

disclosures

THE OFFICIAL MAGAZINE OF THE VIRGINIA SOCIETY OF CPAs

FALL 2023

VSCPA.COM/DISCLOSURES

THE ONLY *constant*
IS CHANGE



Pay transparency
Beneficial ownership information reporting
New programs to address CPA pipeline

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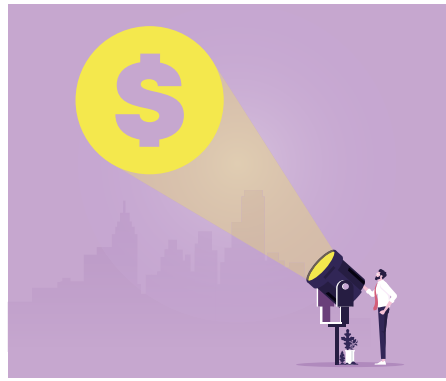
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FALL 2023
Volume 35, No. 4

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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. The materials and information in Disclosures are offered as material only and not as practice, financial, accounting, legal or other professional advice. Statements of fact and opinion are made by the authors alone and do not imply an opinion on the part of VSCPA officers, members or editorial staff. Publication of an advertisement in Disclosures does not constitute a VSCPA endorsement of the product or service. Copyright © 2023 Virginia Society of CPAs.

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The CPA pipeline: Front and center

The word “pipeline” is everywhere these days, but what do we really mean by that? Essentially, the CPA pipeline is the queue of next-gen accountants — beginning with students’ piqued interest in accounting in middle school all the way through young professionals deciding to stick with the profession long term.

We dissect the issue in more detail in the summer 2023 Disclosures (see “Tackling the CPA Shortage Head On” for more info), but essentially, decreasing college enrollment overall, fewer students choosing accounting, fewer young professionals sitting for the CPA Exam, and a competitive hiring landscape are all affecting the pipeline.

Our CPA leaders have responded. Several of the VSCPA’s strategic goals for fiscal year 2023–2024 aim to directly tackle the pipeline, from real, tactical changes we can make at the university level to public relations campaigns targeting students. This year you’ll hear us talk about the following targets:

Advocate for meaningful change to improve the pipeline. Since our special Board Task Force on the 150-hour requirement has wrapped, we’re continuing the conversation with national stakeholders. VSCPA Vice President, Advocacy, Emily Walker, CAE, is sitting on the AICPA National Pipeline Advocacy Group.

Increase the diversity of the profession. Our investments in the Center for Audit Quality’s Accounting+ initiative, partnerships with NABA Richmond, and relationships with the accounting programs at Virginia’s historically Black colleges and universities all aim to increase DEI.

Communicate pathways to 150 to faculty and advisors. There are a lot of different options available on the path to CPA, and ensuring students know all the options are half the battle.

Help college accounting programs become STEM-approved. Getting



accounting recognized as a Science, Technology, Engineering and Math (STEM) field will elevate its exposure and increase awareness to the profession.

Expand the CPAs in the Classroom program. This is where you come in! This November, we’re kicking off Accounting Careers Month to promote the exciting opportunities available to students in all areas of accounting. Part of the success of this month will be directly connecting you — the ones who can speak to the rewards of a CPA career — with Virginia’s students. We have resources to walk you through it, and I encourage you to give it a try. Members who have done it report positive experiences and often go back year after year!

Get involved in Accounting Careers Month by checking out vscpa.com/AccountingCareersMonth and see all of our pipeline efforts at vscpa.com/CPA-Pipeline. Questions, comments or feedback on our efforts? Email me at speters@vscpa.com. ■

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

✉ speters@vscpa.com

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The competitive *advantage* of remote work

Companies readying themselves for the dynamic future of work are buying into remote work worldwide, according to the 2023 Remote Workforce Report. Decision makers across the globe are confident about this workforce model. Check out these stats:

60% The number of decision makers who believe the quality of candidates increased after opening remote options.

35% Those decision makers who say hiring international remote employees helps improve market competitiveness.

69% Those who say retention increased under a distributed workforce model.

The report makes it clear, however, that remote work comes with challenges. And while the model continues to grow, employees do begin to show preference for predictability during times of increased economic uncertainty.

Find the full Remote.com report at remote.com/remote-workforce-report.



CPAs as LGBTQ+ allies

A quarter of LGBTQ+ young adults go back into the closet after starting work, according to Positive Futures, a report from charity Just Like Us. Sponsored by Deloitte, the report reveals the reality many LGBTQ+ people face in their careers: 49% 'rarely or never' feel close to other people and 48% are not confident they'll have a career they enjoy.

There are ways CPAs can help LGBTQ+ employees feel welcomed and supported at work. Here are a few:

- Provide senior LGBTQ+ career mentors for younger staff.
- Update policies to better support LGBTQ+ employees, such as reviewing paternity and adoption leave.
- Commit to allyship by not tolerating LGBTQ+ bullying, show visible signs of acceptance, and providing meaningful volunteer opportunities.
- Implement diverse recruitment practices.

The report is full of more data and suggestions for employers. Find it at tinyurl.com/LGBTQPositiveFutures.

Accounting firms are anything but traditional

Today, eight out of 10 accounting firms are offering nontraditional services, according to the 2023–2024 Marketing Budget Benchmark Study from the Association for Accounting Marketing and Hinge Research Institute. High-growth firms report an annual growth rate of 29% — up to five times that of their slower growing peers.

What are the keys to growth amidst uncertain business environments? Digital maturity, digital marketing, and workplace culture. "Firms across the board are offering nontraditional services like 'business consulting' and 'advisory', which can be delivered by non-CPA talent. High-growth firms, in particular, plan to bump up their budget for product development in a bid to diversify those offerings even further — a strategy to address the talent shortage and leverage existing talent," said Hinge managing partner Lee Frederiksen, Ph.D.

Check out other revealing data at <https://tinyurl.com/23-24AMBStudy>.

WE WANT TO PROFILE YOU!

You have a story to tell, and we want to hear it! Throughout the year, we're showcasing different CPA perspectives and career paths. Got a unique volunteer position you fill? What about a different career path you'd like to share? All stories are welcome! Fill out the survey here: surveymonkey.com/r/VSCPASpotlight.

TICKER

64

The percentage of data centers leased nationwide that reside in Northern Virginia.

91

The percentage of U.S.-based LinkedIn users who are more positively influenced to apply to a job application if the salary range is posted.

18

The number of months every organization should ensure their salary ranges and pay practices are updated.

82

The percentage of individuals participating in a retirement plan in 2021.

62

The percentage of individuals participating in a retirement plan in 2006.

\$1,900

The amount less than the national average that Virginia allocates per K-12 student.

3

The percentage drop of women in corporate senior vice president roles over the course of the pandemic.

10

The percentage reduction in salary nearly half of women leaders would take for a job that offers greater flexibility or purpose or more supportive management.



Early *exposure* to accounting could make all the difference

New data released from Miami University reveals that students often set their perceptions of the accounting profession before college. Large barriers include perceptions of the field as uninteresting or boring, and that an accounting career requires longer hours than other business careers. Some also believe an accounting degree is harder to earn than other business majors. On the positive side, students generally agree accounting has ample employment opportunities, is intellectually challenging, and the career leads to a high lifetime earning potential.

Additionally, the Center for Audit Quality's July 2023 report, *Increasing Diversity in the Professional Pipeline*, says: "Interest in accounting is most likely sparked before a student enters high school and peaks by the end of high school. Increasing opportunities for diverse groups of students to gain exposure to accounting prior to college will help not only in increasing diversity across the accounting talent pipeline but also in increasing the number of accounting majors overall."

Understanding student views and opinions can inform the profession on where to focus initiatives encouraging accounting careers. To reach high schoolers before they make college decisions, CPAs can speak at high schools through our CPAs in the Classroom program (vscpa.com/CPAsintheClassroom). Employers can implement high school internships or learning programs (see page 10 for how). High school accounting teachers can guide students to accounting careers, and college accounting faculty must actively engage students during early career selection.

November is
Accounting Careers Month!
Help us celebrate by getting
out into the classroom and telling
students WHY you're a CPA!
Learn more at [vscpa.com/
AccountingCareersMonth](https://vscpa.com/AccountingCareersMonth).

A *new* way to CPA: Learning program aims to ease path to CPA licensure

New AICPA and NASBA initiative partners with Tulane University.



The American Institute of CPAs (AICPA) and National Association of State Boards of Accountancy (NASBA) will launch an innovative post-graduate program this fall in collaboration with the Tulane School of Professional Advancement (SoPA). The program blends rigorous online learning with on-the-job professional experience for college accounting graduates, offering a less costly and more flexible way to complete the 150-hour course credit requirement to become a licensed CPA.

The program is one initiative of the AICPA's Pipeline Acceleration Plan to address the root causes of the decline in the volume of accounting graduates and the number of candidates who subsequently take the CPA Exam.

The AICPA-NASBA initiative, called the Experience, Learn and Earn (ELE) program, is designed to help resolve some of the financial hurdles to college graduates' pursuit of the CPA license by integrating relevant online study with work experience through a participating accounting firm. Tulane SoPA will pilot the innovative program during the upcoming academic year, with initial classes beginning in January, and there are plans to add other universities in short order.

The ELE program is designed for accounting majors who have completed their bachelor's degree and core accounting classes but possess fewer than the 150 credit hours required for licensure. Here's how the pilot is expected to work:

1. Accounting graduates join an ELE-affiliated firm as a paid staff member.
2. Program participants earn up to 30 university credits through self-study online courses, with firms agreeing to provide time during the week for course work in a balanced, flexible way.
3. Credit-hour costs are set at highly affordable rates.
4. Participating firms are expected to provide support and mentoring to help program participants work toward their CPA licenses.

