platforms, payment processors, and wallet providers will also be required to report gross proceeds on a newly developed Form 1099-DA that should be similar to the customary Form 1099-B used for investments. In the first year, the reporting requirements will only include gross proceeds, passing the burden to the individual taxpayer to provide the detailed underlying data and actual gains or losses associated with those gross proceeds. Then, beginning on Jan. 1, 2026, the IRS will require these providers to report all known data to users including cost basis and net profits or losses from digital asset and cryptocurrency trading.

Please note, similar to the current 1099-B forms provided by brokers, these forms will not be perfect and will likely contain a lot of errors. Currently, it is difficult to track the correct cost basis of an asset across wallets, platforms and exchanges. It is unlikely that these providers will have the applicable tools to provide the most accurate information when these reporting requirements go into effect.

FINAL THOUGHTS

As cryptocurrency continues to garner more attention and popularity, it is likely that accountants will see more clients with digital asset exposure and activity on their books and should prepare themselves accordingly by becoming more proficient in blockchain technology. With the recent news that BlackRock has filed for both Ethereum and Bitcoin ETFs, it appears that major financial institutions are poised to expand their presence in the digital currency and asset world. That means, coupled with advancements in the scalability and efficiencies of cryptocurrency features, I expect to see enhancements in the long-term viability of cryptocurrency usage. Further, with factors such as economic instability, efficiencies in transaction fees, and inflation and currency devaluation, there could be an increased interest and adoption in cryptocurrency as an alternative store of value, which could then potentially lead to more price stability.

However, despite its potential, it is important that people continue to educate themselves and always proceed with an extra level of caution to minimize risk when engaging in cryptocurrency-related activity.

Peter Kwon, CPA, is cofounder of RMPK Accounting, LLC, an accounting firm headquartered in the greater Washington, D.C., area. RMPK Accounting, LLC, specializes in serving high-net-worth individuals and small business owners with bookkeeping, tax planning, and tax consulting with a primary focus on cryptocurrency and NFT-related clients. Peter sits on the VSCPA Young Professionals Advisory Council. He holds Bitcoin and Ethereum, and enjoys buying and selling NFTs on OpenSea, an NFT marketplace. The opinions expressed here are his own, are not those of his firm or clients, and should not be interpreted as financial advice.

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7 steps to your *future* firm

MAP Survey results can help CPA firm leaders mold their organizations to tackle future challenges.

The 2023 **National Management of an Accounting Practice** (MAP) Executive Summary (PDF) includes extensive information on accounting firm performance. But data is only useful to the profession unless it elicits change.

One way CPA firm leaders can incorporate key MAP Survey takeaways is to include them in the vision cast for the firm. Seismic shifts in technology and market dynamics are creating a whole new world for accounting firms. To survive and thrive amid all the change, firms will need to evolve their operations and offerings.

The below seven actions, drawn from survey results, can help firms modernize their business models.

Leaders can choose just one or two areas to focus on to realize how interwoven the areas truly are. For example, moving away from hourly billing to value billing can not only improve margins but also have a huge impact helping right-size the client base. That, in turn, can have a huge impact on a firm's culture, affecting not only retention but also the perception of the profession as a whole.

1. **Focus on fees.** Survey results reveal net client fees and rates per position have increased, but there is room for firms to bring in more revenue. Firms can use the for benchmarking, as well as the **PCPS Revenue Modeling Toolkit** (for AICPA PCPS members) to determine where to make positive changes.

2. **Evaluate compensation.** The survey shows starting salaries still need to improve to be competitive with other career opportunities. They *have* increased about 12% for all firms and top performers, compared to only 4% in the 2021 survey, which spanned three years instead of two. Despite this growth, salaries are still lagging behind other professions. Firms can benchmark their salaries with others of similar size and use tools like **the AICPA's reward, compensation and incentive resources** to determine ways to make positive changes.

3. **Address billable hours across the board.** Average chargeable hours are decreasing — and at a higher rate with new professionals. This is a step in the right direction, but firms may want to make sure they are setting the same expectations for more experienced staff. Integrating new technologies into the practice can also help reduce billable time.

4. **Shift from hourly billing to value billing.** While results show an increase in value pricing versus hourly billing, hourly billing still prevails. Over time, as automation and other technological advancements come into play, practitioners will need less time to deliver the same services to clients. Because less time means fewer billable hours, firms will need to price services based on the value to clients.

5. **Investigate new lines of business.** Innovative firms can explore ways to enhance service offerings, which can lead to updated billing practices, improved or more evenly spread cash flow, and reduced busy season hours — win-wins for staff, partners *and* clients.

6. **Explore alternative solutions to the talent shortage.** With capacity at a premium due to the CPA talent crunch, firms are looking for other ways to get work done and reduce the workload on staff. Options include outsourcing, offshoring, right-sizing client bases, and the use of non-CPAs in client-facing roles. For help, check out the **VSCPA Capacity Resource Center**, where you'll find VSCPA guides on recruitment and retention (coming soon), as well as articles and other resources.

