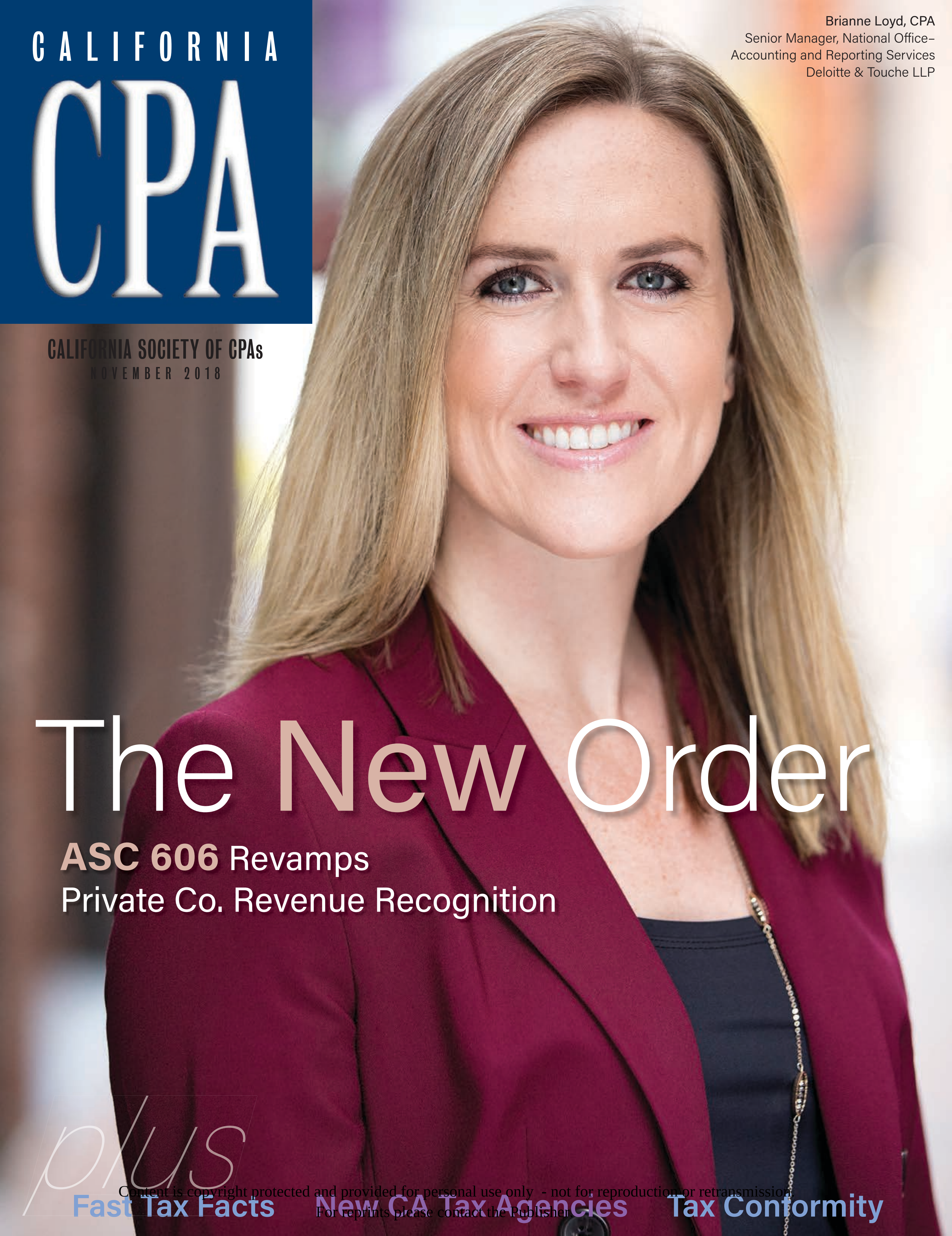

CALIFORNIA CPA

CALIFORNIA SOCIETY OF CPAs
NOVEMBER 2018

Brianne Loyd, CPA
Senior Manager, National Office–
Accounting and Reporting Services
Deloitte & Touche LLP

The New Order

ASC 606 Revamps
Private Co. Revenue Recognition

plus

Fast Tax Facts   New CA Tax Agencies   Tax Conformity

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SHARE100	100	$2,995	$30	$1,070

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CALIFORNIA CPA
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CalCPA

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november

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> "Rising rates are going to be good news for savers and bad news for borrowers. Do what you can to put yourself on the right side of that equation."
>
> —Bankrate.com CFO Greg McBride

eat up

When asked, **"What is the average length (in minutes) of your typical lunch break?,"** workers responded:

7%: 0-10 minutes

8%: 11-20 minutes

41%: 21-30 minutes

4%: 31-40 minutes

10%: 41-50 minutes

27%: 51-60 minutes

3%: More than 60 minutes

—Robert Half

the numbers

16%
The percentage of nonprofit leaders who said they leveraged co-working in some way.
—CBRE

$4B
The estimated amount Kickstarter has raised for projects through its platform since its launch nearly a decade ago.
—Kickstarter

$169.5B
The amount U.S. corporations repatriated in Q2 2018.
—U.S. Commerce Department

$7,645
The cost of hiring a new employee.
—Small Business Trends

45%
Number of U.S. adults grading their knowledge of personal finance a "C" or worse.
—National Foundation for Credit Counseling

25%
Number of employees who said they do not enroll in a health savings account because they cannot afford to fund it.
—Willis Towers Watson

CalCPA NEWS

Make a Difference:
CPA Day at the Capitol Jan. 15

Join hundreds of other CalCPA members Jan. 15 in Sacramento to learn about the issues affecting your profession—and represent the CPA profession during meetings with California legislators in the Capitol. We encourage all CalCPA members to attend, as no prior experience or training is required. All you need to do is sign up and we'll take care of providing what you need to be successful.

Legislation introduced this year will set the priorities of the Legislature, which begins a new two-year session in 2019. With continued interest in addressing the impact of federal tax reform, discussions relating to state tax policy are continuing to gain momentum. This is the ideal time for you to join your CalCPA colleagues to provide input on how these policies take shape.

CPA Day provides you the platform to make an impact and ensure that the voice of the profession is heard by your representatives.

Register at calcpa.org/CPAday.

Build Leadership Skills, Share Expertise

Want to use your talents at the statewide level? Your opportunity awaits—the application period will soon open to serve on our statewide committees for 2019-20. From estate planning to technology, and from personal financial planning to taxation, there's a committee meeting your interests and expertise.

Please note: If you serve on a state committee as an at-large member and would like to continue, reapplication is necessary. Also, if you will be a chapter committee chair in 2019-20, then you have an automatic seat on that corresponding state committee and do not need to apply for that committee here. Should you wish to serve on another committee, however, you must apply for consideration.

Serving on state committees allows you to work with your peers on projects that increase members' technical knowledge, enhance the profession's image and draw the best and brightest into accounting—all while you build leadership skills and make valuable contacts.

Keep an eye out for details about the application process.

Committee appointments will be made in March/April 2019 and the committee term is May 1–April 30.

Blockchain Getting Closer to its Breakout Each Day

Momentum is shifting from a focus on learning and exploring the potential of blockchain to identifying and building practical business applications, according to a Deloitte survey of more than 1,000 blockchain-savvy executives.

Respondents said they see great value in blockchain's potential to reinvent processes across the business value chain—and there is interest and investment in a wide range of use cases.

For example, 74 percent report that their organizations see a "compelling business case" for the use of blockchain—and many of these companies are moving forward with the technology. Nearly half of that number (34 percent) say their company already has some blockchain system in production, while an additional 41 percent say they expect their organizations to deploy a blockchain application within the next 12 months. In addition, nearly 40 percent of respondents reported that their organization will invest $5 million or more in blockchain technology in the coming year.

Read more at calcpa.org/deloitteblockchain.

APPLICATION DEADLINE: DEC. 3

Lead On: CalCPA/AICPA Leadership Positions Open

The application period for the 2019-20 CalCPA Board and Council, AICPA Council and CalCPA Education Foundation trustee and officer positions is open.

CalCPA provides you with the opportunities that help you develop critical leadership skills, and a platform to showcase them, at the local and state level.

Isn't it time you put your leadership skills to use for the betterment of the CPA profession?

For more information and to apply for Education Foundation Trustee position, visit calcpa.org/EFTrusteeApp2019-20.

To apply for CalCPA or AICPA positions, visit calcpa.org/leadership/be-a-leader-in-calcpa.

Applications are due Dec. 3.

CAMICO Insurance

tip of the Month

What Speech Is Protected in the Workplace?

Employers have the right to ask employees to focus on their work while in the office and to refrain from discussion that could lead to an emotionally charged conversation. Employers should be careful, though, to apply the rules uniformly and not favor one employee and his or her opinions or beliefs over another. Discrimination based on religion or political affiliation is illegal, but employers have the right to request that employees refrain from discussion that is not appropriate in the workplace.

Employers also have the right to require employees remain civil toward each other, and conversations about politics or religion can often spark an argument or heated discussion.