Virginia firms: Are you interested? Learn more about the pilot at **ExperienceLearnEarn.org**. The program is scalable for firms of any size, and it's customizable to fit your business and hiring needs. ■

The *campaign* for accounting as STEM

Getting accounting recognized as a Science, Technology, Engineering and Math (STEM) field will elevate its exposure and increase awareness of the profession. The VSCPA supports legislative initiatives toward this end and the STEM initiative is part of the Society's top-line goal to address the CPA pipeline crisis.

National advocacy on the STEM issue isn't new; in 2021, we urged Virginia's federal representatives to support the Accounting STEM Pursuit Act. We anticipate more bills to be introduced allowing STEM K-12 grant funding to be used for accounting awareness and education.

The American Institute of CPAs (AICPA) advocates that CPAs' day-to-day technological duties more than qualify accounting as a STEM field. CPAs manage and analyze big data and data security — which now require expertise in IT, artificial intelligence, blockchain, analytics, predictive and forensic accounting, and more.

Part of recognizing accounting as STEM involves urging colleges and universities to change their Classification of Instructional Programs

(CIP) codes to obtain STEM recognition. The U.S. Department of Homeland Security has jurisdiction over the STEM CIP codes and produces the DHS STEM Designated Degree Program List (STEM List).

Currently, two Virginia universities have STEM-designated accounting programs: William & Mary and the University of Virginia. We have plans this year to encourage other Virginia schools to change their CIP codes; we'll connect with accounting department leaders and other faculty at all Virginia accounting programs to encourage the change and discuss the benefits.

As accounting enrollments decline, demonstrating to students that accounting is STEM under the technology umbrella will encourage enrollment. Additionally, updating CIP codes will also directly benefit international students considering post-graduate work in the United States.

Interested in learning more about our STEM advocacy efforts? Reach out to VSCPA Vice President, Advocacy Emily Walker, CAE, at ewalker@vscpa.com. ■



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Encouraging accounting *early*: CPA firms can help

What if there's a way to get Virginia high school students into accounting firms *before* they enter college to see for themselves the rewards and benefits of a career in accounting or finance?



Spoiler: There is! Through the Virginia Department of Education's High-Quality Work Based Learning Program (HQWBL — yes, it's a mouthful!), students can connect with accounting firms to complete internships and other training programs.

A HISTORY OF SUPPORTING CAREERS

Preparing high school students for vocational and technical careers has a long history. The Smith-Hughes Act of 1917 promoted precollegiate vocational education and a variety of subsequent laws helped establish career and technical education (CTE) programs nationwide.

CTE programs benefit students, parents, businesses and communities by providing students with actual credentials rather than a letter on a report card. Students have the potential to earn a state-issued professional license, industry certification, occupational competency assessment, and/or

workplace readiness skills. The experience benefits students in the real world; Advance CTE reports that 77% of employers hire an employee in part because of their CTE experience.

In fact, as a Virginia graduate requirement, students are required to either complete an Advanced Placement (AP) course, a dual credit course, or a CTE program.

The Virginia Department of Education is kicking things up a notch by merging CTE with the High-Quality Work Based Learning program. Schools coordinate programs in partnership with businesses and organizations, with opportunities including job shadowing, service learning, internships, externships and more.

These programs connect to Virginia's 5 Cs — collaboration, communication, citizenship, creativity and critical thinking, while allowing students to apply the skills in a business or service-oriented work environment.

“We’re not going to fix [the pipeline] problem by whining that no one’s going into public practice. We need to get in as early as we can and build a quality pipeline.”

— George Crowell, CPA/CITP

CASE STUDY: HARRIS, HARDY & JOHNSTONE, PC

VSCPA member George Crowell, CPA, CITP, principal at Richmond-based Harris, Hardy & Johnstone, PC, has worked with high school students involved in the program for the past two years.

Last year, two high school students came to Harris, Hardy & Johnstone and looked over tax returns, took an online accounting class, and shadowed a few individuals. After completing their work, George asked them to write a one-page reflection on what they liked and disliked about their experience. He used that feedback this year when he welcomed two new students. They helped with administrative tasks like scanning. Firm employees were pleased with the students’ work.

Connor Reed, who graduated last year from Midlothian High School, worked at the firm as a scanner in the spring and requested to be an intern for the summer season.

“When we got in the real world, we started to see there were more things than just sitting behind a desk all day,” Connor said. He is currently attending Virginia Military Institute and would like to major in business with an accounting concentration — and ultimately become a CPA.

“These accounting classes and this internship has let me know that this is definitely what I want to do and have given me some insight and experience to what’s ahead of me,” Connor said.

HQWBL is a great way for firms to help improve the CPA pipeline but also encourage diverse students to consider the profession.

“We’re not going to fix [the pipeline] problem by whining that no one’s going into public practice,” George said. “We need to get in as early as we can and build a quality pipeline.”

HOW TO BEGIN

If you’re interested in implementing HQWBL at your firm, review the information from the Virginia Department of Education (VDOE) at <https://tinyurl.com/VirginiaHQWBL>. You can also reach out to VDOE Work-Based Learning Specialist Kimberly Radford at Kimberly.radford@doe.virginia.gov. To begin implementing a program, you will connect with a work-based learning coordinator to prepare a training program, discuss performance evaluations, and more.

In addition, George is happy to talk to other firm leaders about his experience and answer any questions. You can contact him at gcrowell@hhjcpa.com. For more on the VSCPA’s efforts to strengthen the future of the profession, visit vscpa.com/cpa-pipeline. ■

ATTENTION CPA FIRMS

CPAs often ask the VSCPA how they can personally help solve the CPA pipeline issue. The HQWBL program is a *direct* way you can reach high school students now and encourage them to become accounting majors. Consider implementing the program at your organization!

The IRS is coming for tax *shelters*

There's nothing wrong with using certain tax arrangements. Just make sure you're using them properly.



Lance Wallace

The U.S. Internal Revenue Service (IRS) plans to hire up to 200 additional attorneys to help the agency combat syndicated conservation easements, abusive micro-captive insurance arrangements, and other tax schemes.

SYNDICATED CONSERVATION EASEMENTS

Since 2020, syndicated conservation easements have been a focus for the IRS Criminal Investigations unit. In December 2020, the Department of Justice announced a guilty plea entered in the first-ever criminal case pursued by IRS Criminal Investigations that involved conservation easements to the tune of nearly \$1.2 billion in fraudulent tax deductions.

The IRS may challenge any one or more requirements of a charitable conservation easement tax deduction, including the purported perpetuity of the transferred interest, the nature of the restrictions, the public benefit to be achieved, and whether the donee organization has resources to enforce the restriction as defined in U.S. Treasury regulations.

Any investor or promoter involved in a syndicated conservation easement should take caution and evaluate whether the deductions represented, taken or pursued are appropriate and defensible under IRC Section 170 and corresponding Treasury regulations because the IRS is seeking to engage hundreds of attorneys to review these transactions to show otherwise.

MICRO-CAPTIVE INSURANCE ARRANGEMENTS

The IRS has had micro-captive insurance arrangements on its radar for several years. In 2016, the agency released Notice 2016-66 stating certain micro-captive insurance company transactions had the potential for tax avoidance or evasion. The IRS has consistently disallowed the tax benefits claimed by taxpayers in abusive micro-captive structures. Following its string of victories in court, the IRS offered settlements to more than 200 taxpayers who were under examination for similar issues.

Starting in 2017, the IRS began attacking small captive plans. In *Avrahami v. Commissioner*, 149 TC No. 7, the U.S. Tax Court disallowed the Avrahamis' insurance premium deductions for amounts paid to a purported captive insurance company. The IRS found that the entity they claimed was their captive insurance company did not meet the stated requirement of a micro-captive and was not an insurance company for 831 (b) purposes. The Tax Court also held the couple liable for taxes on unreported interest and dividends and for some accuracy-related penalties. This was followed by a few more IRS wins in tax court against micro or small 831 (b) captive insurance arrangements.

EMPLOYEE RETENTION CREDIT CLAIMS

The Employee Retention Credit (ERC) is at the top of the IRS 2023 "Dirty Dozen" list. The agency has

IRS PRESSES PAUSE ON ERC PROCESSING

Amid a flood of improper Employee Retention Credit (ERC) claims, the IRS announced on Sept. 14 that it will stop processing the ERC at least through the end of 2023. The IRS is seeing a surge of questionable claims, concerns from tax professionals, and aggressive marketing targeting ineligible applicants. Continuing to process the ERC poses unacceptable risks to businesses and the entire tax system, the IRS said.

The IRS is also encouraging taxpayers with existing ERC claims to withdraw them if they believe they are ineligible. Its ERC Eligibility Checklist can help small businesses understand who qualifies. The IRS will initiate a settlement program for those businesses that have already processed a claim and are ineligible.

Find more information and resources at vscpa.com/news/irs-pauses-erc-processing and see page 16.

renewed its warning urging people to carefully review ERC guidelines before trying to claim the credit, as promoters continue pushing ineligible people to file.

Third parties are aggressively promoting ERC schemes on radio and online — charging large upfront fees or a fee that is contingent on the amount of the refund. And the promoters may not inform taxpayers that wage deductions claimed on the business' federal income tax return must be reduced by the amount of the credit.

STAY ON THE RIGHT SIDE OF THE LAW

There is nothing wrong with conservation easements, captive insurance or Employee Retention Credits when utilized properly. Of the hundreds of phone calls I have received recently, in my opinion most of the people were misusing these potentially abusive tax shelters. Not only can the misuse of these programs result in IRS audits, sometimes criminal prosecution is the final result.