7. **Utilize "focused" operation staff positions to improve your bottom line.** Top-performing firms have increased operations staff, whether it be more administrative positions or new positions in areas including recruiting, learning and development, and project management, to name a few. Staff solely dedicated to recruiting, retention, and project management may actually help the bottom line, despite the overhead burden. There seems to be a push to focus on prioritizing the firm's needs as a whole over individual partner, manager or office preferences. Look into the areas your firm most needs to focus but doesn't have the "time" and develop a plan to integrate non-employees to create efficiencies that drive your bottom line.

CONTINUE LEARNING

- **2022 VSCPA Compensation & Benefits Survey executive summary**
- **"Fast-Track Your Practice: 4 Capacity Solutions"**
- **"Innovative Ways to Create Capacity"**

The VSCPA is helping members and firms rise to the challenges of the rapidly changing business environment. We're preparing you, your team and your business for the future with research and toolkits like our **Capacity Resource Center**, business planning and data collection with **VSCPA Strategic Insights** services, and our new **Community+** membership opportunity for organizations.

These tips are excerpted from the ***2023 National MAP Survey Executive Summary*** *(PDF), compiled by AICPA & CIMA, the AICPA Private Companies Practice Section, CPA.com, and AON.*

NAVIGATING THE PROFESSION'S *disruption*

Private equity and ESOP models in accounting firms are shaking up the status quo. It's time to embrace the future.

"The more things change, the more they stay the same" is a familiar cliché. To me, however, it is applicable to the state of our profession.

When I began my career as an associate at Arthur Andersen, our managing partner shared the top challenges facing the profession: the technological revolution; the "war for talent"; and the need to diversify our workforce. Do these challenges sound familiar? Of course, they do.

While the scope, intensity and speed with which we must address these challenges has remarkably changed, the fundamentals are very similar. We responded then and I'm confident we'll respond again. I am both optimistic and bullish about our profession's ability to respond — but we can't be casual or dismissive about the required response.

Since AI intrigues me, I asked ChatGPT to identify the challenges facing our profession. The response: technology and automation; globalization; cybersecurity; the need for bigger data analytics; shift from compliance to advisory; leveraging, capacity, and investing in talent; strengthening client relationships; diversifying client base; strategic planning; succession planning & multi-generational workforce; and marketing and branding in a digital age.

That list can be exhausting to read, much less to think about how we prepare to address these areas. I have the privilege to work with CPA firms of all sizes across the country, and it goes without saying that no one firm can or will address these issues in the same way. The best firms have one thing in common. They explore future challenges and opportunities with three words in mind: perspective, connectivity, alignment.

Our perspectives are shaped by experiences, generational diversity, geography, size, and a myriad of other factors. Connectivity is about making sure we don't view practice management and leadership challenges in isolation. Alignment means we look at mission, structure, strategy and culture when making decisions.

Gary Thomson, CPA

DISRUPTION

Our profession's challenges aren't unique. A simple search identifies a significant number of industries that face acute pipeline dynamics and are trying to keep pace with AI, experiencing regulatory shifts, and dealing with clients' changing needs.

There's an increasing demand and opportunity for services beyond "traditional accounting" as our clients look for higher-level advice in real time.

Our pipeline challenge has made our traditional "pyramid" staff model look more like a diamond. The need to utilize technology and outsourcing to offset the loss of entry-level personnel has rapidly shifted talent strategy. Training with a different leverage model, especially when many of our professionals aren't in a traditional office setting, is creating the need for more distinctive career development.

Adapting to the evolving technological change is not optional. To be relevant, technology is a cornerstone of success. ▶

"The best firms have one thing in common. They explore future challenges and opportunities with three words in mind: perspective, connectivity, alignment."

THE TRADITIONAL RESPONSE

Back to my opening statement. Many responses to a changing environment have been to do what we've always done.

To provide the funding to support the disruption response, firms have used capital resources, whether it be from sources like Paycheck Protection Program funds, or from more traditional sources such as partner capital and retained earnings. Firms have put aside their customary aversion to debt and are utilizing banks and other lending sources to provide much-needed resources.

Traditional mergers continue to be a strategy and the pace of mergers is dizzying.

THE NON-TRADITIONAL RESPONSE

But what generated this article is the more recent approaches like private equity (including family office) and Employee Stock Ownership Plans (ESOP).

I am fortunate to consult with firms in both arenas. Let's be clear, I'm not here to advocate for or detract from these tactics, but rather to provide clarity and connection to the future of our profession.

Private equity

Considering resources for "future think" has created alternative capital sources, most notably private equity and the use of ESOPs.