Employees are free to discuss wages, working hours and conditions with co-workers, as those types of conversations are protected activity under the National Labor Relations Act. Employees should be able to participate in such conversations without the fear of retaliation, provided they are not bullying, harassing or discriminating against one another during their discussions, and they are engaging in "concerted activities" for their "mutual aid or protection."

Employees participating in these conversations should avoid suggesting that they are speaking on behalf of others.

Employers have the burden of encouraging a workplace of diversity and openness while maintaining civility and sustaining productivity. Staying ahead of the game is critical. Creating policies that outline boundaries is paramount. It's also imperative that management "walk the talk" and model appropriate workplace behavior.

For more information and guidance about CPA firm insurance issues, visit camico.com.

AICPA NEWS

Survey: Percentage of Women Partners is Highest at Smaller Firms

Women have made the greatest inroads in attaining partnerships within the CPA profession at firms with 20 accounting professionals or less, according to new research by the AICPA.

The highest ratio of female partners (43 percent) falls within the firm category of 2-10 CPAs, while the lowest (20 percent) is associated with the largest firms of 100-plus CPAs.

Among other findings of the survey:

- There is a gender gap in equity ownership at firms. Like overall partnership levels, it's less stark at smaller firms.
- Firms with formal succession plans rarely have a gender component to leadership transition plans.
- Some 55 percent of firms have partners who use flexible work arrangements.

Read more at calcpa.org/AICPAGenderSurvey.

IRS news

Tax Reform Changes Affecting Small Businesses—Time to Start Planning

With just a couple of months left in tax year 2018, the IRS is urging small-business owners to learn about how the new tax law changes may affect them.

The Tax Cuts and Jobs Act made tax law changes that will affect virtually every business and individual in 2018—and in the years ahead. Among other things:

- The new law may change their tax rates and impact the quarterly estimated tax payments they are required to make during the year;
- For many passthrough businesses, the TCJA created a new 20 percent deduction for qualified business income. Other deductions and credits have been changed as well, including revised depreciation methods and expanded options for expensing business property.
- There are new rules for like-kind exchanges and fringe benefits.
- Small-business employers who provide paid family and medical leave to their employees during tax years 2018 and 2019 may qualify for a new business credit.

Business owners can find more information on the following IRS webpages:

- **Tax Cuts and Jobs Act:** Various resources for individuals, businesses and tax-exempt entities.
  irs.gov/tax-reform
- **Tax Reform News:** Links to news releases, fact sheets and statements on the new legislation and how it affects businesses.
  irs.gov/newsroom/tax-reform-news
- **Tax Reform Provisions Affecting Businesses:** Brief explanations with links to more details about provisions of the new law.
  irs.gov/newsroom/businesses
- **Tax Reform Guidance:** Links to technical information about the law and how it applies to businesses.
  irs.gov/newsroom/tax-reform-guidance
- **Tax Reform Resources:** Links to articles, FAQs, videos, publications and tax tips that employers can share with employees to help them better understand the new law.
  irs.gov/newsroom/tax-reform-resources

Warning Signs of Client Data Theft

The IRS, state tax agencies and the tax industry are calling on tax professionals to be alert to the subtle signs of data theft, noting continuing cases where practitioners are victims of theft and don't even know it.

Cybercriminals often leave few signs of their burglary until the fraudulent tax returns are filed and clients are harmed—a main reason why tax professionals should use strong security protections to prevent data theft. Among the warning signs that an office may have experienced a data theft:

- Client e-filed returns begin to be rejected because returns with their Social Security numbers were already filed;
- Clients who haven't filed tax returns receive refunds;
- Clients receive tax transcripts that they did not request;
- The number of returns filed with the tax professional's Electronic Filing Identification Number exceeds the number of clients; and
- Computer cursors moving or changing numbers without touching the keyboard.

Read more at calcpa.org/IRSdatatheft.

In Memoriam: Steve San Filippo

Steve San Filippo, founder of Sensiba San Filippo LLP and Sensiba San Filippo Financial Advisers, LLC, died Oct. 9. He is survived by his wife, Julie, and three children, Marisa, Dominic and Joseph.

Like many Silicon Valley business stories, Sensiba San Filippo had humble origins, starting in San Filippo's home. Fast-forward 40 years, and the firm was one of the largest Northern California full-service accounting firms and earlier this year became California's first accounting firm to become a certified B Corporation. (See *California CPA*, July 2018, calcpa.org/SSFBCorp.) Sensiba San Filippo also is a CalCPA 100% Firm, ensuring all of its eligible staff are CalCPA members.

San Filippo was heavily involved in his community. He worked with many youth organizations and volunteered on boards for Serra High School San Mateo, the Sequoia Hospital Foundation and the Sequoia Hospital Board in Redwood City, among others. He also served as planning commissioner for San Carlos. He was honored for his philanthropic work by Association of Fundraising Professionals Silicon Valley Chapter in 2016 when he was named a Distinguished Volunteer.

member**milestones**

Announcements

Amy Zhang joined Presidio Investors LLC, San Francisco, as CFO … **Lori Adam** will be speaking on Nov 14 at the UK200 Group's Annual Conference in Edinburgh, Scotland, about doing business in America … On Aug. 27 **Hanne LeLoup** of Hutchinson and Bloodgood LLP, San Diego, spoke about U.S. tax reform at the AmCham's Access USA seminar in Copenhagen, Denmark … Grant Thornton LLP, Silicon Valley, promoted **David Murdock** to managing director.

Accomplishments

David Cieslak, **Loretta Doon** and **Geni Whitehouse** have been named by Accounting Today as among the top 100 most influential people in accounting … Haskell & White LLP has been named to the *Orange County Business Journal's 2018 Civic 50* list of top community-minded companies.

Firm News

Grant Thornton LLP relocated its Orange County office to Newport Beach and marked the occasion with a grand reopening … **BPM**, San Francisco, acquired Kramer & Olsen Accountancy Corp., Santa Ana.

Members in the News

The Aug. 23 *Modesto Bee* profiles **Chad A. Houten** … **Michael Eisenberg** discusses the income tax implications for parents if their teens work in a Sept. 5 *Nerd Wallet* article … A Sept. 7 *Accounting Today* article cites **Charles Rettig** and **Annette Nellen** as upcoming accounting influencers, and the same publication cites her as a tax expert to watch in a Sept. 12 article … A Sept. 10 *Sacramento Business Journal* article announces that **Ken Macias** is back in business and also features comments from **Michael Ueltze**n … **Brooke Salvini** explains the costs of horse ownership in a Sept. 11 *Financial Planning* article … A Sept. 12 *Accounting Today* article announces U.S. Senate confirmation of **Charles Rettig** as IRS commissioner … **John Sensiba** discusses his firm's community involvement in a Sept. 12 *Accounting Today* article … The Sept. 14 *San Francisco Business Times* interviews **Lisa Daniels** about workforce development … A Sept. 17 *Los Angeles Business Journal* column by **Miklos Ringbauer** reviews key items of the tax reform law … **Jim Wallace** discusses his firm's expansion into Southern California in the Sept. 21 *San Francisco Business Times*. CPA

2018 Facts Tax Facts

Welcome to our annual at-a-glance compilation of federal and state tax information. User-friendly tax rate schedules, facts, figures and assorted data make this time-saving section a handy companion. Keep it within arm's reach as you enter the upcoming busy season.

2018 TAX DATA SCHEDULE

	2018 Federal	2018 California
Standard Deductions		
Single	$ 12,000	$4,401
Married Filing Jointly, Surviving Spouse	24,000	8,802
Married Filing Separately	12,000	4,401
Head of Household	18,000	8,802
Additional for Age 65 and Older or Blind—Married	1,300	
Additional for Age 65 and Older or Blind—Unmarried (per individual for each situation, age or blind)	1,600	
Taxpayer Claimed as a Dependent	1,050	1,050
Personal or Dependent Exemption	Suspended for tax years 2018-2025	
California Exemption Credits		
Single, Married Filing Separately, Head of Household		$ 118
Married Filing Jointly, Surviving Spouse		237
Dependent		367
Blind or Age 65 and Older		118

	2018 Federal	2018 California
Senior Head of Household Credit		
2% of California taxable income, maximum California AGI of $76,082 with maximum credit of		$1,434
California Joint Custody Head of Household Credit and Dependent Parent Credit		
Each is 30% of net tax with maximum credit of		$469
Child and Dependent Care Credit		
Percentage of federal credit for California AGI limits		
$0–40,000		50%
40,001–70,000		43%
70,001–100,000		34%
100,001 or more		0%
California Renter's Credit		
Married Filing Jointly, Head of Household, Surviving Spouse if AGI is below $76,082		$120
Single or Married Filing Separately if AGI is below $41,641		60