If you are involved with any of these arrangements as a CPA, the IRS could call you a material advisor, which could result in a large fine and potential disciplinary actions. Over the years, I have received a surprisingly large number of phone calls from CPAs facing this issue and/or being sued by their clients. Simply signing a client's tax return containing an abusive tax shelter on it could cause IRS problems for the CPA. ■

Lance Wallach is a frequent speaker and writer on abusive tax shelters, captive insurance, conservation easements and ERCs. Named a speaker of the year by the National Society of Accountants and a member of the AICPA faculty of teaching professionals, he has written several books on protecting clients from fraud and other topics. Lance also offers expert witness testimony.

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On high *alert*

Know the warning signs of data theft

For CPAs entrusted with clients' financial data, safeguarding sensitive information is not only essential for the clients' security but also for the CPAs' own legal responsibilities. The U.S. Internal Revenue Service (IRS) provides a comprehensive list of warning signs to help tax professionals identify potential red flags of data theft. By staying vigilant and proactive, tax professionals can play a crucial role in preventing financial fraud.

Suspicious IRS account activity: Tax professionals should be cautious if they receive notifications of e-Services account suspensions, especially if they did not take any actions that could warrant such a suspension. Cyber attackers might attempt to compromise these accounts to access sensitive tax-related data or manipulate filings. Also be on high alert if a client reports an IRS online account was created without their consent.

Unexpected tax transcript requests: One of the key indicators of potential data theft is receiving unexpected tax transcript requests from clients who did not initiate them. Cybercriminals often attempt to access tax transcripts to gain unauthorized access to sensitive financial information. Tax professionals should verify the authenticity of such requests before proceeding to ensure they are not aiding fraudulent activities.

NEW TECH ETHICS COURSE!

We've got an Essential Ethics course on ethical issues in data security, remote work and more. Find "Ethics Unplugged 2023: Technology Obligations" at vscpa.com/ethics.

Unauthorized e-filing: Discovering that tax returns have been filed using a client's information without their consent is a significant red flag. Tax professionals should confirm the legitimacy of all e-filed returns and investigate any discrepancies to prevent fraudulent filings.

Excessive or unknown return requests: An unusual surge in return requests from a single client could indicate suspicious activity. Fraudsters may attempt to exploit tax professionals'

IRS IMPROVING WITH INFLATION REDUCTION ACT FUNDS

Shocking no one, apparently increased funding *does* help improve tax filing season. The IRS continues modernization efforts included in the Inflation Reduction Act by upgrading technology and increasing enforcement. Here are a few successes from the 2023 tax season.

- 225 times more forms scanned than in 2022.
- Customer callback option available for up to 95% of callers seeking live assistance.
- Achieved an 87% level of service on its main taxpayer help line, answering 3 million more calls and cutting phone wait times to three minutes from 28 minutes.
- Cleared the backlog of unprocessed 2022 individual tax returns with no errors.
- Adding capability for taxpayers to respond to an additional 51 notices and letters online rather than through the mail.
- Launched online Form 1099 filing.
- Hired nearly 700 employees to open or reopen 42 Taxpayer Assistance Centers across the country and expand in-person service to reach underserved taxpayers.

ON THE HORIZON: DIRECT FILE

A free online IRS tool will begin a pilot program in the 2024 tax filing season. An IRS report to Congress states many taxpayers are interested in such a tool to prepare and file taxes, but it will require a sustained budget investment and careful management.

systems by filing multiple fraudulent returns using stolen information. Monitoring the frequency and nature of return requests can help identify such patterns. Clients could receive a tax transcript they did not request.

Suspicious emails: Exercise caution when responding to email requests, especially those involving changes to payment or sensitive client information. Phishing scams often rely on deceptive emails to manipulate recipients into divulging confidential data or making unauthorized transactions.

Hardware or software glitches: Take note of unexpected software lags or network unresponsiveness. A hacker could have access to your protected client data. In addition to lags, glitches could include the cursor moving or changing items on its own or being unexpectedly locked out of the computer system.

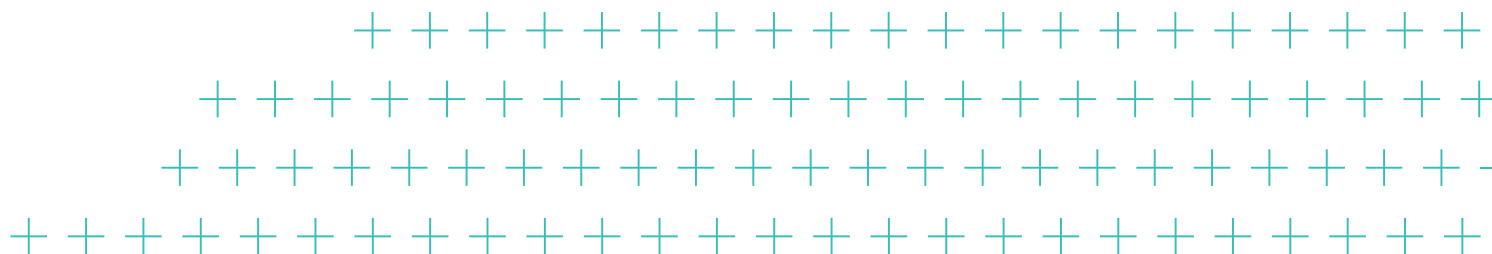
Technology will continue to reshape the accounting landscape and protecting clients' sensitive financial information is a critical CPA responsibility. The IRS has a variety of tools to help, including a written information security plan and a 28-page guide on how to keep customer and business information safe. Find help at irs.gov/tax-professionals/protect-your-clients-protect-yourself. ■

BY THE NUMBERS

CPAs' FAVORITE TAX SOFTWARE PRODUCTS

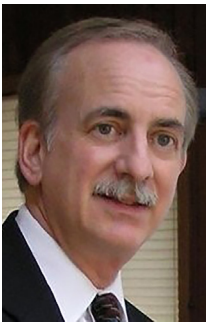
The below tax software packages are the top seven used by CPAs according to the 2023 Tax Software Survey conducted by the Journal of Accountancy and The Tax Adviser. Six other products were used by less than 9% of respondents. See more results at thetaxadviser.com/news/2023/aug/2023-tax-software-survey.html.

Provider	Percent used	Change from 2022
UltraTax CS	23.8%	+3.8%
Drake Tax	15.8%	-1.3%
Lacerte	14.8%	+1.5%
ProSeries	10.5%	-2.3%
CCH Axcess Tax	10.1%	+1%
CCH ProSystem fx	9.7%	+0.9%
ATX	5.8%	-0.7%



Horror *stories* from the wild West of ERC claims

The IRS's decision this fall to pause ERC processing is an effort to combat bad actors preying on small businesses. CPAs need to use professional skepticism when approaching these claims.



Rick Meyer,
CPA, MBA, MST

In October 2022, the IRS issued IR-2022-183 warning against third parties improperly computing the Employee Retention Credit (ERC). Then, the IRS issued a “renewed warning” in March 2023 (IR-2023-40) cautioning about promoters who aggressively mislead people and businesses into thinking they can claim these credits.

The IRS is now taking a bigger step. On Sept. 14, 2023, the IRS issued IR-2023-169 announcing a moratorium on processing new ERC claims through at least the end of the year. But don't freak out! ERC qualifications have not changed, and you can still file.

In fact, the IRS is still encouraging businesses to file legitimate claims — but it is asking businesses to review their claims with a trusted tax professional who actually understands the complex ERC rules, not a promoter or marketer trying to make a quick buck.

The IRS is actively combatting the “fly by night” providers by:

1. Adding more safeguards to prevent future abuse.
2. Protecting businesses from predatory tactics.
3. Allowing time for the agency to work with the U.S. Department of Justice to combat aggressive marketing and incorrect ERC claims.

If you hadn't heeded the warnings before, take the IRS's latest as a sign that it's time to be serious. CPAs have a professional responsibility when they sign a return, and that includes doing due diligence on third parties that are providing credit numbers.

ERC HORROR STORIES

Many promoters that sprung up during the pandemic do an ERC evaluation in minutes and claim quarters without substantiation. Here a few actual case studies from wary CPAs asking us for guidance before they



signed their name on an amended return reflecting a large refund.

Commercial retailer located in Alabama

The retailer entered into an agreement with an ERC provider. After responding to a brief questionnaire followed by a short phone call with the ERC provider, the retailer was told it qualified for all quarters in 2021 and that the ERC would be more than \$1 million!

The CPA and business owner were skeptical on how little time and effort it took to make this determination. So, they came to us for a “second opinion.” Below is a synopsis of the analysis that showed that the work product fell far short of what the IRS requires to substantiate an ERC claim.

- **Gross receipts:** There was no significant decline in gross receipts.
- **Qualifying quarters:** The retailer was located in Alabama and Florida, two states in which government orders did not extend into the third quarter of 2021, yet the ERC provider used ~~claimed~~ Q3 in their calculation. Furthermore,

the client stated that COVID-related restrictions for them ended in May 2021.

- **Supply chain:** There was no reference to the location of the retailer's suppliers to substantiate any supply chain disruption, but the ERC provider claimed it under the partial suspension test.
- **Qualifying mandates:** There was no identification of any specific government order applicable to the retailer.
- **More-than-nominal impact:** The retailer estimated the impact in delayed work was 10%, but there was no substantiation.
- **Substantiation and documentation:** None of the information in the questionnaire completed by the retailer was substantiated by the ERC provider.