The intrigue of private equity began with the early-stage deals of EisnerAmper and Citrin Cooperman. From the early "large firm" deals, we have recently seen a private equity transaction with a firm under $10 million. The enterprise valuations have created much curiosity and, rightfully so.

Why does private equity want to invest in CPA firms? Investors see profitable firms with loyal clients who want more of their services. They correspondingly see the retiring baby boomers and a lack of succession clarity. They see how technology and automation can make us even better. They believe they can be better "operators" and allow CPAs to do what they do best: serve clients. They see our traditional governance models as antiquated and believe they can transition us in ways we may not have the will to do ourselves. At the core, however, they see the opportunities to make money for their investors.

Why have some CPA firms wanted private equity investment? I could say "see above," but that response is too limiting. Yes, the reasons articulated above have driven firms to private equity. The enterprise multiples offered to firm owners can't be ignored. The ability of PE to provide us with critical people, technology, growth, infrastructure, and other resources is unparalleled in many ways.

If you look at the post-transaction activity, you'll see firms making technology investments, acquiring key talent, making nimble decisions, and focusing on growth — as well as a significant uptick in mergers and acquisitions. This action is unmistakable.

But you also see a unique approach to people through an effort to provide actual or synthetic equity. While many firms lament the inability to find future owners, private equity firms believe they can motivate employees to loyalty and performance by making them owners earlier in their careers. This approach is a major talking point in nearly every slide deck on "why should we consider PE."

Since the focus of this article is more on the "why," space limits my ability to go deeper into value monetization, the potential cultural elements of working with a PE, the various deal structure options, carryover of equity, etc., all of which are important discussion matters.

ESOPs

While ESOPs have been around in business and the CPA firm space, recent decisions by BDO and Grassi & Co. have reignited the interest in this entity type. In my days in public accounting, I had ESOP-owned clients, particularly government contractors. There can be both tax and intangible advantages to a conversion to ESOP.

The ESOP response combines the need for equity with a culture of employee-owners who are invested more deeply in their firm's success. I could summarize by saying *it's a strategy for current owners to tax-efficiently monetize the firm, with a predisposition to preserving the firm culture and values*.

This isn't simply a tax election; it is generally a heavy debt transaction that has caused some to say the ESOP model "saddles" the firm with unnecessary debt that hampers future earnings. While there is truth to this general comment, it's also true that most firms have a significant off-balance sheet liability for unfunded buyout obligations. So, a firm's view of this can be remarkably different based on this unfunded obligation.

The process provides funding for owner monetization, investment in technology and infrastructure, and, as previously stated, allows for a cascading ownership structure.

Again, space doesn't allow me to address each nuance of ESOP ownership of CPA firms, but it is my belief the use of this strategy will grow along with other equity-like options for employees.

WHY SHOULD I CARE AND WHAT SHOULD I DO?

Our profession is at a crossroads. We must evolve to address the market forces reshaping us. That's why we care about looking at alternatives for the future.

If you're a firm partner or leader, your decisions will be specific to your organization. Earlier I mentioned mission, structure, strategy and culture. We must evaluate any long-term decision by demonstrating strategic alignment with those four critical areas. We ought to strongly test ourselves in these dimensions.

Can we say to our people, our clients and our communities that our long-term decisions have clear alignment? If so, find ways to demonstrate that. We must also invest the necessary resources to be ready and we must decide from whom those funds will be provided.

OPTIMISM FOR THE FUTURE

In the first paragraph, I mentioned optimism. When asked "Would you do it again… Be a CPA?", my answer is always an unequivocal "yes." Would I do it differently? Again, "yes."

I started my own CPA practice 35 years ago. I was excited about the entrepreneurial opportunities the profession provided me. I was thrilled to see the practice grow, embrace the growth of technology, be joined by generationally different professionals, and be heavily engaged in M&A. This journey informs me that there isn't an obstacle we can't overcome and there are many options as to how we find success.

We can learn a lot from the PE and ESOP conversation. We can choose to respond with different answers. How we respond, however, needs to be supported by an aligned approach.

Let's embrace the future by running *to* it instead of colliding *with* it. ■

CONTINUE LEARNING

- **Article — "The Hand of Private Equity in Accounting Firms"** (Illinois CPA Society)
- **Article — "Private Equity Eyes Accounting Firms Large and Small"** (Journal of Accountancy)
- **Article — "ESOPs Help Some CPA Firms with Retention, Succession"** (Journal of Accountancy)
- **Resource — VSCPA Strategic Insights**

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BANISHING *biases*

Everyone has unconscious biases. Recognizing your own can help you make informed, ethical decisions in the workplace.

Unconscious biases are **snap judgments we make about people and situations** based upon years of subconscious socialization, according to the **Harvard T.H. Chan School of Public Health**. Those judgments are made outside our conscious awareness.

Acknowledging that each person has biases is essential to understanding the impacts of biases on decision-making. Equally essential: The understanding that biases are not inherently negative.