	2018 Federal	2018 California
IRC Section 179 Deduction	$1,000,000	$25,000
Sec. 179 Purchase Phaseout	$2,500,000	$200,000
Beginning of Personal Exemption Phase-out Range—Based on Federal AGI		
Single	N/A	$194,504
Married Filing Jointly, Surviving Spouse	N/A	389,013
Married Filing Separately	N/A	194,504
Head of Household	N/A	291,760
Beginning of Itemized Deduction Phase-out Range—Based on Federal AGI		
Single	Limitation on	$194,504
Married Filing Jointly, Surviving Spouse	federal itemized	389,013
Married Filing Separately	deductions is	194,504
Head of Household	suspended for tax	291,760
Rate Reduced over federal AGI limits	years 2018-2025	6%
Schedule A Medical Deduction		
Based on federal AGI	7.5%	7.5%
Schedule A State & Local Tax Deduction Max		
Married Filing Separately	$5,000	N/A
All others	10,000	N/A
Schedule A Mortgage Interest Cap	Only ded. on debt up to $750,000*	$1,100,000
**loans entered into before 12/15/17 are not subject to this limitation*		
Schedule A Miscellaneous Deduction Based on federal AGI	Suspended for tax years 2018-2025	2%
Alternative Minimum Tax (AMT) Rate		
AMTI Less Exemption up to $191,500	26%	
AMTI Less Exemption over $191,500 ($95,750 if Married Filing Separately)	28%	
AMTI Less Exemption		7%
AMT Exemption Amounts		
Married Filing Jointly, Surviving Spouse	$109,400	$95,373
Single, Head of Household	70,300	71,531
Married Filing Separately	54,700	47,685
Estate or Trust	24,600	47,685
AMT Exemption Phase-out		
Married Filing Jointly, Surviving Spouse	$1,000,000	$357,650
Single, Head of Household	500,000	268,237
Married Filing Separately	500,000	178,822
Estate or Trust, if AMTI is less than $180,300	81,900	178,822
199A Overview Maximum Deduction	20% of Qualified Business Income*	N/A
**subject to wage and property limitations*		
Self-Employed Health Insurance Premiums		
Adjustment for AGI, percentage of total qualifying health insurance premiums	100%	100%
Auto Standard Mileage Allowances		
Business	.545	.545
Charity work—general	.14	.14
Medical or moving	.18	.18

U.S. Savings Bond Interest Exclusion Phase-out Based on Modified AGI

Joint Return, Surviving Spouse	$119,300 - 149,300
All Other Returns	79,550 - 94,550

California SDI

Federal tax deduction*	
Annual wage limit	$114,967
Rate	1.0%
Tax	1.149.67

**Amounts paid to a voluntary program in lieu of the state programs are not deductible, but may be a credit on California return.*

2018 FEDERAL TAX RATE SCHEDULE

Taxable Income Is Over	But Not Over	Pay	+%	Of The Amount Over
Single				
$0	$9,525	$0	10%	$0
9,525	38,700	952.50	12%	9,525
38,700	82,500	4,453.50	22%	38,700
82,500	157,500	14,089.50	24%	82,500
157,500	200,000	32,089.50	32%	157,500
200,000	500,000	45,689.50	35%	200,000
500,000	and more	150,689.50	37%	500,000
Head of Household				
$0	$13,600	$0	10%	$0
13,600	51,800	1,360.00	12%	13,600
51,800	82,500	5,944.00	22%	51,800
82,500	157,500	12,698.00	24%	82,500
157,500	200,000	30,698.00	32%	157,500
200,000	500,000	44,298.00	35%	200,000
500,000	and more	149,298.00	37%	500,000
Married Filing Jointly or Surviving Spouse				
$0	$19,050	$0	10%	$0
19,050	77,400	1,905.00	12%	19,050
77,400	165,000	8,907.00	22%	77,400
165,000	315,000	28,179.00	24%	165,000
315,000	400,000	64,179.00	32%	315,000
400,000	600,000	91,379.00	35%	400,000
600,000	and more	161,379.00	37%	600,000
Married Filing Separately				
$0	$9,525	$0	10%	$0
9,525	38,700	952.50	12%	9,525
38,700	82,500	4,453.50	22%	38,700
82,500	157,500	14,089.50	24%	82,500
157,500	200,000	32,089.50	32%	157,500
200,000	300,000	45,689.50	35%	200,000
300,000	and more	80,689.50	37%	300,000
Estate or Nongrantor Trust				
$0	$2,550	$0	10%	$0

2,550	9,150	255.00	24%	2,550
9,150	12,500	1,839.00	35%	9,150
12,500	and more	3,011.50	37%	12,500

2018 STATE TAX RATE SCHEDULE

Single, Married Filing Separately, Fiduciary Return

$0	$8,544	$0	1.00%	$0
8,544	20,255	85.44	2.00%	8,544
20,255	31,969	319.66	4.00%	20,255
31,969	44,377	788.22	6.00%	31,969
44,377	56,085	1,532.70	8.00%	44,377
56,085	286,492	2,469.34	9.30%	56,085
286,492	343,788	23,897.19	10.30%	286,492
343,788	572,980	29,798.68	11.30%	343,788
572,980	and more	55,697.38	12.30%	572,980

An additional 1% surcharge applies to taxable income in excess of $1 million.

Married Filing Jointly or Surviving Spouse

$0	$17,088	$0	1.00%	$0
17,088	40,510	170.88	2.00%	17,088
40,510	63,938	639.32	4.00%	40,510
63,938	88,754	1,576.44	6.00%	63,938
88,754	112,170	3,065.40	8.00%	88,754
112,170	572,984	4,938.68	9.30%	112,170
572,984	687,576	47,794.38	10.30%	572,984
687,576	1,145,960	59,597.36	11.30%	687,576
1,145,960	and more	111,394.75	12.30%	1,145,960

An additional 1% surcharge applies to taxable income in excess of $1 million.

Head of Household

$0	$17,099	$0	1.00%	$0
17,099	40,512	170.99	2.00%	17,099
40,512	52,224	639.25	4.00%	40,512
52,224	64,632	1,107.73	6.00%	52,224
64,632	76,343	1,852.21	8.00%	64,632
76,343	389,627	2,789.09	9.30%	76,343
389,627	467,553	31,924.50	10.30%	389,627
467,553	779,253	39,950.88	11.30%	467,553
779,253	and more	75,172.98	12.30%	779,253

An additional 1% surcharge applies to taxable income in excess of $1 million.

LUXURY AUTO LIMIT

Depreciation limitations for automobiles acquired **after** September 27, 2017 and first placed in service during the 2018 calendar year, for which the section 168(k) additional first year depreciation deduction applies.

Year	First	Second	Third	Thereafter
2018 (Passenger Autos)	$18,000	16,000	9,600	5,760
2018 (Trucks & Vans)	$18,000	16,000	9,600	5,760

Depreciation limitations for automobiles first placed in service during the 2018 calendar year, for which the section 168(k) additional first year depreciation deduction **does not** apply.

Year	First	Second	Third	Thereafter
2018	$10,000	16,000	9,600	5,760

SOCIAL SECURITY AND MEDICARE TAXES

	2017	2018
Social Security Tax		
Maximum wage base	$127,200	$128,400
Social Security rate—employee	6.2%	6.2%
Social Security rate—employer	6.2%	6.2%
Social Security rate—self-employed	12.4%	12.4%
Medicare Tax		
Maximum wage base	Unlimited	Unlimited
Medicare rate—employee/employer	1.45%	1.45%
Medicare rate—self-employed	2.90%	2.90%
Monthly Medicare Part B Premium	$134.00	$134.00

Additional Medicare Tax

An additional 0.9% Medicare tax is imposed on an employee's wages received in excess of

	2017	2018
Married Filing Jointly	$250,000	$250,000
Married Filing Separately	125,000	125,000
All Others	200,000	200,000

Net Investment Income Tax (NIIT) - also known as the Unearned Income Medicare Contribution Tax

An additional 3.8% tax may be imposed on net investment income if modified AGI is in excess of

	2017	2018
Married Filing Jointly	$250,000	$250,000
Married Filing Separately	125,000	125,000
All Others	200,000	200,000

Earned Income Ceilings for Social Security Benefits

	2017	2018
Under full retirement age	$16,920	$17,040
Full retirement age	Unlimited	Unlimited

RETIREMENT PLAN LIMITATIONS

	2017	2018
Maximum 401(k) or 403(b) Deferral	$18,000	$18,500
Maximum Defined Contribution Plan or SEP Contribution	54,000	55,000
Maximum Annual Benefit for Defined Benefit Plans	215,000	220,000
Annual Compensation Limit for Computing Plan Benefits	270,000	275,000
Annual Compensation Limit for the Definition of Highly Compensated Employee IRC Section 414(q)	120,000	120,000
Compensation Minimum for SEP plan	600	600
Maximum Contribution for SIMPLE plan	12,500	12,500
Catch-up Contribution for 401(k) or 403(b) for taxpayers age 50 and older	6,000	6,000
Catch-up Contribution for SIMPLE for taxpayers age 50 and older	3,000	3,000
Key Employee for Top Heavy Purposes:		
• Officers Earning Over	$175,000	$175,000
• A more-than-5-percent Owner	N/A	N/A
• A more-than-1-percent Owner Earning Over	150,000	150,000