Thus, there was no \$1 million credit here. We engaged an outside law firm that was able to break the contract with this ERC provider so that they would not be on the hook for more than \$250,000 in fees. They have now engaged us to conduct a new ERC study the right way.

Tool and equipment manufacturer in Montana

The manufacturer signed an agreement with an ERC provider. After a few phone calls with the ERC provider, the manufacturer was informed it qualified for an ERC claim totaling more than \$750,000 based on canceled trade shows. The manufacturer contacted its CPA about the windfall, who expressed skepticism and contacted us for our thoughts. We advised the manufacturer and the CPA on a second opinion.

After a review of the ERC study and related documentation, we informed the manufacturer that the ERC study would not withstand IRS scrutiny in the event of an audit. Our analysis:

- **Gross receipts:** There was no significant decline in gross receipts.
- **Qualifying business disruption:** There was no evidence showing the trade shows were cancelled due to government orders, and not even evidence showing the trade shows were cancelled!
- **More-than-nominal impact:** The analysis did not show a nexus between the closure of trade shows, nor the

manufacturer's supply chain issues and the manufacturer's more-than-nominal impact.

- **Qualifying mandates:** The governmental order referenced was simply the emergency declaration, not a specific governmental order applicable to the manufacturer's suppliers.
- **Substantiation and documentation:** The analysis stated that the manufacturer had to wait longer for materials but made no mention as to how long or how much longer they had to wait in comparison to 2019.

As a result, we advised the manufacturer not to file the claim. They were able to disengage the ERC provider and law firm was able to get the manufacturer's down payment refunded. Again, the manufacturer subsequently came to us to do a new ERC study correctly.

MORAL OF THE STORY

When it comes to the ERC, it's the wild, wild west. The smell of gold (fast, easy fees) has lured these "pop-up" ERC providers to promise the world without doing the necessary, exact, and meticulous research and documentation to properly qualify and quantify a company for ERC.

The CPA may be stuck in the middle, between a drooling client hungry for a cash refund, and their due diligence responsibility before preparing and signing that tax return proposing a huge refund.

Like it or not, the facts are the facts. Sometimes we have good news and sometimes we have bad. Either way, we must continue to exercise our great CPA personality trait, using "professional skepticism" and due diligence to get our clients both the best and the right answer.

Unless you have absolute comfort with your client's ERC provider, maybe a legal "second opinion" is in order. ■

Rick Meyer, CPA, MBA, MST is a long time member of the Illinois CPA Society and has served on various tax committees over the past 40+ years. He is a director for alliantgroup, a national firm that works with businesses and their CPAs to identify powerful government-sponsored tax credits and incentives.

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Does the *robot* have your back?

Can accountants trust the motherboard of a language learning model to be ethical and effective?



Tori Smith

Artificial intelligence, ChatGPT, robots — buzzwords have been flying around for a while. But will artificial intelligence *really* replace accountants? Will ChatGPT replace the services accountants can provide? Will the world be overtaken by robots?

First and foremost, CPAs need to follow the AICPA Code of Conduct to be productive, respectful and ethical accountants, say John Higgins, CPA, and Tommy Stephens, CPA.

But can ChatGPT follow the AICPA Code of Conduct? Here is its response:

“As an AI language model, I don’t have personal beliefs, intentions, or the ability to follow codes of conduct on my own. However, I can certainly provide information on the AICPA (American Institute of Certified Public Accountants) Code of Professional Conduct.

The AICPA Code of Professional Conduct sets forth ethical principles and rules of conduct that govern the professional activities of CPAs (Certified Public Accountants) in the United States. It outlines the responsibilities of CPAs and provides guidance on their professional behavior, integrity, objectivity, independence, and confidentiality.

While I can help explain and provide information about the AICPA Code of Professional Conduct, I am not a certified professional and cannot guarantee adherence to its principles or provide professional advice. If you have specific questions or require professional guidance regarding the AICPA Code, it is best to consult a qualified CPA or refer directly to the AICPA’s official resources.”

Although ChatGPT said it was able to provide information on the AICPA Code of Conduct, it identified its limitations. The five principles of the professional conduct outlined in the Code are:



1. Responsibilities
2. The public interest
3. Integrity
4. Objectivity and independence
5. Due care

Tommy focuses on “due care” — exercising precautionary measures — the most. He said that people don’t often put together the words “ethics” and “technology.”

“We’re still going to have an ethical responsibility,” Tommy said. “We can’t assume ChatGPT is going to be correct about everything. It still comes back to me and my judgment.”

John agrees. He asks the questions: How do we validate AI? How do we know what AI says is actually true?

We don’t.

Artificial intelligence uses something called a transformer model to learn how to communicate with its users. According to Machine Learning Mastery, a transformer model is “based on recurrent neural networks [that process] one word or character at a time and provide an output once the entire input of text has been consumed.” Because OpenAI (the company that produces ChatGPT) has such a large interface, its communication model is more commonly known as a language learning model.

In 2021, researchers at the University of Oxford and OpenAI themselves began to question the truthfulness of AI-based language learning models. They created TruthfulQA to find out how accurately the model answers questions that humans might falsely answer due to beliefs or misconceptions. They found it fell short of human performance at 94%. This shows that CPAs are needed to clarify the results found or written by the language model.

Even though ChatGPT might not be able to follow the AICPA Code of Conduct, Tommy said it's more likely to be used for automated tasks like detecting fraud and optimizing tax planning.

When asked if it can detect fraud or optimize tax planning, ChatGPT responds yes. But while it can provide information about how to implement the processes, it also does not have the skills to complete the tasks itself. That's where CPAs are needed.

In fact, both Tommy and John argue that artificial intelligence could improve and bring benefits to the profession. Both said that these language models could give CPAs the opportunity of more time by allowing the models to complete repetitive and rudimentary tasks.

“They can be an advisor to CPAs to automate the less valuable tasks and move themselves up the value chain,” John said. “It inevitably puts us in a better place to give more to our clients.”

John argues the popularization of language learning models like ChatGPT will actually improve the quality of CPA candidates. He assumes that while fewer incoming accountants may earn the CPA designation, those who do will become more valuable.

All in all, language learning models will not be able to replace accountants. If anything, accounting firms should examine the tools and models available to see what can help enhance their firm's services and improve client satisfaction.

But if you feel more comforted getting the answer from the model itself, when ChatGPT was asked “Can you replace CPAs?” it said:

“As an AI language model, I can provide information and insights about various topics, including Certified Public

NEW AI ETHICS COURSE!

Our Essential Ethics course on AI is here! Fulfill your Virginia ethics requirement with “AI Ethics 2023: Balancing on the Tightrope,” available now at vscpa.com/ethics.

Accountants (CPAs). However, I cannot fully replace CPAs or any other licensed professionals.

CPAs are highly trained and qualified professionals who have gone through rigorous education, passed the CPA exam, and obtained relevant experience in the field of accounting. They possess specialized knowledge in areas such as auditing, financial reporting, taxation, and financial management.

While AI and automation have made advancements in the field of accounting and finance, CPAs play a critical role that goes beyond basic calculations and data entry. They provide valuable expertise, financial analysis, strategic advice, and ensure compliance with regulatory requirements. CPAs are also responsible for interpreting complex financial data, making informed decisions, and providing personalized guidance to clients.

Although AI technologies can automate certain repetitive tasks and assist in data analysis, they are not a substitute for the professional judgment, experience, and ethical considerations that CPAs bring to the table. Furthermore, CPAs have a deep understanding of the legal and regulatory frameworks in their respective jurisdictions, which is crucial in ensuring compliance and avoiding legal issues.”

There you have it. While AI can augment and enhance the capabilities of CPAs, they cannot replace the unique skills, expertise and professional judgment CPAs bring to the accounting profession. ■

Tori Smith is the VSCPA summer communications intern. She is a student at Ball State University in Indiana.

THE ONLY *constant* IS CHANGE

Embracing a growth mindset when undergoing change initiatives can help set your organization up for success.





Genevieve
Hancock, CPA

When I begin a speaking engagement with a new audience, normally I don't have a quick hook in the introduction. On change management this is different. I always start by asking who in the audience is familiar with change management and then follow it up by asking who considers themselves to be change managers. Nearly no one ever raises their hand. I then tell them that by the end of the session, I will consider it a success if every person in the room can view themselves as a change manager, and a larger success if they have a single takeaway or tool we spoke about and apply it to help with their business tool kit. I would ask that same of anyone reading this article.

Change is inevitable — it is the only thing which is a certain constant (creating a paradox of sorts). In business and in life. In the history of the accounting profession, the last 25 years have seen some of the largest compliance and reporting changes with revenue recognition, Sarbanes-Oxley, leases, IFRS and U.S. GAAP convergence (failed), and the codification, just to name a few. In life, the past five years have seen a pandemic, the Great Resignation, the rise of AI, blockchain, banking crises, focuses on marketing within social media, supply chain constraints, globalization, and the rise of digital assets. All of these changes on top of personal change have impacted nearly the entirety of a civilization.

UNDERGOING CHANGE

The stress response curve and how anxiety and stress can impact performance have been studied for years. Known as the Yerkes-Dodson Law to academics and researchers, this correlation of performance and stress has been tested and retested. Generally, you operate under a certain level of stress that is at the higher end of your tolerance level. Determining where your specific “peak” tolerance is where you need to exercise self-awareness of how much stress you can endure (and for how long).

The largest stressors can also be the largest changes within your lifetime, both at work and at home. Some of the most common ones include job changes, retirement, births, deaths of loved ones, divorce, marriage, moving, promotions, injuries, illnesses, or changes in the business. Recent changes in our large global environment on top of personal changes have made controlling stress a priority.