Acknowledging biases does not make a person racist, sexist or homophobic, for example. In fact, quite the opposite is likely true. Identifying, evaluating and actively seeking to address biases is a key tool to overcome these destructive elements of society.

Left unchecked, biases pose a threat to personal and professional judgment. In October 2020, the **International Ethics Standards Board for Accountants** (IESBA) released its final pronouncement of **Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants**. The role and mindset revisions emphasize it is important that CPAs be aware of their individual biases when exercising professional judgment. The revisions describe common biases in the context of a CPA's role.

The below biases can come into play from a diversity, equity and inclusion (DEI) perspective.

ANCHORING BIAS

The tendency to use an initial piece of information as an anchor against which subsequent information is inadequately assessed. *Example:* Individuals might form impressions of various ethnic groups based on the opinions of parents, family members or friends.

AVAILABILITY BIAS

The tendency to place more weight on events or experiences that immediately come to mind or are readily available. *Example:* One might develop bias against or toward certain groups of people based on stories or ideas commonly seen in social media.

AUTOMATION BIAS

The tendency to favor output generated from automated systems, even when human reasoning or contradictory information raises questions as to whether such output is reliable or fit for purpose. *Example:* Users might be prone to accept the recommendations of an AI-enabled system without sufficiently questioning the potential for bias in the underlying algorithms.

CONFIRMATION BIAS

The tendency to place more weight on information that corroborates an existing belief than on information that contradicts or casts doubt on that belief. *Example:* Biases against particular groups can become more ingrained over time because we pay more attention to, and perceive as more accurate, stories that confirm those beliefs.

GROUPTHINK

The tendency for a group of individuals to discourage individual creativity and responsibility, resulting in decisions made without sufficient critical reasoning or consideration of alternatives. *Example:* Leadership teams without sufficient diversity or inclusion might fail to see broader perspectives and make decisions that are narrowly focused.

OVERCONFIDENCE BIAS

The tendency to overestimate one's own ability to make accurate assessments of risk or other judgments or decisions. *Example:* It is common to overestimate one's ability to think and act objectively, because one is unaware of one's own biases.

REPRESENTATION BIAS

The tendency to base one's understanding on a pattern of experiences, events or beliefs that are assumed to be representative. *Example:* Expectations about an individual might arise based on stereotypes about the group(s) to which they belong.

SELECTIVE PERCEPTION

The tendency for a person's expectations to influence how the person views a particular matter or person. *Example:* Misunderstandings might arise because of incorrectly interpreting someone's non-verbal cues based on pre-conceived ideas of how people in that group would respond.

MITIGATING BIASES

Anais Nin, a 20th century novelist and diarist, said, "We don't see things as they are. We see them as we are." Viewing the world through one's own knowledge, experience and beliefs limits the ability to be objective. To mitigate biases and develop new perspectives, the **Neuro Leadership Institute's SEEDS Model™** offers five biases that affect decision-making with mitigation opportunities. ▶

FIVE MAIN TYPES OF BIAS	DESCRIPTION	EXAMPLES	MITIGATION
SIMILARITY	**Ingroup bias:** Perceiving people who are similar to you more positively than people who are more different from you. **Outgroup bias:** Perceiving people who are different from you more negatively than people who are more similar to you.	Perceiving people who are of the same ethnicity as you more positively. Perceiving people who practice a different religion from you more negatively.	Engage in self affirmation (thinking about things you value or people who are important in your life). Affirming our sense of who we are makes us less likely to be negative toward dissimilar others. Find ways to think of those who are different from us and potentially a threat to the self as more similar to us.
EXPEDIENCE	Taking mental shortcuts that help us make quick and efficient decisions.	Making a decision based on the information that's most readily accessible instead of on objective information. Relying too heavily on the first piece of information offered when making a decision.	Increase the motivation to engage in more deliberative and thoughtful decision-making. Develop step-by-step approaches that encourage breaking a problem into its component parts.
EXPERIENCE	Assuming that our experience corresponds to reality.	Identifying biases in other people but not in oneself. Overestimating the extent to which others agree with you.	Get objective, outside opinions from others not on the team or project. Revisit ideas after a break to see them in a fresher, more objective light.
DISTANCE	Assigning greater value to those things that we perceive to be closer to us, simply because they are close.	Expecting others to pay more for something that we own than we would be willing to pay for the same thing that someone else owns. Devaluing rewards as they move farther into the future.	Evaluate outcomes or resources as if they were equally close in distance, time or ownership.
SAFETY	Making decisions more driven by negatives than by positives, i.e., bad is stronger than good.	Making a risk-averse choice if the expected outcome is positive but making a risk-seeking choice in order to avoid negative outcomes. Making a different judgment based on whether the decision is presented as a gain or as a loss, despite having the same objective information.	Imagine making the decision for someone else.