TRADITIONAL & ROTH IRAs

	2017	2018
Contribution Limit	$5,500	$5,500
Catch-up Contribution age 50 and older	1,000	1,000
IRA Deduction Phase-out for Active Participants		
Single or Head of Household	$62,000–72,000	$63,000–73,000
Married Filing Jointly	99,000–119,000	101,000–121,000
Married Filing Separately	0–10,000	0–10,000
IRA Deduction Phase-out for Spousal Contributions		
Married Filing Jointly	186,000–196,000	189,000–199,000
Roth IRA Contribution Phase-out		
Single or Head of Household	$118,000–133,000	120,000–135,000
Married Filing Jointly	186,000–196,000	189,000–199,000
Married Filing Separately	0–10,000	0–10,000
Roth IRA Conversion Phase-out		
All filing statuses	no AGI Limit	no AGI Limit

IRA & PENSION CREDIT

Saver's Credit Rate applied to maximum contribution of $2,000 and based on AGI

Joint Filers	Heads of Household	All Other Filers	Credit Rate
$0–38,500	$0–28,500	$0–19,000	50%
38,500 - 41,000	28,500–30,750	19,000–20,500	20%
41,000 - 63,000	30,750–47,250	20,500–31,500	10%
Over 63,000	Over 47,250	Over 31,500	0%

ESTATE & GIFT TAX

Calendar Year	Estate/GST tax transfer exemption	Highest estate and gift tax rate
2017	$5,490,000	40%
2018	$11,180,000	40%

Gift tax:
Annual Gift Limitation of $15,000 for 2018.
Lifetime Exemption of $11,180,000 after December 31, 2017

EDUCATION-RELATED TAX BENEFITS

Coverdell Educational Savings Accounts

Annual Contribution Limit		$2,000
Contribution phase-out based on modified AGI		
Married Filing Jointly	$190,000–220,000	
All Others	95,000–110,000	

Student Loan Interest Deduction

Maximum interest deduction		$2,500
Deduction phase-out based on modified AGI		
Married Filing Jointly	$135,000–165,000	
All Others	65,000–80,000	

American Opportunity Tax Credit

Maximum Credit		$2,500
Credit phase-out based on modified AGI		
Married Filing Jointly	$160,000–180,000	
All Others	80,000–90,000	

Lifetime Learning Credit

Maximum Credit		$2,000
Credit phase-out based on modified AGI		
Married Filing Jointly	$114,000–134,000	
All Others	57,000-67,000	

Important Phone Numbers

Tax Practitioner Hotlines

IRS Priority Service (866) 860-4259
FTB (916) 845-7057
FTB Fax (916) 845-9300
FTB e-file (916) 845-0353
EDD (888) 745-3886
CDTFA (800) 401-3661

Application for Taxpayer ID Number

Federal Form SS-4 Online: www.irs.gov/businesses *
Federal Form SS-4 Fax (855) 641-6935
EDD Form DE 1 Fax (916) 654-9211
EDD Form DE 1 Online: https://edd.ca.gov/payroll_taxes/save_time_and_register_online.htm

NOTE: *For Federal Form SS-4 Phone: IRS no longer issues EINs by telephone for domestic taxpayers. Only international applicants can receive an EIN by telephone.

Thanks to **Brooke Sigler, CPA** and **Samantha Elpern, CPA** of Windes, and the FTB for compiling this information.

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ASC 606

Considerations for Private Companies Prior to Adoption

BY BRIANNE LOYD, CPA

The FASB's new revenue recognition standard, ASC 606, will soon be effective for private companies, and it is likely that every private company will be affected.

ASC 606 supersedes most legacy revenue recognition guidance, including industry specific guidance. The core principle under the new guidance is to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services.

Accordingly, ASC 606 requires an entity to assess whether the customer has obtained control of the good or service to determine whether the good or service has been transferred to the customer. By contrast, under legacy U.S. GAAP, revenue recognition is based on the transfer of substantially all of the risks and rewards of ownership to the customer. In addition to changing the core principle of revenue recognition, ASC 606 requires entities to provide extensive new quantitative and qualitative disclosures.

Given the new concepts introduced under ASC 606, entities may need to evaluate revenue transactions differently, which may involve more significant judgment and estimation. Further, because of the standard's adoption, entities may be required to update their systems and add or modify internal controls to address potential new risks of material misstatement.

As such, the effort associated with the implementation of ASC 606 at private companies should not be taken lightly. On the basis of discussions with some public company executives, it appears that implementation of the new revenue standard often involved more effort than anticipated. In addition, many public company executives were surprised that the implementation affected so many facets of their organizations.

This article illustrates the potential accounting implications resulting from the standard's adoption and discusses key considerations related to risk assessment, planning, and indirect and direct internal controls.

Examples of Potential Accounting Implications Under ASC 606

Some common scenarios in which entities may need to assess how ASC 606 affects their revenue recognition include:

Rebates and Discounts

Identifying all performance obligations in a contract with a customer is critical under ASC 606. A material miscalculation in the identification of performance obligations will often lead to an error in the recognition of revenue.

For example, certain types of rebates and discounts provided to customers may give rise to the identification of a separate performance obligation under ASC 606. In practice, entities may offer their customers rebates or discounts on the pricing of products or services once a certain volume threshold has been met (i.e., they may retrospectively or prospectively adjust the price of their goods or services).

Under ASC 606, volume rebates or discounts that are retrospectively applied should be accounted for as variable consideration, generally in a manner similar to legacy U.S. GAAP. However, when a volume rebate or discount is applied prospectively, entities will need to evaluate the facts and circumstances of the contract to determine whether the rebate or discount represents a material right to the customer and therefore should be accounted for as a performance obligation. This determination can ultimately affect the timing of revenue recognition and can result in the deferral of a portion of revenue.

> In addition to changing the core principle of revenue recognition, ASC 606 requires entities to provide extensive new **quantitative** and **qualitative** disclosures.

Bill-and-Hold Arrangements

Determining when to recognize revenue is the most common challenge associated with revenue recognition. The new standard's change from a risks-and-rewards model to the control model may result in recognition timing that's different from that under legacy U.S. GAAP.

For example, certain entities may have bill-and-hold arrangements with their customers under which those customers are billed for products that are not delivered until a later date. Entities with bill-and-hold arrangements will need to evaluate when control of the products is transferred to the customers to determine the appropriate timing of revenue recognition under ASC 606.

Under legacy U.S. GAAP [including legacy SEC guidance in SAB Topic 13A.3(a)], entities can recognize revenue when products are billed (rather than on delivery) if the arrangement meets several criteria, including that there's a fixed schedule for delivery. The requirement for a fixed delivery schedule often precludes revenue recognition for bill-and-hold arrangements under legacy U.S. GAAP; however, ASC 606 does not require such a schedule.

Under ASC 606, the indicators that control has been transferred in bill-and-hold arrangements include:

- The entity has a present right to payment for the asset.
- The customer has legal title to the asset.
- The customer has the significant risks and rewards of ownership of the asset.
- The customer has accepted the asset.

Based on these indicators and the facts and circumstances of the arrangements, entities will need to consider whether control of the product has transferred to the customer before delivery. An entity that has transferred control of the product and met the bill-and-hold criteria described above to recognize revenue also will need to consider whether it's providing custodial services along with the product. If so, a separate performance obligation related to the custodial services may exist, and a portion of the transaction price should be allocated to each performance obligation (e.g., the product sold and the custodial services).

Principal Versus Agent

As described above, the core principle of revenue recognition has changed from a risks-and-rewards model under legacy U.S. GAAP to a control model under ASC 606. This change will affect how an entity evaluates its position in a transaction as either a principal or an agent. Under ASC 606, an entity's conclusion related to whether it's a principal or an agent in a transaction may affect not only whether revenue is presented on a gross-versus-net basis, but also the identification of its performance obligations, as well as the timing of revenue recognition.

ASC 606 indicates that an entity is a principal in a transaction if it controls the specified goods or services before they are transferred to the customer. Like legacy U.S. GAAP, the new revenue standard provides some indicators to help an entity determine whether it is a principal. However, unlike the indicators in legacy U.S. GAAP, which are used to assess whether an entity has risks and rewards that are consistent with those of a principal in a transaction, the indicators in the new revenue standard help an entity assess whether it controls the underlying goods or services before they are transferred to the customer.

In addition, some of the indicators used under legacy U.S. GAAP for assessing whether an entity is a principal or an agent are not included in the new standard (e.g., discretion in supplier selection, involvement in determining the product or service specifications, and customer credit risk). ASC 606 also does not specify that any of the indicators are more important than others, whereas legacy U.S. GAAP indicates that the primary obligor and general inventory risk are stronger indicators of a principal than other factors.

Entities may need to apply significant judgment in determining whether they are agents or principals. They should not assume that their conclusion under ASC 606 will be the same as it was under legacy U.S. GAAP; therefore, they should reconsider any legacy conclusion in accordance with the indicators in ASC 606.

For a comprehensive discussion of the new revenue standard and each of the five steps of the revenue model under ASC 606, see Deloitte's, A Roadmap to Applying the New Revenue Recognition Standard at dart.deloitte.com/USDART/obj/7e02320e-0da4-11e7-902e-e78b376f8362.