EXPLORING CHANGE MANAGEMENT

Change management as a practice is the methodology or process through which leaders guide their organizations through changes to completion. I would venture to expand that definition to note that change management is also the methodology or process that an individual implements to navigate changes within their team, organization, or personal life. According to a recent study by Gartner, approximately 50% of organization and business-related change management initiatives fail. Other studies put that number closer to 75%, depending on how you define it. Think about that for a moment — over half of all changes fail. Why? And how do we decrease that number?

One thing to keep in mind is the difference between a growth mindset and a fixed mindset. For change management this can also be interpreted as your level of natural resistance to change. Everyone has things in their lives they are trying to force to remain the same, but many people have a natural aversion to change — they just dig in their heels and want to maintain the same processes.

A *fixed mindset* is defined as someone who pushes back on challenges or opportunities for growth and tends to stay in their own comfort zone and processes. They tend to have a difficult time failing or making mistakes, and they tend to be threatened when others around them succeed.

Mistakes are how you learn. Even if you are perfect and talented at something, failing is how you improve. Everything, to a certain extent, is a continuous improvement process where you build on the initial design and improve it for efficiency and functionality.

A *growth mindset* is defined as a natural tendency to embrace and explore changes and opportunities, as well as a lifelong learning mindset of curiosity. Individuals with a growth mindset step out of their comfort zones willingly and take failure as a growth opportunity for the next chance.

I personally always start with the WHY of the change. Why do we want this accomplished? Why is the change needed? Why are we embracing this change? Why does this impact the stakeholders? And then move to the what and the how of where we are going to implement this change. What do we need to ►

“To improve is to change; to be perfect is to change often.”

— Winston Churchill

address, who do we need to involve? And then I take a step back and play devil's advocate with the change and ask how this aligns with the vision and strategy of the organization. Does this change align with the values and needs? Is it relevant?

CHANGE FATIGUE

Change fatigue is a term that has become more prevalent within the last few years. This term is defined by too much change in too little time, and results in people and organizations burning out on change initiatives.

Let's be honest — most employees and organizations are currently experiencing a high level of change fatigue after the massive impact of the pandemic and the macro environmental changes over the past few years. Change fatigue is running rampant. One relevant study from Gartner completed in 2022 indicated that from 2018–2022, there was a **36% decrease** in the average employee's support of organizational change of any type, from 74% support in 2018 to only 28% support in 2022.

To address change fatigue and attempt to better integrate successful change into an organization's structure, an “open source” change model is often offered as a solution. In open source, you don't just get buy-in from management, but also include the impacted and key stakeholders to the lowest level in the change plan. This change approach addresses change fatigue by taking a bottom-up approach to change initiatives instead of the normal top-down instructional method. While the ultimate decision making still sits with senior management, the planning and success of the model is heavily driven by the key end users and stakeholders — the employees through middle management drive the change. By having them identify and involve themselves within the problems and potential solutions that these changes seek to address, you give them the accountability for the success and help them understand they hold a stake in the success of the initiative. This creates a cyclical model of discussion and communication that is less siloed within an organization, along both hierarchical lines and within departments impacted.

KOTTER'S CHANGE MANAGEMENT MODEL

My favorite model within change management is Kotter's eight steps. The model focuses on communication and front-end training to bring along as many adopters as possible early on to drive successful change.

The eight steps in Kotter's model do overlap, but are generally linear in the way that they must be approached:

- 1. Create urgency.** Involve stakeholders in the identification of pain points and major areas for improvement. Inspire people impacted by the change and the problem statement to act and address the issues. The tone at the top to drive this change will have a major impact on the rest of the employees involved with this part of the planning.
- 2. Form a coalition.** Create a task force — official or unofficial. Ensure you are also excited about the impact of this change. You can't drive an exciting change if you don't have a passion about the issue! Consider driving an open-source model stakeholder led coalition for tasks and planning.
- 3. Create a vision for the change.** Create a roadmap and vision for the end goal and the long-term plan. Ensure the overall goal and that tasks that need to be completed are in alignment with the team and organization goals and are realistic to accomplish.
- 4. Communicate the vision.** Involve individuals and identify champions from the task force who are passionate about the change and **actively want** to contribute. Collectively, these champions and the coalition must be aligned with the end goal and in agreement with the road map to get there.
- 5. Empower action.** Help the coalition and the champions drive the road map and project plan, while also communicating to the wider organization and involving everyone who will be impacted to learn more and be involved with the change. Clear obstacles where they appear, and don't let those with a fixed mindset or high levels of change aversion start sowing disinterest in the

change within the organization. Develop the KPIs for success within the task force to be able to celebrate wins.

6. Create quick wins. Recognize the wins! Successes need to be celebrated and communicated to show the progress within the initiative. Continue to build the morale and energy within the team through these celebrations.

7. Build on the change. Continue to communicate actively to the organization. Recognize the wins and successes of the team, even if there are failures. Document mistakes and takeaways to learn from them in the future.

8. Make the change stick. Embed the change within the culture. Continue to drive the trainings and communications on the need and the “why” of the urgency until it has become a habit. As a quick related note, it takes 2–3 months for new habits to form — which is why some habits are so hard to break.

OTHER TOOLS

There are many other models and tools you can utilize and consult when implementing change.

Lewin’s three-stage model of change envisions a very high-level change cycle that demonstrates change as a continuous cycle of “freeze,” “unfreeze,” and then “refreeze,” in which the change is made in the “unfreeze” stage.

McKinsey’s 8-S (or 7-S depending on which version you subscribe to) model of change addresses and focuses on the connections between the eight impacted areas of change: strategy, style, structure, systems, staff, skills, shared values, and (not interconnected internally) social relations. The first three are the “soft” S’s (think soft skill development and impact), with the second three being the hard S’s (more technical in training and impact).

Utilize project management tools wherever possible to further assess risk and determine where risks of failure may occur within the change initiative. Identifying any points of heavy stress on resources, hours, timing, or potentially costs up front can help proactively assess the risks.

Keep in mind that the “change adopter” is a bell curve. There will be early adopters and innovators on the front end — generally composed of growth-mindset

individuals — and then there will be a late majority and laggards who will drag their heels. Integrating some of those late adopters on the front end of the planning stage may help with containing any negative spread or risk of failure.

I ask of everyone to address what area they would likely lie in on this curve as a change adopter — and these may differ from change to change! During the pandemic were you like me, and took six months to stop wearing suit pants to sit at your desk in your home office? Or were you like me in assessing and driving the early understanding of ASC 606 through communication, support and trainings across organizations? Two different types of changes, two different responses.

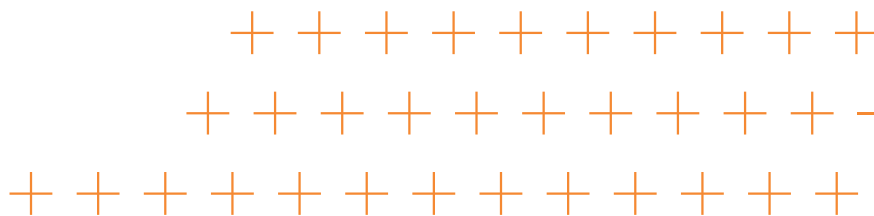
CONCLUSION

I’ve seen extremely successful change initiatives, been a part of some very poor ones, and also been part of many change failures. Unfortunately, not every change will be successful. Learn from the failures and build on it within your tool set and prepare for the next inevitable change.

Once again, now that you’ve reached the end of the article, I ask of you: Do you consider yourself to be a manager of change? ■

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PAY *to* PLAY

Can pay transparency help CPA firms attract and retain talent?

New pay transparency laws are requiring employers to disclose wages to prospective candidates and/or current employees. Though not required in all states, many employers — including CPA firms — are gambling on using the practice to attract and retain talent.



Carolyn Tang Kmet

In March 2023, Alex Cheney was laid off from his role as a senior technical recruiter at a global software company headquartered in San Francisco. Having spent more than a decade in the talent acquisition space, Cheney is a seasoned professional who's well aware of the latest trends impacting the hiring and recruiting landscape — and now he's leveraging that knowledge in his own job search. One of those trends is the passing of pay transparency laws, which require companies to disclose salary ranges in job descriptions.

"As a current job seeker, seeing the pay range of a role has saved me from spending a lot of time applying to jobs that don't align with my expectations, skill level, or needs," Cheney explains.

Currently, about 20 states, including Virginia, have some variation of legislation designed to address wage disparities and promote fair compensation practices in the job market. Additionally, there are several cities that have passed their own ordinances. One

of those cities is San Francisco, where the Parity in Pay ordinance requires employers with 20 or more employees to provide pay ranges in their job listings.

"Prior to California passing the ordinance, I worked for an organization where a lack of internal pay equity was uncovered," Cheney says. "As you can imagine, this news quickly filtered through the entire team, causing multiple individuals to question management." Cheney says the incident contributed to a significant decrease in employee morale, leading to rapid attrition in a competitive job market, which made it challenging for the organization to backfill its vacated roles.

Of course, CPA firms are no strangers to these types of staffing challenges as retaining and attracting new talent continues to be one of greatest issues impacting the accounting profession today. The National Association of State Boards of Accountancy reports the number of new CPA candidates has decreased by 33% in recent years, dropping from slightly more than 48,000 candidates in 2016 to 32,186 candidates in 2021. ►



As a result, CPA firms are gambling on ways to expand their hiring pools, and for some, that means being more transparent about their pay — whether they're required by law or not.

THE GAME IS CHANGING

Abraham Singer, assistant professor of business ethics at Loyola University's Quinlan School of Business, believes secrecy turns wage negotiations into a game of poker. "Without pay transparency, job seekers can't see the hiring company's cards and must guess how much to wager," Singer says. "Pay transparency can help turn everybody's cards over, so everyone is operating with similar information."