UNCONSCIOUS BIAS AND CODES OF CONDUCT

A standard of conduct is a hallmark of many professions. The actions and conduct of CPAs are subject to the American Institute of CPAs (AICPA) **Code of Professional Conduct**. The Code could perhaps be viewed by CPAs as simply another set of rules to follow. However, even in its discussion of compliance, the AICPA has noted the Code's interplay with other societal elements.

The Code's principles and rules of conduct state: "Compliance with the rules depends primarily on members' understanding and voluntary actions; secondarily on reinforcement by peers and public opinion; and ultimately on disciplinary proceedings, when necessary, against members who fail to comply with the rules."

The IESBA Code also highlights the importance of professional judgment in making informed decisions and the need to consider the potential for bias. It says professional judgment is required when the accountant applies the conceptual framework in order to make informed decisions about the courses of actions available, and to determine whether such decisions are appropriate in the circumstances. In making this determination, the accountant might consider matters such as:

- The accountant's expertise and experience are sufficient to reach a conclusion.
- There is a need to consult with others with relevant expertise or experience.
- The accountant's own preconception or bias might be affecting the accountant's exercise of professional judgment.

From an ethical perspective, more important than mere knowledge of the rules, is a willingness on the part of the CPA to take voluntary efforts to also incorporate ethical concepts, such as unconscious bias, in the application of the Code.

For example, regarding conflicts of interest, the AICPA Code states: "A member or his or her firm may be faced with a conflict of interest when performing a professional service. In determining whether a professional service, relationship or matter would result in a conflict of interest, a member should use professional judgment, taking into account whether a reasonable and informed third party who is aware of the relevant information would conclude that a conflict of interest exists."

How would each of the elements of the SEEDS Model™ come into play when determining if a reasonable and informed third party who is aware of the relevant information would conclude that a conflict of interest exists?

The concepts of using professional judgment and looking at the situation through the lens of a reasonable and informed third party illustrate the importance of critical thinking and applying a questioning mindset to identify and mitigate biases. The IESBA Code provides the guidance on actions that might mitigate the effect of bias, such as:

- Seeking advice from experts to obtain additional input.
- Consulting with others to ensure an appropriate challenge as part of the evaluation process.
- Receiving training related to the identification of bias as part of professional development.

REAL-WORLD APPLICATIONS OF UNDERSTANDING BIAS

Everyday situations in the workplace provide opportunities to consider how biases impact behaviors and how we can better apply DEI concepts. Here's an example:

Your team is short-staffed and wants to hire new staff members. The potential for bias: Similarity and expedience biases might lead you to only recruit through the channels you typically use. The solution: By applying DEI concepts, you can actively seek to increase diversity through exploring different sources and encouraging the team to reach out to their diverse networks.

CPAs in leadership positions can educate themselves and their employees about unconscious bias and even conduct bias training. Recognition and understanding is half the battle, and increasing transparency around DEI topics and how they effect an organization's ethical decisions can help foster a sense of belonging among all team members. ■

This article is excerpted from the VSCPA's 2022 Essential Ethics course, "Ethical Considerations in Diversity, Equity, & Inclusion: Foundations for Our Profession," written by Brian Friedrich, CPA, LLM; Clare Levison, CPA, CGMA; and Vivian Paige, CPA.

8 CRITICAL ELEMENTS OF AN *effective* ENGAGEMENT LETTER

An engagement letter is critical to the success of any CPA. To help protect yourself and your firm, make sure your letter has these eight elements.

By Deborah K. Rood, CPA, MST

One of the best tools a CPA can (and should) consistently employ to help manage their professional liability risk is an engagement letter — a document that defines the contractual obligations between the CPA and client.

Of course, it can't just be any engagement letter — it needs to be an effective one. An effective engagement letter identifies the services to be performed, each party's responsibilities, and the terms and conditions of the engagement. Ineffective engagement letters are overly brief, absent of key elements, and are poorly written.

While most CPAs understand the significance of engagement letters, there's evidence that supports the need for practice improvement throughout the accounting profession. According to CNA, the endorsed insurer of the American Institute of CPAs (AICPA) Professional Liability Insurance Program, only 50% of tax claims asserted against CPA firms in the program in 2022 had an engagement letter related to the underlying service. For consulting services claims in the same year, only 68% had an engagement letter (better but not where it should be).

To help you protect yourself and mitigate risk, these eight critical elements should be included in every engagement letter.

1. CLIENT NAME

The first critical element may seem obvious — the identities of the parties involved in the engagement. However, it's important to remember that identifying all engaged parties provides a defense to third parties asserting that the engagement was performed for their benefit.

In your engagement letter, ensure that the client's proper legal name is used, including subsidiaries and other related parties (if services are to be delivered to those parties). Within the body of the letter, consider identifying a specific point of contact you'll take direction from and to whom questions and requests should be directed. Identifying a singular client point of contact has proven to be beneficial, particularly when business owners are in conflict with one another or if a request is made of you by an owner who's not the primary contact.