ASC 606 Disclosure Considerations

The quantitative and qualitative disclosure requirements under ASC 606 are significantly more comprehensive than those under legacy

U.S. GAAP. Deloitte recently performed an extensive review of the disclosures in the public filings of a sample of companies that adopted ASC 606 as of the first quarter of 2018, as described in Deloitte's Heads Up ASC 606 Is Here—How Do Your Revenue Disclosures Stack Up (deloitte.com/content/dam/Deloitte/us/Documents/audit/ASC/HU/2018/us-aers-hu-asc-606-is-here-how-do-your-revenue-disclosures-stack-up.pdf).

We observed that while some companies made wholesale changes to their financial statements, the effect of the new requirements was less significant for others. However, all entities were affected by ASC 606's new and modified quantitative and qualitative disclosure guidance, which significantly increased the amount of information disclosed about revenue activities and related transactions. Some of our key observations included the following:

- From a big-picture perspective, we observed in many instances the revenue disclosures were at least three times as long as the prior-year disclosures.
- The requirement in ASC 606 to provide more comprehensive disclosures is likely to significantly affect an entity's financial statements regardless of the standard's effect on recognition patterns.
- Many entities chose to add a separate and specific revenue footnote that contains the required disclosures.

While the disclosure requirements have increased under ASC 606, private companies may elect a practical expedient that permits them to abstain from disclosing certain information.

Risk Assessment and Planning Considerations

When planning its adoption strategy, an entity may wish to consider the topics and questions below related to ASC 606's scope and the assessment of risk. Considering such questions may help the entity identify areas potentially impacted under ASC 606 and may help the entity determine the extent of information-gathering procedures needed (e.g., contract review procedures, inquiries with sales personnel) to apply the guidance.

Understand the Company's Go-to-Market Strategy and Environment

- What are the company's key products and services?
- What are the key provisions of contractual arrangements?
- To what extent are contractual terms standardized?

Disaggregate the Material Revenue Streams

- How many contracts make up each material revenue stream?
- Did the company apply the portfolio approach? If so, is use of the portfolio approach appropriate on the basis of the nature of the company's contracts with customers?

Understand the Selection and Application of the Accounting Principles

- How are promised goods and services identified as performance obligations? Does such identification vary by revenue stream?
- Does the entity have standard pricing terms or is pricing negotiated for each customer contract? Are price concessions, discounts, or rebates granted to customers?
- Does the entity plan to use any accounting conventions in applying the framework under ASC 606? What monitoring procedures will be performed to ensure the convention used does not give rise to a material error?
- How will variable consideration be estimated within the transaction price?
- How will the transaction price be allocated to the performance obligations (e.g., what are the policies for establishing the stand-alone selling price, allocating discounts, allocating variable consideration or allocating changes in the transaction price)?
- How does control of the good or service transfer to the customer? Will the entity recognize revenue over time or at a point in time for each type of revenue stream?
- How is revenue evaluated for gross or net presentation under ASC 606 (i.e., whether the entity is an agent or a principal in the contract)?
- What assets should be recognized from the costs to obtain or fulfill a contract with a customer?

ASC 606 indicates that an entity is a principal in a transaction if it controls the specified goods or services **before** they are transferred to the customer.

Internal Control Considerations

While internal control requirements may be less stringent for private companies than their public counterparts, they're still important to consider—particularly since the adoption of a new accounting standard can result in new, modified or increased risks of material misstatement. Companies should evaluate whether these risks of material misstatement require "one-time" internal controls (i.e., controls that operate exclusively during the period of adoption), new direct controls to address any new risks of material misstatement identified or modifications to existing internal controls.

Consideration points when evaluating the need to modify existing indirect controls may include, but are not limited to the following:

- Control Environment:
  - Are individuals being held accountable for their roles related to the adoption of the new accounting standard?
  - Are we demonstrating an appropriate tone at the top regarding the importance of the adoption of the new accounting standard?
  - Have we appropriately trained key personnel and control performers to ensure competence in the organization?
- Risk Assessment:
  - Have we identified and documented the risks associated with adopting the new accounting standard?
  - Have we considered the potential for fraud as it relates to the adoption of the new accounting standard?
- Information and Communication:
  - Have we identified new information requirements and modified IT systems to produce relevant, quality information to support the functioning of internal control?

As mentioned above, management also should consider the direct internal controls environment and modify or create controls to address new risks of material misstatement. Below are some consideration points that may be useful in determining the documentation and evidence necessary to conclude if the direct controls environment is sufficient in addressing the risks of material misstatement identified:

- Identification of material revenue streams and different contract types within those revenue streams.
- The transition approach selected.
- Accounting conclusions reached (e.g., as a result of preparing accounting whitepapers or internal memos memorializing management's considerations and conclusions)—including the effect on other account balances, such as costs of sales or services, contract assets and liabilities and income tax accounts.
- Evaluation of customary business practices and the impact those practices may have on the accounting for contracts with customers under the new accounting standard (e.g., implicit promises, material rights).
- Information used to support accounting conclusions, new estimates, adjustments to the financial statements and disclosure requirements.
- Identification and implementation of changes to IT systems, including the logic of reports.
- The accounting logic used and journal entries (including the transition adjustments) that record the adoption's impact.
- Any practical expedients applied and policies to support the adoption of those expedients and related disclosures.
- Changes to the monthly, quarterly or annual close process and related reporting requirements (e.g., internal reporting, and disclosure controls and procedures). CPA

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BY BRAD J. MONTERIO AND T. DAVID COLGREN

Techno-typing

A New Source of Bias: Our Tech and Data

Recent conversations with a colleague—a chief data scientist with one of the Big Four—sparked an interest in a topic not widely discussed in the accounting profession ... yet.

The issue is "machine bias," or more plainly, bias that is introduced by the technologies we use and the data we analyze that drives business insight and decision making. Pretty familiar territory to most CPAs these days. You prepare, validate, analyze and consume significant amounts of data in your professional roles. But take heed.

In an era of newfound emphasis on diversity and inclusion in business, shifting the spotlight away from the *people* involved in decision making to the *tools* they use—technology and the "black boxes" out of which they gather advanced analytics derived from sophisticated algorithms—brings added perspective on what is emerging as an additional layer of complexity for businesses looking to harness the power of diversity and inclusion, not exploit it for the wrong reasons.

Big Data Grows

In a 2016 report released by the U.S. Federal Trade Commission titled "Big Data A Tool for Inclusion or Exclusion. Understanding the Issues" (*calcpa.org/FTCBigDataReport*), the FTC recognized that, "We are in the era of big data. With a smartphone now in nearly every pocket, a computer in nearly every household, and an ever-increasing number of Internet-connected devices in the marketplace, the amount of consumer data owing throughout the economy continues to increase rapidly."

We know this already: Big data is getting bigger.

However, what the report said next is what concerns us: "The analysis of this data is often valuable to companies and to consumers, as it can guide the development of new products and services, predict the preferences of individuals, help tailor services and opportunities, and guide individualized marketing. At the same time, advocates, academics and others have raised concerns about whether certain uses of big data analytics may harm consumers, particularly low-income and underserved populations."

We know this already: Big data is **getting bigger.**

Therein lies the basis for the FTC's effort to determine whether technology and data analytics are introducing bias and discrimination into business and society.

The FTC report recognized that big data encompasses a "wide range of analytics," but the 2016 summary was focused on the commercial use of consumer data and its impact on low-income and underserved populations. The study goes on to recommend strategies for companies to use technology and analytics to provide advantage to these underserved stakeholders and sidestep the unintentional (or intentional) bias and discrimination that could arise out of their use.

Technology & Discrimination

The FTC is not the only group looking at the possible misuse of technology and data as an inhibitor to diversity and inclusion. There are many examples of the potential for technology to be used in ways that discriminate and exclude rather than include. One such example is from law enforcement:

- "Predictive policing" (the practice of using computer algorithms to determine where and when the next crime is likely to happen using data on previous criminal activity) is now leveraging new algorithms on gang warfare data. This new artificial intelligence is the first that focuses on gang-related violence. The concern is that it may be used incorrectly because it's seen by some to be based on inadequate inputs. Therefore, it's not immune from mistakes traditionally falling in the realm of "human error." And it doesn't take a rocket—or data—scientist to figure out that this shortcoming could lead to incorrect predictions.

Another example:

- The University of Melbourne's "Biometric Mirror" project is one that brings to mind technologies such as Apple's face recognition capabilities in the iPhone X. The Biometric Mirror is an AI-based project that analyzes a person's face and displays 14 characteristics about them, including age, race and perceived level of attractiveness. To train its AI, the Melbourne researchers asked human volunteers to "judge" thousands of photos for the same characteristics. The Biometric Mirror referenced the resulting human-generated dataset when it analyzed new faces in front of it. Because the information these humans provided was *subjective*, so too was Biometric Mirror's output. For example, if a man with a beard was seen as less trustworthy, the mirror would characterize someone with a beard in the same way. It doesn't take much effort to see how this could be misused in hiring practices, for example.