Shirley Borg, head of human resources at Energy Casino, agrees. She says being open and transparent with employees is a priority for the company; they've implemented a system where employees can view their pay grade, along with the minimum and maximum salaries for that grade. "This helps employees understand how their pay compares to others in their position and ensures that there's no pay discrimination based on gender or any other protected characteristic," Borg says.

In her role, Borg regularly oversees salary reviews to ensure employees are fairly compensated based on their experience and qualifications. "This helps us attract and retain top talent by showing that we value our employees and are committed to their growth and development," Borg explains. "Additionally, we believe in providing a comprehensive benefits package to our employees, including health insurance, retirement plans, and paid time off. This helps create a culture of fairness and transparency and ensures that our employees feel valued and supported."

Especially in today's climate, where the demand for CPAs outstrips the supply, pay transparency laws provide job seekers with greater leverage. Neil Dickinson, vice president of compensation services and pay equity solutions for OutSolve, an affirmative action consulting firm, says that applicants who have a clear understanding of a job's pay range are empowered to not undersell their services. "Pay transparency allows for applicants to apply for a job with confidence the salary range meets their pay requirements and helps them avoid wasting efforts on jobs that won't pay enough."

For employers, pay transparency can also drive greater efficiency in the hiring process. If the salary an organization is offering doesn't align with a candidate's expectations, candidates will likely drop out of the hiring funnel earlier, reducing the amount of time hiring teams commit to applicants who aren't likely to accept an offer.

SECRECY HAS CONSEQUENCES

In the past, discussing compensation was considered taboo, inappropriate and improper in many workplaces. Unfortunately, this cultural norm resulted in negative consequences for

employees, fostering a discriminatory corporate environment that led to significant pay gaps based on gender and race. For instance, employer biases against women and minorities could affect hiring, promotions and salary decisions. Without accurate insight into pay ranges, female and minority job applicants may be unaware that their salaries are being undercut.

The impact of this can be seen in a 2021 income report issued by the U.S. Census Bureau, which shows that women who work full-time, year-round jobs earn 84 cents for every dollar earned by men in the same category. In regards to racial inequity, the U.S. Department of Labor found that in 2021, for every dollar earned by white, non-Hispanic men, Black women were paid 67 cents and Hispanic women (of any race) were paid 57 cents.

Singer stresses that lack of pay transparency disproportionately benefits those that have more access and privilege. "It tends to benefit the savvy, seasoned and confident when it comes to negotiations over pay and salary," Singer says. "If it's not clear what the going rate is for a position, then those who have more experience know what to ask for in a way that someone new to the industry might not, including those from working-class backgrounds or recent immigrants. Similarly, those inclined to be more brazen tend to ask for more and are often rewarded for it."

According to Singer, this method of negotiating pay can also affect wages in a gendered manner, contributing to the wage gap between men and women in the workforce. Recent research conducted by Linda Babcock and Sara Laschever and presented in their book, "Women Don't Ask: Negotiation and the Gender Divide," found 2.5 times more women than men say they feel a great deal of apprehension about negotiating, and about 20% of adult women say they never negotiate.

IS PAY TRANSPARENCY THE ROADMAP TO EQUITY?

Many experts believe that pay transparency can lead to greater equity in wages by forcing employers to be more thoughtful and equitable about salary decisions.

Jon Hill, CEO and chairman of The Energists, an executive search and recruiting firm, advises companies to consider pay transparency as an opportunity to recognize and address potential biases, and to develop more open communication about equitable compensation across the organization. By doing so, organizations will not only build credibility with current employees, but also with potential new hires.

"In my experience, most companies that have inequitable pay practices didn't establish them intentionally," Hill says. "Instead, these practices are the result of unconscious biases and/or a lack of communication between leadership and employees."

Hill stresses that pay transparency sends a message that a company has nothing to hide when it comes to their salary

rates, giving candidates more trust and faith in the organizations they're applying to: "Transparency has additional benefits for companies that pay a competitive rate because it can help entice qualified professionals to join your organization when they know you pay your team members in accordance with industry standards."

Neema Parikh, the recruiting manager at Topel Forman LLC, a tax and accounting firm with a presence in Chicago and Denver, says disclosing a pay range creates more equality between genders and minorities. "It enables you to be as least biased as possible, which opens your potential hiring pool up as much as possible," Parikh says. "Because when you put in a salary range, you're not thinking about whether you're targeting a man or a woman."

While Illinois pay transparency laws require employers to provide equal pay to employees for work that requires equal skill regardless of sex or race, employers aren't specifically required to disclose salary ranges in job descriptions. Colorado's pay transparency laws are stricter, however, and require all employers regardless of size or industry to disclose the salary ranges for open positions in job postings and in discussions with job applicants. Although Topel Forman has offices in both states, the company opted to include salary ranges for job postings in both regions.

Virginia law is similar to Illinois. Under the Virginia Equal Pay Act, employers cannot pay employees of different sexes different wages for equal work. In addition, under the Virginia Pay Transparency Law enacted in 2020, employers cannot take retaliatory action against employees for discussing wage or compensation with each other.

"Pay equity laws give us an opportunity to understand the market as a whole, without necessarily tying salaries to regional trends," Parikh says.

Parikh notes that pay transparency in Colorado allows for the examination of salary ranges at competing firms, providing market-informed insight into pay parity. In fact, a recent new hire salary negotiation led to a salary analysis, which resulted in an increase in base associate pay at the firm.

"We thought we were competitive until one of our candidates countered our offer. So, we analyzed our competitors' job descriptions and salary ranges and compared them to our internal salaries," Parikh explains. "We discovered that our base pay was a few thousand dollars lower, so we adjusted our base associate pay across the board to align with the market."

CHALLENGE CONSIDERATIONS FOR FIRMS

Of course, being transparent can present some challenges for firms to consider. One potential challenge is that it could result in a market-wide increase in salaries as workers are more likely to initiate informed negotiations, and as employers start responding to market conditions.

CONTINUE READING

- **Resource** — 2022 VSCPA Compensation & Benefits Survey: vscpa.com/2022-comp-survey
- **Article** — "Do your values align with pay transparency?": vscpa.com/article/do-your-values-align-pay-transparency
- **Article** — "Supercharge your compensation program": vscpa.com/article/supercharge-your-compensation-program

"For CPA firms, pay transparency laws will create greater visibility to market pay within the industry," Dickinson explains. "This may lead to more accounting applicants having higher expectations for pay and gravitating to employers that pay above market rates."

Dickinson adds that another likely outcome of pay transparency is wage compression, which occurs when higher competition for new talent drives smaller differences in pay between new hires and long-term employees.

In anticipation of this market shift, many firms are exploring alternate methods of enhancing their compensation packages. "We're seeing an increase in demand for collaborative work environments, flexibility in working hours, and an emphasis on the type of work and responsibilities associated with the positions," Parikh says. "Culture, benefits, remote work, and flexibility are all huge benefits that candidates are looking for."

Another challenge associated with pay transparency is that it only serves to regulate the quantitative aspect of wages. In reality, wages are also tied to an employee's perceived value or worth within a company or industry. Higher wages may indicate that an individual is more highly skilled or experienced in their field, or that their contributions to the company are particularly valuable. Conversely, lower wages may suggest that an individual is less skilled or experienced. Additionally, wages are more than just a tool for compensation. Wages are also often used to motivate employees, which adds a psychological component to pay transparency.

"Wages mean different things in different contexts," Singer emphasizes. "If we're trying to incentivize hard or innovative work, for instance, we want to ask whether some wage effectively accomplishes that. If we're trying to give people the market price for their skill sets, we'll want to figure out how relatively scarce their capabilities are relative to someone else, and whether the wage reflects that." ►

Firms should also anticipate the potential negative consequences that may arise when salaries are released internally. "Transparency can breed resentment. If I know what everyone else makes, I may start making unflattering comparisons, which may undermine the effectiveness of the wage as an incentive," Singer explains. "Someone may be happy with their wage until they learn they're the lowest paid in their unit, and then they feel underappreciated."

Singer also says that it can get tricky when firms reward long-standing, loyal employees by increasing their compensation. These wage increases aren't necessarily tied to their specific skill sets or to the market rate for the position, yet they'll impact the salary range disclosed in job descriptions, thus driving market salaries higher and making future negotiations with new talent more challenging.

While there are many important implications that companies need to consider when implementing pay transparency, the long-term societal and market benefits certainly outweigh the challenges.

"The equity and efficiency that pay transparency enables is worth these management difficulties," Singer acknowledges. "One

way to navigate such difficulties is to actually follow the logic of transparency all the way down. Companies shouldn't just be transparent about pay ranges, but also with how and why pay can sometimes depart from the market rate."

Pay transparency laws will undoubtedly shift the balance of power between job seekers and employers and intensify the hiring process in competitive fields like accounting. However, CPA firms willing to play the game may see pay transparency as an opportunity to not only correct systemic bias and create a path to pay parity, but also use it as a beneficial recruiting tool to attract and retain talent. ■

Carolyn Tang Kmet is a senior lecturer in Loyola University Chicago's Quinlan School of Business and a frequent contributor to Insight, the magazine of the Illinois CPA Society.

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NOVEMBER IS ACCOUNTING CAREERS MONTH

The VSCPA is participating in a nationwide initiative to raise awareness among middle and high school students of the exciting career opportunities in accounting. In addition to our already stellar CPAs in the Classroom program, we are making a concentrated effort throughout November to raise additional awareness of the myriad of career opportunities in accounting.