2. SCOPE OF SERVICES

Often, disputes arise when the client's understanding of the services to be rendered differs from yours. To reduce the likelihood of an expectation gap and avoid misunderstanding or misinterpretation, your engagement letter should clearly delineate the services to be provided with sufficient detail.

Although such detail may be fairly straightforward for an attest or tax compliance engagement, it's commonly less so for consulting and tax services other than tax compliance. Work with your client to articulate the specific scope of the service they require and include such details in your engagement letter.

For example, "Consult regarding the individual income tax implications of the current year sale, installment sale, or like-kind exchange of the real property located at 123 Main Street, City, State, based upon a sale price of $X," is preferable to a brief summary. For instance, "Minimize the tax on the sale of the rental property," is far too brief and may raise questions regarding which rental property or if tax was truly minimized if another planning strategy resulted in less tax.

After the scope of services is drafted, consider asking a colleague or an impartial party to read your engagement letter to help evaluate whether it's sufficiently specific.

3. CPA FIRM RESPONSIBILITIES

The firm's responsibilities are generally limited to performing the services identified in the engagement letter in accordance with the professional standards outlined in the letter. Why include relevant professional standards? Doing so helps identify the specific duty of care to which you'll be held to in the event of a dispute, and it provides a defense to the plaintiff's counsel suggesting that a different standard applies.

This section of your engagement letter should also include limitations of the engagement which, for most services, includes no responsibility to detect theft, fraud, or weaknesses in your client's internal controls.

4. CLIENT RESPONSIBILITIES

Experience demonstrates that clients who deflect their responsibilities related to your services are quick to blame you if problems arise. Therefore, clearly defining their responsibilities is an important element of every engagement letter for any service. Client responsibilities may include, but are not limited to:

- Providing requested information and responding to inquiries in a timely manner.
- Maintaining a system of internal controls.
- Making management decisions.
- Accepting responsibility for the results of your firm's services.
- Providing certain representations when requested. ▶

CONTINUE READING

- **Article — "Weather Any Client-Related Storm: Effective Engagement Letters"**
- **Article — "The dos and dont's of disengaging"**

5. DELIVERABLES

The deliverable is the result or work product of the service you've been engaged to perform for your client (e.g., an audit report, a tax return, or a written memo summarizing recommended process improvements). Written deliverables are preferred to oral ones since they provide evidence of the work you're expected to perform. However, if oral advice is provided, the deliverable could be an email to your client summarizing the oral advice you provided. Of course, like the scope of services, it's important to be specific in your engagement letter. Be sure to:

- Describe the anticipated deliverable and its format.
- Identify tax form names and numbers to be prepared (if applicable).
- Attach a template of the deliverable (if additional clarity is needed).
- Note any restrictions or limitations on the use and distribution of the deliverable. With the exception of attest engagements, most CPA firm deliverables are solely for client use, not for third parties, which should be clearly stated in the engagement letter.

6. ENGAGEMENT TIMING

Identify when services will begin and any contingencies, such as receipt of client documentation, engagement letter or retainer, that may affect the start date. This clarification helps reduce the risk of a misunderstanding with your client regarding timing.

The same is true for the service's end date. Identify when the services are expected to conclude, whether it's a milestone, such as delivery of the engagement work product, or a specific date or length of time. This clarification helps determine when the statute of limitations begins, which can aid in your defense in the event of a professional liability claim.

7. TERMINATION AND WITHDRAWAL

While nobody likes to contemplate ending an engagement before work is complete, it can and does occur. You may wish to terminate an engagement if your client insists that you take an unreasonable tax position or if your client hasn't paid you for your services. So, make sure to include a statement in your engagement letter that notes you may withdraw from the engagement at any time without completing the services. If you feel providing examples is necessary, be sure to include the phrase, "including but not limited to," to convey that other circumstances may result in termination or withdrawal.

8. BILLING AND FEES

Including the fees or fee estimate in your engagement letter helps clarify, in writing, the anticipated cost to your client. This specificity increases the likelihood of being paid and reduces the likelihood of a fee dispute. You should also identify contingencies that may result in fees that differ from the estimate provided.

Simply put, engagement letters often serve as written records of discussions or mutual understandings that've already transpired. What's important to take away is that engagement letters help protect you and your firm from disputes and offer clients clarity of what they can expect while working with you. If a client balks at signing an engagement letter, consider drawing a parallel to their business or everyday life. Would an architect start designing a home without an understanding of what the homeowner wanted? Would an individual turn a car over to a mechanic without first approving what is to be repaired and at what cost? Obviously not. The same should be true for CPAs — engagement letters should be the foundation of our business.