Still, there are others that recognize the power of AI to correct, or at least minimize, the impact of bias through innovative solutions:

- "Knowhere News" is a new "artificial intelligence journalist" that rewrites news stories by combining machine learning technologies and human journalists to deliver the facts on popular news stories. It reviews more than 1,000 news sources to gather details on a news item—regardless of political stance—and writes what it considers to be an impartial version of the story based on what its AI finds, and it typically does so in under 60 seconds.

Can the Accounting Profession Keep Pace with AI Evolution?

The sophistication of AI and machine learning is progressing at an exponential pace, and the CPA profession needs to understand the benefits and challenges if it is to take advantage of the opportunities, but avoid the traps that lead to bias, among other pitfalls.

The Defense Advanced Research Projects Agency, a U.S. Department of Defense agency focused on breakthrough technologies, recently announced its Artificial Intelligence Exploration program to "streamline the agency's process for funding AI research and development" by focusing on "third wave AI technologies," which can understand and explain *how* an answer is determined.

AI as we know it has already evolved past first- and second-stage levels.

Most AI is considered "first wave" in that it follows clear, logic-based rules to arrive at a decision or recommendation. This is akin to AI used in games such as computerized chess.

AI in the "second wave" uses sophisticated statistical learning to arrive at an answer to solve problems, such as seen with an image recognition system.

The "third wave" of AI is the leading edge: It can perform the duties of the second wave and explain its logic or reasoning behind the decision at which it arrived. In other words, it can tell you that the image it sees is a widget, and *why* it thinks it's a widget. Here, AI takes us along on its journey to show us how it reached its conclusion. Does this sound a lot like a conversation you might have with a colleague when reviewing business reporting data and what that data means for the company?

However, as the Biometric Mirror example shows us, there are still possibilities for misuse, bias and discrimination in such sophisticated technologies and algorithms.

IBM offers a potential solution to this risk in the form of a Supplier's Declaration of Conformity (SDoC). IBM scientists feel the SDoC is a report that will make AI safer, more transparent and fairer in business.

The intent is to use a SDoC as a transparent, publicly available report to show how well algorithms performed against standardized tests of performance, fairness and risk factors. Of course, this begs the question about what standards are being used for this benchmarking. As of now, we were unable to determine the prevailing global standard.

The colleague mentioned at the start of this article, the chief data scientist at a Big Four firm, told us about an emerging new role in the audit profession: Algorithm Auditor. Intrigued, we pressed him for more insight on what they do and why. He indicated there are not too many accountants or technologists hanging out their shingle as an algorithm auditor in today's information age, but that this could soon change.

Their role is to analyze (audit) algorithms and technology used by a company, software vendor or other stakeholder to determine if there's any type of bias built within those technologies that could introduce error, incorrect outputs in their datasets or lead to off-the-mark insights and strategic decisions.

Algorithm auditor is probably not a career path option for most CPAs in business and industry today, but has a lot of sizzle for those looking to try something new and emerging.

What Does This Mean for CPAs?

CPAs in companies and government entities can play a leading role to further protect the public interest by ensuring that technologies, sophisticated analytics and the insights derived from them do not introduce bias and discrimination into the decision-making process. This begins by understanding what the technologies are, what's going on inside the black boxes and where the potential is for bias in the outputted datasets.

The old adage of "garbage in, garbage out" still holds true, no matter how sophisticated the black box. The algorithms may get increasingly complex, moving onto the fourth stage and beyond, but the underlying risk is still there. Bias-free technologies and algorithms must be developed, and CPAs have the opportunity as data scientists to understand what's inside the black box, as well as how to eliminate the risk of bias and impact the output.

In short, CPAs can continue to protect the public interest as champions of transparent data analytics practices.

This FTC paper recommends organizations follow these steps to prevent bias and avoid legal/ethical risks under U.S. law:

1. Review your data sets and algorithms to ensure that hidden biases are not having an unintended impact on certain populations or stakeholders.
2. Remember that just because big data may find a correlation, it does not necessarily mean that the correlation is meaningful. As such, you should balance the risks of using those results, especially where your policies could negatively affect certain populations. It may be worthwhile to have human oversight of data and algorithms when big data tools are used to make important decisions, such as those implicating health, credit and employment. (As an aside, the algorithm auditor role seems to apply here.)
3. Consider whether fairness and ethical considerations advise against using big data in certain circumstances.
4. Consider further whether you can use big data in ways that advance opportunities for previously underrepresented populations.

In the U.S., there are some regulations that tackle bias and discrimination, including the Fair Credit Reporting Act, equal opportunity laws and the Federal Trade Commission Act. Sophisticated technologies and analytics have the potential to expose a company to noncompliance risk, and CPAs again can play a role here as auditors and data scientists to detect or eliminate those risks.

Organizations that recognize the value of diversity and inclusion and implement such best practices also help their efforts to avoid bias or noncompliance pitfalls related to these types of regulations.

Companies and organizations also should support diversity and inclusion efforts.

And CPAs as data scientists, data governance and analytics professionals have the opportunity to add yet another layer of value to their roles as trusted advisers in business.

The FTC paper summarized the situation best: "Given that big data analytics can have *big* consequences, it is imperative that we work together—government, academics, consumer advocates and industry—to help ensure that we maximize big data's capacity for good while identifying and minimizing the risks it presents."

To this very capable list of partners working together we would add the CPA. CPA

T. David Colgren, CEO, and **Brad J. Monterio**, managing director, are principals in Colcomgroup, a consultancy based in NYC looking at the role of technology in accounting, finance and business. You can reach them at dcolgren@colcomgroup.com and bmonterio@colcomgroup.com, respectively.

by Trevor Gilmore, CPA

Technology Cycle

The Tech Tools Professionals Use Personally

> For better or for worse, **technology has changed us** and allowed us to achieve greater things.

I could write another article about how technology is upending our profession, but, hey, it's October as I write this and that means beautiful weather in the Bay Area. Which means most weekends you will find me on my bike, cycling up Diablo, Hamilton, Tam, or perhaps through wine country or along the coast. And while I use plenty of tech on the job, I wanted to introduce you to a few gadgets and apps you might want to incorporate into your life outside of the office as a reminder that tech tools aren't just for your professional life.

By day I'm a finance geek, but by early morning, night and weekend I'm the president of Dolce Vita Cycling, a competitive cycling team based in San Francisco. Our motto is to live the sweet life, and we have 40 committed weekend warriors who race their bikes all over California during race season (January–October). Many of us race side-by-side with professionals, yet we are mere working stiffs by day.

Cycling in its purest form is mechanical by design; yet technology has quickly become woven into the core of modern cycling. Much like technology in most areas of our lives—why have a thermostat in your home when you can have Nest? Why rely on talk radio to provide you with a traffic update when you can have Siri recommend the quickest route and the best avocado toast on your commute?

Our team is run from Slack (slack.com), a cloud-based set of team collaboration tools and services, which helps us tremendously—since organizing the thoughts and ambitions of 40 cyclists via email or text is like herding cats. We have channels for endless topics, and all our files are easily shared. It becomes a self-service utility after onboarding. *De rigueur* with tech startups, Slack has its use in any organization that needs a collaborative platform to execute on both daily drudgery and big projects.

My coach, Sofi Marin of Achieve Personal Training, plans my workouts and organizes my ever-expanding cycling data on Training Peaks (trainingpeaks.com), a platform for athletes. Training Peaks uses data from my Garmin 520 bike computer, which in turn uses data from my heart rate monitor, power meter, cadence sensor and speed sensor to relay my workout results.

In the app, I can comment that I'm feeling "strong" or "weak," admittedly *after* I see the workout analysis. If the results indicate weakness, this must be a weak day and I'm probably tired from work (a good excuse at any time); alternatively, if I hit a 10-minute power peak on my weekday 5 a.m. training rides, then it must be a strong day and I'm feeling grrreeeat, like Tony the Tiger!

Jokes aside, the data can really tell if I'm tired. For example, a high heart rate and lower power output indicates fatigue and that I might not be ready for that grueling race tomorrow.

The Garmin 520 (garmin.com) on my handlebars is an indispensable gadget that I'm not able to live without. The nifty gadget (there are many bike GPS multifunction units to choose from; Wahoo makes a superb unit) units key data: cadence (pedal strokes per minute), heart rate, power, speed, distance, elevation climbed, temperature, GPS instructions and time of day all into a small screen attached to my handlebars. When the ride is finished, you simply select "save" and the ride is uploaded via Bluetooth to your phone, which in turns uses the Garmin app and connects the data to apps of your choice.

There's also the "power" test that my coach assigns me every quarter, which can give me all key data right from my own equipment, such as Function Threshold Power (which roughly means the power that someone can maintain for an hour) and VO2 Max (an indication of how your body uses oxygen during intense exercise).

People like to compare theirs to their favorite professional, and FatMax, which is a crude sounding measure of the heart rate and wattage at which I'm burning the most fat possible. Contrary to popular belief, FatMax is achieved while at a conversational pace, not at the lung-bursting sprints most commonly associated with a heart pumping cardio workout.