You or your company can get involved by:

- Sharing your love of accounting on social media
- Volunteering to speak with students

Ready to get started? Scan the QR code to volunteer, access speaker resources and a social media toolkit







WATCH YOUR *step!*

CPAs must be very careful they don't offer law advice when helping clients navigate beneficial ownership information (BOI) reporting under the Corporate Transparency Act.

The Corporate Transparency Act (CTA) was enacted Jan. 1, 2021, as part of the National Defense Authorization Act, representing the most significant reformation of the Bank Secrecy Act and related anti-money laundering rules since the U.S. Patriot Act.

The CTA is intended to address and guard against money laundering, terrorism financing, and other forms of illegal financing by mandating certain entities (primarily small- and medium-sized businesses) to report "beneficial owner" information to the Financial Crimes Enforcement Network (FinCEN).

The CTA authorizes FinCEN, a bureau of the U.S. Treasury Department, to collect, protect and disclose this information to authorized governmental authorities and to financial institutions in certain circumstances.

Below are some of the key CTA provisions and significant issues, critical unknowns, and potential risks facing accounting firms. ►

WHAT ENTITIES ARE SUBJECT TO THE NEW CTA REPORTING REQUIREMENTS?

Entities required to comply with the CTA include corporations, limited liability companies (LLCs), and other types of companies created by a filing with a Secretary of State or equivalent official. The CTA also applies to non-U.S. companies registered to do business in the United States through a filing with a SOS or equivalent official. Since the definition of a domestic entity under the CTA is extremely broad, additional entity types could be subject to CTA reporting requirements based on individual state law formation practices.

There are a number of exceptions to who is required to file under the CTA. Many of the exceptions are entities already regulated by federal or state governments and as such already disclose their beneficial ownership information to governmental authorities.

Another notable exception is for “large operating companies,” defined as companies that meet **all** of the following requirements:

- Employ at least 20 full-time employees in the U.S.
- Gross revenue (or sales) over \$5 million on the prior year’s tax return.
- An operating presence at a physical office in the United States.

As currently promulgated, the CTA has an exemption for “any public accounting firm” registered in accordance with Section 102 of the Sarbanes-Oxley Act of 2002 (firms registered with the Public Company Accounting Oversight Board). However, other public accounting firms could be deemed reporting companies subject to compliance with the CTA.

WHO IS CONSIDERED A “BENEFICIAL OWNER” OF A REPORTING COMPANY?

A beneficial owner is any individual who, directly or indirectly, exercises “substantial control” or owns or controls at least 25% of a reporting company’s ownership interests.

An individual exercises “substantial control” if the individual serves as a senior officer of the company; has authority over the appointment or removal of any senior officer or a majority of the board; or directs, determines or has substantial influence over important decisions made by the reporting company. Thus, senior officers and other individuals with control over the company are beneficial owners under the CTA, even if they have no equity interest in the company.

In addition, individuals may exercise control directly or indirectly, through board representation, ownership, rights associated with financing arrangements, or control over intermediary entities that separately or collectively exercise substantial control.

CTA regulations provide a much more expansive definition of “substantial control” than in the traditional tax sense, so many companies may need to seek legal guidance to ultimately determine who are deemed beneficial owners within their organization.

PHASE-IN OF REPORTING REQUIREMENTS

As currently promulgated, the CTA’s reporting requirements will be phased in in two stages:

- All **new** reporting companies — those formed (or, in the case of non-U.S. companies, registered) on or after Jan. 1, 2024 — must report required information **within 30 days** after their formation or registration.
- All **existing** reporting companies — those formed or registered before Jan. 1, 2024 — must report required information **no later than** Jan. 1, 2025.

PENALTIES FOR NONCOMPLIANCE

Penalties for willfully violating CTA reporting requirements include civil penalties of up to \$500 per day that a violation is not remedied, a criminal fine of up to \$10,000, and/or imprisonment of up to two years. A safe harbor from the penalty is available to reporting companies that file corrected reports with FinCEN no later than 90 days after submission of an inaccurate report.

CONSIDERATIONS FOR ENTITIES

With the CTA introducing new and expansive reporting, entities should now assess the new rules’ implications on their organizations. As they begin this evaluation, they should consider the following (not all-inclusive) questions:

- Is the entity subject to the CTA or does it qualify for exemptions?
- If the company is **not** exempt, how should it calculate percentages of “ownership interests” to determine whether any owners meet the 25% ownership threshold? In many companies with simple capital structures, the answer will be obvious. It may be much less obvious, however, for companies with complicated capital structures (given the expansive definition of “ownership interest”), or companies in which some ownership interests are held indirectly — for example, through upper-tier investment entities, holding companies or trusts.
- How should a company begin to assess and determine each person who exercises “substantial control” over it? There may well be multiple people who qualify, given the expansiveness (and vagueness) of the “substantial control” definition.

BOI REPORTING RISK MANAGEMENT TIPS

- **Familiarize yourself with the Corporate Transparency Act and the beneficial ownership reporting requirements** and stay current with any further guidance promulgated by FinCEN. For details on specific CTA provisions, refer to the Beneficial Ownership Information Reporting Rule, available at [fincen.gov/boi](https://www.fincen.gov/boi). For additional information, refer to FinCEN's Frequently Asked Questions document at [fincen.gov/boi-faqs](https://www.fincen.gov/boi-faqs).

- **Tread carefully to reduce the likelihood of an accusation of practicing law without a license!** Performing services for clients that are outside of the purview of your licensure or your competencies poses significant liability and insurance coverage risks. It is best to refer such services to other professionals than to face the consequences of allegations of falling short of professional standards of care.

However, if contemplating providing CTA-related services to clients, we strongly encourage you to document your due diligence efforts to confirm that your state has not deemed these services to be the unlicensed practice of law. If you have a CAMICO policy, note that engaging in the unauthorized practice of law is not covered by CAMICO, so we encourage you to also contact us so that we can help you evaluate the risks associated with these services, as well as assess any potential coverage issues.

- **Document, document, document:**

- Inform and advise your clients in writing regarding the new beneficial ownership reporting requirements under

the CTA and your recommendation that they seek legal guidance. CAMICO offers a client notification template for this purpose.

- Modify engagement letters to include language that specifically disclaims the firm's involvement in assisting clients with CTA compliance. See CAMICO's below suggested engagement letter language for this purpose:

Management is responsible for Client's compliance with the Corporate Transparency Act ("CTA"), if applicable to its business, and for ensuring that any required reporting of beneficial ownership information is timely filed with the Financial Crimes Enforcement Network ("FinCEN") as required by the CTA. As <Firm> is not rendering any legal services as part of our engagement, we will not be responsible for advising you regarding the legal or regulatory aspects of your company's compliance with the CTA, nor are we responsible for the preparation or submission of Client's beneficial ownership information reports to FinCEN. If you have any questions regarding Client's compliance with the CTA, including but not limited to whether an exemption may apply to your organization or to ascertain whether relationships constitute beneficial ownership under CTA rules, we strongly encourage you to consult with qualified legal counsel experienced in this area.

- **Prepare your own firm for compliance** if you are deemed to be a reporting company under currently promulgated CTA guidance.

- What new processes and procedures should a company put in place to monitor future changes in its beneficial owners and reportable changes on existing beneficial owners that will require timely updated reports to FinCEN? Note that the types of information that must be provided to FinCEN (and kept current) for these beneficial owners include the owner's legal name, residential address, date of birth, and unique identifier numbers from a non-expired passport, driver's license, or state identification card (including an image of the unique-identifier documentation).
- Caution: Keeping current with the information that needs to be provided to FinCEN will be a significant trap for reporting companies, as

they will need to rely on beneficial owners to timely update them on reportable changes to their information (e.g., ownership changes, moves, marriages, divorces, etc.). Reporting companies must file updated or corrected reports within 30 days of reportable changes or discovery of inaccurate information in previously filed reports. As a result, a company's operative documents may need to be revised to include provisions related to the CTA such as representations, covenants, indemnifications and consent clauses. For example, the operating agreement may require:

- A representation by each shareholder, member or partner, as applicable, that it will be in compliance with or exempt from the CTA. ►

ACCOUNTING PROFESSION ASKS FOR BOI REPORTING DELAY

The VSCPA, along with the American Institute of CPAs (AICPA) and other state societies, is supporting bills at press time that would delay the start date for the BOI reporting requirements.

The profession is calling on federal legislators to support two bills that have been introduced — Senate Bill 2623 and companion legislation in the House, H.R. 4035, the “Protecting Small Business Information Act of 2023.” This legislation would delay the start date for the BOI reporting requirements until all required rulemaking is final, and all rules would take effect on the same date.

In conjunction with the AICPA, the VSCPA will continue these efforts to delay the implementation of BOI and allow for additional time for small businesses and their CPA business advisors to understand the potential impact of these reporting requirements, including steep penalties for non-compliance.

A large number of accounting professionals are advocating for this delay, including the AICPA and a coalition of organizations that include Latino Tax Pro, National Association of Black Accountants, National Association of Enrolled Agents, National Association of Tax Professionals, National Conference of CPA Practitioners, National Society of Accountants, National Society of Black Certified Public Accountants, National Society of Tax Professionals, Padgett Business Services, the Diverse Organization of Firms, H&R Block, and Prosperity Now.

“The VSCPA has been in contact with our state’s federal legislators to ask for their co-sponsorship of this legislation,” said Vice President, Advocacy Emily Walker, CAE. “We share the AICPA’s concerns about the reporting requirements and the negative impact it will have on small CPA practitioners and small businesses.”