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Continental Casualty Company, one of the CNA insurance companies, is the underwriter of the AICPA Professional Liability Insurance Program. Aon Insurance Services, the national program administrator for the AICPA Professional Liability Program, is available at 800-221-3023 or visit cpai.com.

*Reprinted courtesy of **Insight**, the magazine of the **Illinois CPA Society**.*

NEW SSTSs ARE *here*

CPAs working in tax should be aware of revisions and additions to the AICPA's Statements on Standards for Tax Services (SSTSs) effective Jan. 1.

Vivian J. Paige, CPA, CGMA

CPAs in Virginia who are tax professionals are subject to a variety of rules, including the requirements of the AICPA Code of Professional Conduct, Treasury Department Circular No. 230, the Gramm-Leach-Bliley Act (GLBA), the Federal Trade Commission's (FTC) Safeguards Rule, and the AICPA's Statements on Standards for Tax Services (SSTSs).

In May 2023, the Tax Executive Committee of the AICPA, which is designated by the AICPA to promulgate standards of tax practice, approved the issuance of the latest SSTSs. The issuance represented a years-long revision of the previous standards and included an exposure draft and a period during which comments on the proposed revisions were accepted. The revised SSTSs went into effect Jan. 1, 2024.

The goals of the revision were twofold: (1) to ensure better alignment of the standards to reflect the current state of the tax profession, and (2) to address the emerging needs of the profession. The first goal was addressed by reorganizing the standards by the type of tax work performed. The second goal was addressed by introducing three new standards covering data protection, reliance on tools, and the representation of tax clients before taxing authorities.

The seven existing SSTSs were reorganized into a practice-based framework, and incorporated the three new standards, resulting in four standards:

- **Statement on Standards for Tax Services No. 1, *General Standards for Members Providing Tax Services*:** This statement addresses general matters applicable to all tax services and includes guidance from the existing SSTS Nos. 1, 5 and 6 while adding new standards on data protection and reliance on tools.
- **Statement on Standards for Tax Services No. 2, *Standards for Members Providing Tax Compliance Services, Including Tax***

***Return Positions*:** This statement addresses tax compliance services (tax return preparation) and includes guidance from the existing SSTS Nos. 1–5.

- **Statement on Standards for Tax Services No. 3, *Standards for Members Providing Tax Consulting Services*:** This statement addresses the providing of tax advice and includes guidance from the existing SSTS No. 7.
- **Statement on Standards for Tax Services No. 4, *Standards for Members Providing Tax Representation Services*:** This statement addresses the new standard on taxpayer representation and focuses on the representation relationship.

The structure of the new SSTSs follows that of the previous ones, with each section providing an introduction, the standard i.e., the requirements to be followed, and an explanation. Except for the new standards, much of the remaining content was simply modified to clarify the language. There is, however, a new numbering system, which is much easier to follow than in the old SSTSs, where the paragraphs were simply numbered. In the new SSTSs, the first number represents the SSTS number, the second number the section within the SSTS, and the last number the paragraph under that section. For example, 1.2.1 points you to SSTS No. 1, section 2, Knowledge of Errors, and paragraph 1, which is the first paragraph of the introduction.

The first two of the new standards, data protection and reliance on tools, are applicable to different types of tax services and are, therefore, included in the general standards in SSTS No. 1. Data protection can be found in Section 1.3. This new standard requires the CPA tax professional to make a reasonable effort to safeguard taxpayer data, including that transmitted or stored electronically, and to consider the applicable privacy laws when collecting and storing taxpayer data. The standard references both the GLBA and the FTC's Safeguards Rule and complements the confidentiality standards in the AICPA Code (ET sec 1.700.001).

The prior SSTSs provided no standard addressing the increasing reliance on technology in providing tax services. Section 1.4 addresses this oversight by providing guidance. Tools like tax preparation software, tax research publications, data analytics, and other resources can be used to improve efficiency and to enhance the CPA tax professional's understanding of an issue. Tools cannot, however, supplant professional judgment. The new standard requires tax professionals to take reasonable steps to ensure the results presented by any tax tools used are reliable.

The final new standard is contained in SSTS No. 4, which recognizes that tax representation can occur before any taxing authority (Circular 230, for example, only covers federal taxes) and that these taxing authorities may impose their own standards. SSTS No. 4 is designed to supplement, rather than override them, and to provide basic standards where a lower standard or no standard exists. Technical competence in the subject matter is required and SSTS No. 4 draws on the competence interpretation provided in the AICPA Code (ET sec. 1.300.010). In addition, this standard reminds CPA tax professionals of the conflict-of-interest standards in Section 1.000.020 as well as the integrity and objectivity rule in Sections 1.100.001 and 2.100.001 of the AICPA Code.