As someone who works in an office environment complete with cookies and chips, I'll take that measure anyway I can get it. No need to go into a lab to obtain this data—it's all right there in my Training Peaks app. Awesome!

I've so far described the apps and technology that report back hardcore data to train with, but I've not mentioned the fun app. That would be Strava (strava.com), the San Francisco-based activity tracker and social network for cyclists, runners, skiers, surfers and so on. Strava means "strive" in Swedish, and it has morphed into a user-generated database of millions of GPS tracked activities.

For instance, I biked up the Marin Headlands this morning to catch that sweet

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CalCPA Health	18	calcpahealth.com/OE2019
CPACharge	C2	cpacharge.com
First Republic Bank	1	firstrepublic.com
Quickfee	5	quickfee.com/calcpa
Sales Tax Resource Group	7	salestaxresource.com

early October sunrise, and synced my ride to Strava afterwards. Strava automatically matched my ride with the four friends I was with, and I can see my efforts on the countless "segments" that users have created. A segment can be a city block or 5-mile stretch of Highway 1, for example, and Strava has a leaderboard with which competitive and non-competitive types can strive for King or Queen of the Mountain (first place) or a simple top-10 placement, which is a big deal in Stravaland.

> As you exit the fall busy season, I urge you to find and fully embrace **your way to unplug.**

Or, you can use Strava to comment on friends' activities, give them kudos for their activity and have a place to track all your cumulative endeavors. For example, I've covered 60,000 miles on my bikes since I downloaded the app in 2012 and started tracking. Strava is, essentially, a worldwide heat map of physical activity. Cool stuff. Think of the data!

Relive (relive.cc) is another nifty mapping tool. Using Strava data, Relive sends you a flyover file showing your entire route of whatever activity you uploaded on Strava, which is pretty cool to post on your favorite social media platform.

For better or for worse, technology has changed us and allowed us to achieve greater things. And I embrace it when I need to, such as being a CFO or training for an important, multi-day stage race. But I most love the freedom I feel when riding my old bike—the pure mechanical one without technology.

As you exit the fall busy season, I urge you to find and fully embrace your way to unplug. In our tech ruled world, the simplest joys are often the best. CPA

Trevor Gilmore, CPA, MST is CFO of The Menke Group and a member of the CalCPA Technology Committee. You can reach him at trevorgilmore@gmail.com.

want more?

Technology Update Webcasts

Keeping abreast of technology can almost seem like an endless cycle of exploring new options. CalCPA Education Foundation is here to help with a variety of informative webcasts that will keep you updated on the latest and greatest technologies out there. Just visit calcpa.org/RSVP and type "technology" in the search bar to see what's coming up in your area.


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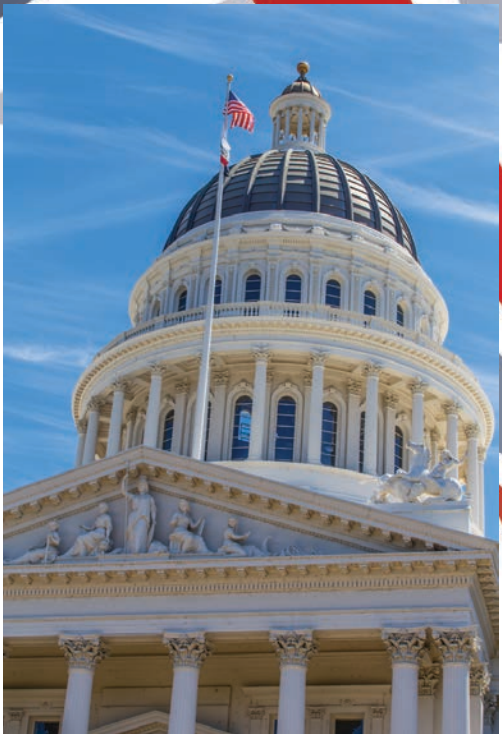
MAKE A DIFFERENCE
CPA Day at the Capitol



All it takes is one individual—like you— and less than one day to make a difference at CPA Day at the Capitol.

Meet with California legislators to discuss issues that impact you, the profession, your clients, and the public. With significant issues like the impact of looming tax reform and the growing need for financial literacy, this is an opportunity you will not want to miss. Once you register, we'll handle the logistics of scheduling the appointments and providing you with resources and talking points you need to be an effective advocate for the CPA profession.

Make **your** voice—and the voice of the profession—heard at CPA Day at the Capitol.

SAVE the DATE

Tuesday, Jan. 15, 2019
9 a.m.–4 p.m.

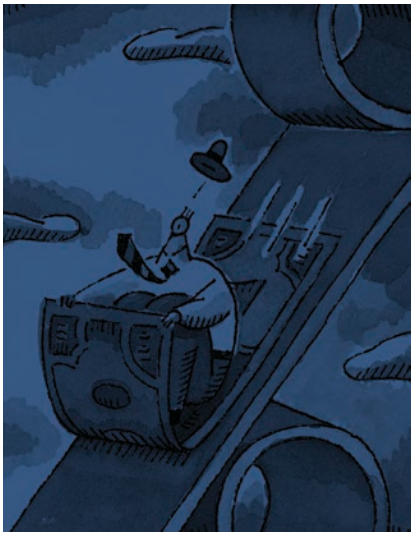
Register or learn more:

calcpa.org/cpaday

#CalCPADay

CalCPA

By David W. Klasing, CPA, Esq.



Changes Abound

Wayfair and California's New Tax Agencies

If tax practitioners were asked to describe the past year, a resounding majority would likely answer "busy." In late 2017, the United States' tax landscape saw its biggest change since the Tax Reform Act of 1986. Tax rates were modified, and the way that the IRC treats state and local taxes, as well as the way that income from international operations is taxed, saw major overhauls.

As if the Tax Cuts and Jobs Act of 2017 changes were not enough, the Supreme Court's reversal of *Quill* has altered the way businesses, tax practitioners and states think about levying sales tax on remote sellers. F

Finally, California's tax administration structure changed, leaving practitioners to determine what the Supreme Court's stance on sales tax and its enforcement in California means for their clients.

Restructuring California's Tax Agencies

In 2017, California moved to restructure and shuffle responsibilities of the state's tax agencies.

The Taxpayer Transparency and Fairness Act of 2017 reassigns duties from the Board of Equalization to two newly created tax agencies: the Office of Tax Appeals (OTA) and the California Department of Tax and Fee Administration (CDTFA).

The Legislature had grown concerned about the professional environment at the BOE and thought it best to have it focus on its duties that are spelled out in the state constitution.

The CDTFA will take over the administration of taxes that had previously been done by the BOE, including sales and use, business and excise taxes. The OTA will hear appeals that relate to taxes administered by the CDTFA, as well as appeals from the FTB's administration of state income and franchise taxes.

Appeals Process Changes

The biggest change resulting from the creation of the OTA, CDTFA and reassignment of the BOE's responsibilities is how tax appeals are heard. In the past, appeals were heard by the five-member BOE. Under the new appeals structure, appeals will be heard by administrative law judges that are a part of the OTA's tax appeal panels.

Landscape Changing Rulings

As California worked diligently to fill vacancies created by the addition of the OTA and the CDTFA, the Supreme Court overruled *Quill Corp. v. North Dakota*, a 1992 case that ruled states can only require the collection and remittance of sales tax if a seller has a physical presence in that particular state.

In *Wayfair v. South Dakota*, the South Dakota Legislature passed a law that required the collection and remittance of sales tax for remote sellers with more than $100,000 in annual sales or 200 annual transactions, without requiring physical presence.

In throwing out the precedent set in *Quill*, the Supreme Court acknowledged that, at the time *Quill* was decided, internet sales had not yet dominated the marketplace. South Dakota argued that requiring the collection and remittance of sales tax from brick-and-mortar stores, but not remote sellers, placed an additional burden on local businesses. In agreeing with South Dakota, the majority stated that there are "several features that appear designed to prevent discrimination against or undue burdens upon interstate commerce," while appearing to level the playing field. Now, whether a remote seller has nexus with a state will revolve around both economic and virtual contacts that the seller has with the state.

What Does This Mean for Businesses That Sell Into California?

It's unclear at the moment. Nearly two-thirds of states have laws taxing internet sales. Since *Wayfair* was decided, many of those states have amended their legislation to tax remote sellers based on certain virtual contacts, including internet cookies. Earlier this year, speculation arose about California adopting a rule that was similar to South Dakota's law. A draft bill from the Department of Finance would have required the collection and remittance of sales tax from remote sellers with more than $500,000 in annual sales, a threshold five times the amount in the statue at issue in *Wayfair*.

But California's Legislature adjourned for the 2018 year in August without passing any legislation relating to sales and use tax post-*Wayfair*.

The delay in new sales tax legislation may be intended to give California's two new tax agencies time to establish themselves and their processes before new tax laws are enacted. We do know that any change to the sales tax regime in California will be implemented and administered by the CDTFA. Appeals relating to such taxes will be heard by OTA's administrative law judges.