- A covenant by each shareholder, member or partner, as applicable, requiring continued compliance with and disclosure under the CTA or to provide evidence of exemption from its requirements.
- An indemnification by each shareholder, member or partner, as applicable, to the company and its other shareholders, members or partners, as applicable, for its failure to comply with the CTA or for providing false information.
- A consent by each disclosing party for the company to disclose identifying information to FinCEN, to the extent required by law.

POTENTIAL RISKS TO THE CPA HELPING CLIENTS PREPARE FOR THE CTA

There has been much discussion and debate within the accounting community about whether CPAs are in a position to provide guidance and advice to their clients regarding whether an exemption applies or to ascertain whether legal relationships constitute beneficial ownership. The overarching concern is that CPAs and non-attorney tax professionals providing assistance to clients in this arena could be deemed engaging in the unauthorized practice of law (UPL). As each state has its own definitions of what services are considered UPL, this is an area of some risk to the accounting profession. As of the date of this writing, no state has yet to provide clarity as to whether providing advice to clients regarding the CTA would, or would not, be viewed as UPL.

From a risk management best practices perspective, CAMICO strongly encourages CPAs to tread carefully as it relates to advising clients regarding the CTA and the filing of beneficial ownership reporting, and instead, advise clients to seek guidance from qualified legal counsel.

CAMICO policyholders with questions regarding this communication or other risk management questions should contact the Loss Prevention Department at lp@camico.com or call our advice hotline at (800) 652-1772 and ask to speak with a loss prevention specialist. CAMICO is a preferred provider of the VSCPA. ■

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VSCPA member *hopes* for a (corn)hole in one

Nothing corny about it: Catina Downey, CPA, needed a great place to host events. When she couldn't find what she needed, she decided to open her own space.

Catina, a sole practitioner in Richmond, loves having fun with her family and planning events. But she always ran into challenges finding venues to fit her needs. She knew she couldn't be the only one looking for a space, so she decided to take matters into her own hands and asked: "What if I just do it myself?"

She originally planned to open an event and planning space in August 2021. She had been working with the Small Business Administration and other groups to set up her space. She almost contracted a property before the pandemic intervened.

Fast forward a few years later, and Catina began bugging her business partner, Trent Carpenter, to revisit the event space. He suggested the venue have an area for cornhole tournaments.

Catina started researching cornhole and its popularity. It wasn't the original business plan, but the concept exploded more than the event space itself, she said.

"Anybody can pick up that bag and have a good time," Catina said.

Catina settled on naming the space N.E.S. Cornhole Lounge; N.E.S. stands for "Nicole's Event Space" and is named for Catina's daughter. At press time, it was scheduled to open in Short Pump on Oct. 21, 2023.

Fortunately, said Catina, Trent is a general contractor, so he had been able to execute the building of the lounge, as well as coordinate with people like electricians. But the design of the lounge was a team effort between the two.

Besides being a new business owner, Catina is also a CPA with her own practice, Catina Downey, CPA, PLLC. She was inspired to consider an accounting career through a program at J.R. Tucker High School in Henrico. From there, she majored in accounting and military science at Virginia State University and became a finance officer in the U.S. Army.

After graduation, she worked for Keiter Stephens (now Keiter) and loved it. After having her daughter, she started her own practice for flexibility. Her daughter will be heading to college this fall, and Catina is excited to make the transition from "Mommy to me," she said.

How has her experience as a CPA helped her create N.E.S. Cornhole Lounge? In every way, she said.

"In my accounting practice, our niche is small business owners," she said. "The things I advise others to do is what I'm doing for myself."



"Anybody can pick up that bag and have a good time."

Her schedule currently includes a lot of planning, meetings and coordination. She completes her accounting work in the morning, and then her business work in the afternoons. Catina hopes to eventually franchise the lounge so people can have the space in their own areas.

Catina loves movies, laughing, and spending time with her family. She is grateful for her blessed life, her charming daughter, a supportive extended family, awesome business partnership with Trent Carpenter, patient real estate agency of ICON Realty Group, the Henrico County Planning Department, Colliers International, the N.E.S. Cornhole Lounge staff, RVA Body Baggers and U-Turn Sports Center for all their assistance in making this dream come to life. ■

CHECK IT OUT

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A CPA with the *'write'* stuff



When Gary Dittmer, CPA, was in college at the University of Tampa, he heard his friend say he was going to have a life of “easy giggles.” Little did he know that phrase would find itself back to him 50 years later as the title of his first novel, “Easy Giggles.”

A Vietnam saga with two perspectives, Gary dives into the historical aspects of the Vietnam War, but also his own experience coming of age and eventually being drafted.

Gary said his motivation for writing the story was to have a broad appeal to many individuals. He feels a lot of history books follow one factual trajectory, while Gary’s book is more of a creative story and a history lesson combined.

“As a CPA, you’re trained as an investigator. Trained as how and why things [work],” he said.

That investigative nature got him interested in the first place, with a desire to tell the whole story of the Vietnam War in the most concise possible way.

Gary started writing the book at the end of 2019 and finished in early 2022. He sent out a few queries to publishing companies

and literary agents and ended up receiving a yes from independent publisher Pegasus Publishing.

Gary has learned the publishing industry is a much slower process compared to accounting. In the early stages, he felt anxious because of the strict deadlines he was used to with accounting. He learned to relax throughout the process and began to understand the difference between a 35-page tax return and a book with hundreds of pages.

The hardest part, Gary said, was not actually the slow publishing industry, but revisiting the parts of his past he had chosen not to talk about. He also had to ensure the book’s facts were correct. As an accountant, he knows the importance of fact checking, and that was always in the back of his mind.

But, still, there were fun aspects during the writing process. Gary included humorous stories from his life in the memoir portion of the story. He also enjoyed writing the final chapters as he was tying the story together.

While Gary is now enjoying retirement and is volunteer treasurer for the 25th Infantry Memorial Fund, he ended his professional career as senior tax director for Spok, Inc., located in Springfield. He was also an adjunct professor at George Mason University and the University of Virginia School of Continuing and Professional Studies, teaching taxation.

Gary hopes the readers of this book will receive a history lesson they’ve never heard before. He’s been a self-proclaimed history buff for many years, and he found the process enjoyable. In fact, he’s already thinking about his next one. ■

STAY TUNED

At press time, “Easy Giggles” by Gary Dittmer was scheduled to be published in late 2023. It will be available for purchase online at major retailers. We’ll post the link to our social media channels when it’s available!

Making *progress* on VSCPA 2030

In the summer 2023 Disclosures issue, VSCPA President and CEO Stephanie Peters, CAE, explained the Society is undertaking a new visioning process.

With two Board meetings complete, Board leaders, members and staff are getting closer to crafting a vision and defining the strategies that will take us into the future. With conversations taken from the Leaders Summit, along with member feedback from the VSCPA 2030 poll, a comprehensive, useable plan is starting to take shape.

The themes rising to the top shouldn't surprise you: technological advances like artificial intelligence, CPA pipeline challenges and talent shortages, regulatory burdens, inflation and others are all putting pressure on CPA firms and the corporations CPAs work for.

The member poll revealed CPAs and their clients need the following in the future: technology integration and expertise, advisory and strategic services, qualified and trustworthy advisors, increased efficiency and timeliness, and understanding of the changing business environment.

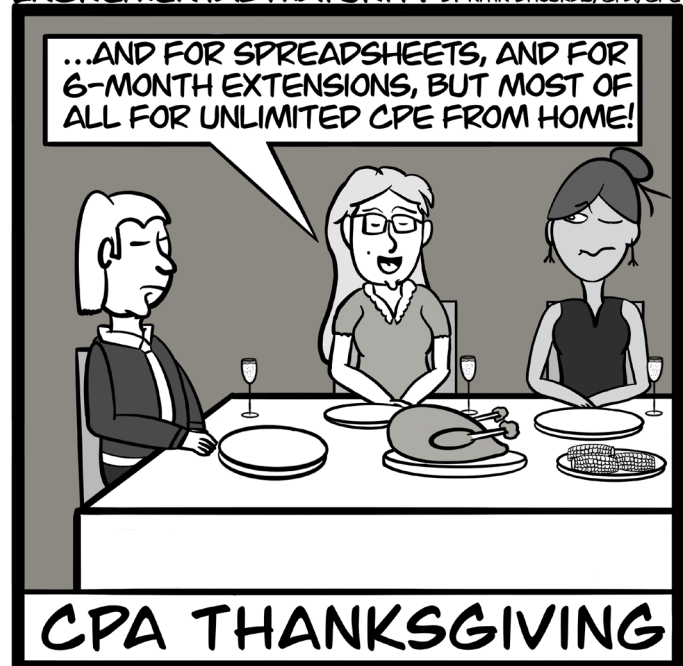
These factors and needs will all influence the final VSCPA 2030 strategy. At press time, nothing had been finalized, but plans are in place to solidify the strategy by the end of the year.

Questions about the process? Reach out any time to Tina Bates, VSCPA senior vice president, strategy & innovation, at tbates@vscpa.com. ■

WHERE'S MEMBER NEWS?

All member news is now included in The Account, our biweekly e-newsletter. We're happy to print your staff news, including promotions and new hires. We also want to hear about awards and accolades, books and articles, retirements, etc. We do not print new degrees or designations. Send your information and headshots to disclosures@vscpa.com.

INCREMENTAL MATURITY BY NITIN BHOURAJ, CPA, CFE



FIND OUR FINANCIALS ONLINE

The VSCPA and VSCPA PAC financials for the 2022-2023 fiscal year are now online. Visit vscpa.com/annual-report-financials to find the Statements of Financial Position, Statements of Activities, full audited statements, and information on the state of the VSCPA.

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