In addition to the new standards, the AICPA Tax Executive Committee has issued two interpretations related to SSTSs Nos. 1 and 2. Interpretation No. 1-1 covers "Reporting and Disclosure Standards" while Interpretation No. 1-2 covers "Tax Planning." The Committee also issued a "Frequently Asked Questions" document to cover several specific topics, including errors on tax returns, reliance on information from others for pass-through basis, and the use of estimates for earnings and profits. All of these items can be found on the **AICPA website**.

Finally, while the documents refer to AICPA members, please remember that all CPAs in Virginia are bound by the AICPA Code of Professional Conduct and the SSTSs via **Section 54.1-443.3** of the Code of Virginia.

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This CPA wants everyone to know...

#AccountantsAreFun

Three years ago, Kelli Meadows, CPA, watched her daughter and friends head off to college. One major they rarely mentioned exploring? Accounting.

Everyone said accounting is boring, Kelli recalls. "I thought, okay, we have a problem."

Twenty years in as a founding partner at Richmond firm Meadows Urquhart Acree & Cook, LLP, Kelli is excited to show the next generation why the profession is thrilling *and* exciting. In short, anything but boring.

"We are not boring. We have fun, rewarding jobs," she says. "I feel like we are perceived as a very grueling industry to work in that really isn't a lot of fun."

Meadows Urquhart Acree & Cook, LLP, proclaimed "Accountants are FUN!" in a Richmond area billboard last November.

Kelli began using the #AccountantsAreFun hashtag across social media, and the campaign took off. Now, Meadows Urquhart Acree & Cook uses the hashtag in marketing materials and employees sport T-shirts that mimic the "Friends" TV show logo with the phrase: "The one where accountants are fun."

Kelli Meadows, CPA, shared her "Accountants are FUN!" message while recruiting at Virginia Tech and James Madison University.

In fall 2023, Kelli decided to take the campaign up a notch and declare accounting is fun to Richmond commuters near I-64 and Virginia 288 with a dazzling green billboard sporting the message "Accountants are FUN!" and the firm logo.

But the phrase isn't just lip service. Kelli truly enjoys being a CPA and the benefits her firm brings to its clients.

"I see the value in what we do," she says. "We are doing continuous planning for our clients. That makes it a lot more interesting to the staff." Gone are the days where accountants wait around for clients to send tax documents and then CPAs crunch numbers all day. Kelli said the value in the profession is on the relationship side — generating ideas for businesses and acting as consultants.

As a business consultant to companies without CPAs on staff, Kelli is then able to wrap accounting and tax services into the full equation. Ultimately, accountants are having fun solving problems — and *that's* the message she wants to convey to students looking for rewarding careers.

Anyone can join Kelli's quest to rebrand accounting! Firms and CPAs are encouraged to use the #AccountantsAreFun hashtag to promote all the inspiring and exciting aspects of the profession.

Yes, *you* CAN!

With the pipeline of qualified accountants to the CPA profession facing challenges, there is something every CPA can do: Support and promote scholarships.

Offering scholarships to deserving undergrad and graduate accounting students is not new; the **VSCPA Educational Foundation** has given away hundreds of thousands of dollars over the years.

But what IS new? **The urgency.** With the downward trend in the supply of accounting grads (see page 11 for a breakdown of recent stats), the future of the CPA profession depends on attracting students. More scholarships, with many aimed to increase the number of minorities in accounting, can help move the needle by alleviating school costs.

VSCPA leaders and staff have increased focus on the issue over the last year; the CPA pipeline is a top-line goal for fiscal year 2023–2024, and we've deployed **several key objectives** to help move the needle. There are a variety of ways VSCPA members can get involved in the plan, from inspiring students directly and speaking to a classroom to posting about the benefits and joys of your job on social media. But donating money directly to student scholarships will affect immediate and lasting change.

Injecting more money into students' pockets is also a national strategy beyond the VSCPA Educational Foundation. The AICPA includes scholarships and endowments as one point in its Pipeline Acceleration Plan to address the root causes of CPA pipeline issues.

Join the movement today. Visit **vscpa.com/ef-donation.**

HOW YOU CAN DIRECTLY HELP STUDENTS TODAY

Ready to join your colleagues and commit to assisting and inspiring the next generation? It's easy:

1. An **individual, tax-deductible donation of any size** will help fund scholarships, programs and learning events for undergraduate and graduate accounting students.
2. **Directly support racially and ethnically underrepresented college students** by donating to the Curtis C. Duke and Dr. Ruth Coles Harris Scholarship Fund. There's a spot on the **donation form** to earmark your gift.
3. **Sponsoring a VSCPA DEI scholarship** will help support the pipeline of minority students into the profession. And as a sponsor, you can name the award. (Thank you to 2024 scholarship sponsors Keiter; Wall, Einhorn & Chernitzer; and WellsColeman for their generosity.) Contact VSCPA Pipeline & Diversity Director **Molly Wash** for more information.
4. **Encourage college-age students to apply for a scholarship. We're now accepting applications** through April 1, 2024.

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