This is certainly an exciting time to be a tax practitioner and those with remote-seller clients should keep their eyes out for updates was we move into 2019. CPA

David W. Klasing, CPA, Esq. is the owner/operator of The Tax Law Offices of David W. Klasing (CAtaxpro.com). You can reach him at dave@taxesqcpa.net.

CalCPA scene

Out and about at Surla's, Modesto, & Sandpiper Golf Club, Goleta.

Tweet your event photos: @Cal_CPA, use #CalCPA_Scene.

San Joaquin Chapter YEP Business Forum

From left, William Reeves, Kemper CPA Group; Manoj Bains; Glenda Gamino; and Stephen Wray, Grimbleby Coleman CPAs.

Kemper CPA Group's Brianna Mortimer (left), Maria Fecteau & Mitchell Finn.

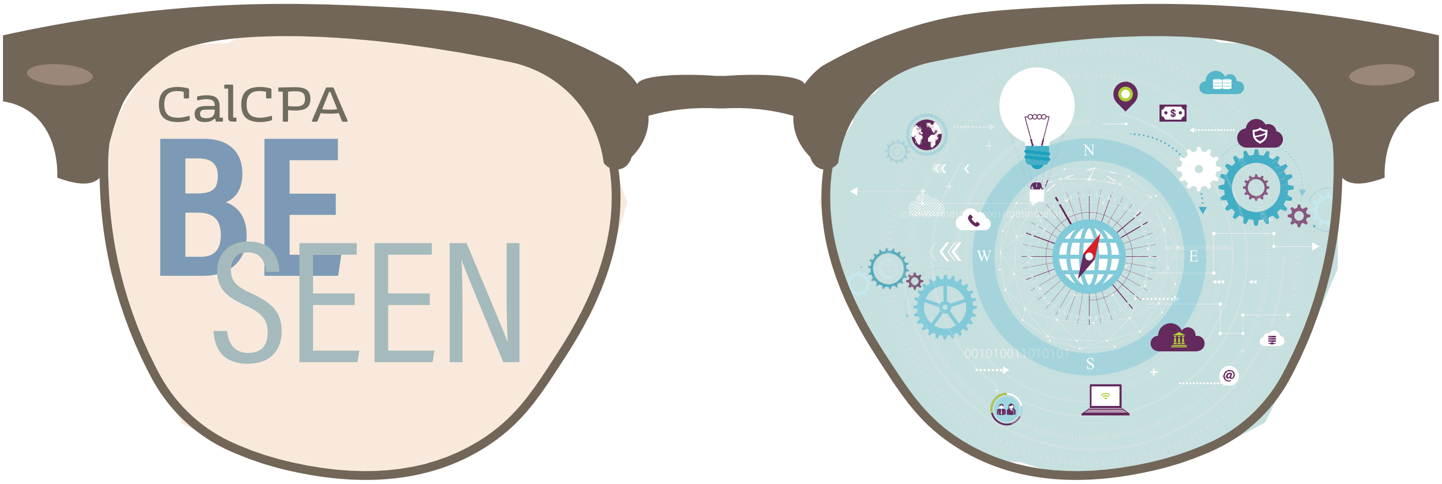
From left: Pamela Howard; Natalya Galindo, past chapter president; Karina Pratt-Majesky and Amber Dominguez, all representing Atherton & Associates.

Channel Counties 22nd Annual Golf Tournament

Channel Counties Chapter members prepare to tee off at Sandpiper Golf Club.

Raffles & Mulligans

Chapter president Mike Farrell and Pete Watson check in with chapter secretary Melinda Hallinan and chapter Director Gail Anikouchine for their tee assignments.



Where will we see you next?

CHAPTER Scene

Coffee House – Meet & Greet | Peninsula Silicon Valley
Nov. 5: Peet's Coffee, Palo Alto
calcpa.org/PSVwakeup

ABC Night: Stockton | San Joaquin
Nov. 7: The Bob Hope Theatre, Stockton
calcpa.org/SJQabc

Entity Choice in the Era of Section 199A | San Francisco
Nov. 12: Morgan Lewis & Bockius, San Francisco
calcpa.org/SF199a

Chapter Board Meeting | Bakersfield
Nov. 14: Daniells Phillips Vaughan & Bock, Bakersfield
calcpa.org/BKleaders

Psychology of Death, Money & Gifting | Los Angeles
Nov. 14: Olympic Collection, Los Angeles
calcpa.org/LApsych

Student Outreach Luncheon | Sacramento
Nov. 16: Sacramento State Alumni Center, Sacramento
calcpa.org/SClunch

Awards Night at SB Yacht Club | Channel Counties
Nov. 29: Santa Barbara Yacht Club, Santa Barbara
calcpa.org/CHCyacht

FOUNDATION Scene

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WINE INDUSTRY
DEC. 3 | Napa | Webcast
calcpa.org/Wine

REGISTER FOR A LEARNING DESTINATION
calcpa.org/cpeweeks

NOV. 26-30 | PALM SPRINGS
OMNI RANCHO LAS PALMAS
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REGISTER TODAY

by Jason Fox

Tax Conformity

Look for Tax Policy to be Key Issue in 2019

While the IRS has been trickling out guidance and interpretations on the Tax Cuts and Jobs Act throughout 2018, state tax regulators have been assessing how the new laws align with state tax code.

The Franchise Tax Board has identified conflicts with the current state tax code and its report to the Legislature summarizing the differences begins the first major step in what will likely be one of the most significant tax conformity discussions in years.

The FTB is also reaching out to stakeholders, including CalCPA, to gather input on the most significant items that taxpayers and tax practitioners recommend the FTB and the Legislature address in the conformity process. The FTB will bring together stakeholders during the fall and winter, and will then make any legislative change recommendations regarding conformity to the Legislature.

The Legislature and its respective tax policy committees (Assembly Revenue and Taxation and Senate Governance and Finance) will then determine what will or will not be included in a tax conformity bill.

While tax conformity occurs intermittently, the number and complexity of the changes to be considered, combined with the political dynamics that linger between Congressional and California leaders, sets the table for a conformity process that will be one of the most substantial in years.

As the FTB works with stakeholders through the end of 2018 and early 2019, it is expected that a conformity package will garner significant attention during the 2019 legislative session.

However, this creates an opportunity for California to take steps toward addressing long-standing conformity issues. Setting aside politics and policy decisions of tax rates and credits, there are many areas that need to be addressed to ease the administrative burden for taxpayers complying with two very different tax codes.

Nonconformity leads CPAs, and the taxpayers they serve, to make numerous adjustments using different methodologies to accommodate the variances in state and federal tax returns. The additional complexity increases the potential for taxpayer errors or inadvertent non-compliance, which could result in costly penalties to the taxpayer.

In addition to conformity to federal tax laws, the Legislature will likely address the significant shift in tax policy set by the *South Dakota v. Wayfair* Supreme Court decision. This decision overturned a long-standing policy of determining when and how states could apply sales tax on remote sellers outside of the state. The Legislature and the California Department of Tax and Fee Administration are soliciting stakeholder input on what this means for California and what, if any, action is needed to adjust state tax policy in light of this decision.

Wayfair will also be a major focus of the Legislature's tax policy committees.

CalCPA continues to work with the FTB and the Legislature to assist in the process of aligning the California tax code with new federal tax laws. These efforts, both as objective technical experts and advocates for the CPA profession, will be key in reducing taxpayers' compliance costs and administrative burdens.

The Grassroots Effect

As we move closer to January, CalCPA is preparing for the 2019 CPA Day in Sacramento. This event is the major kick-off for CalCPA's advocacy and grassroots efforts throughout the year. Earlier this year, hundreds of members participated in meetings with their elected officials and discussed issues facing the profession. During these meetings, members were able to build relationships with their representatives and be a resource as their representatives discussed and acted on a variety of public policy.

With a unique perspective on the economic and business climate of their communities, CalCPA members provided elected representatives insight on how specific legislation would affect constituents and businesses within their districts. CalCPA members then met with their legislators during District Drop-In Week to follow-up on issues discussed in January and reiterate the opportunity to work with CalCPA to offer financial literacy resources within their districts.

These advocacy efforts allowed CalCPA members to play a crucial role in stalling a proposed sales tax on business services, passing legislation to continue CPA mobility and set the table for meaningful and thoughtful tax conformity. However, the work is not done. The new year will bring more talk of broad tax reform and a potential services tax.

CalCPA's influence and success depends on its membership. As the largest state CPA society in the country, CalCPA sets the course other states follow. Therefore, it is important that members speak up and become the voice of the profession.

On Jan. 15, members will again travel to Sacramento and meet with their representatives. All CPA Day training and materials will be provided—you just need to register and show up. Visit calcpa.org/cpaday for more info and to register.

Rettig Sworn in as IRS Commissioner

After his Senate confirmation, Charles Rettig was officially sworn in as IRS commissioner in October. Rettig is a CalCPA member and has held a number of volunteer leader positions, as well as serving as an instructor for the CalCPA Education Foundation. CalCPA looks forward to working with him in his new role.

Jason Fox is CalCPA's director of legislation. You can reach him at jason.fox@calcpa.org.


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