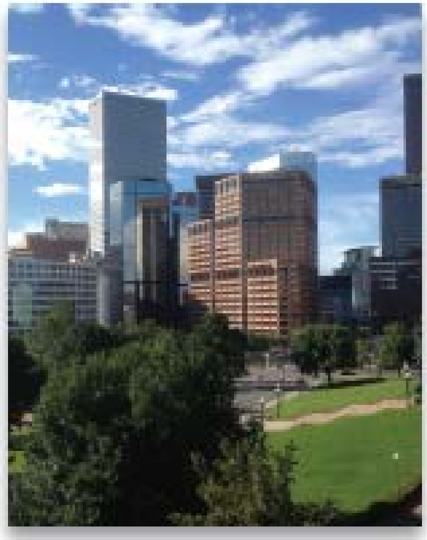
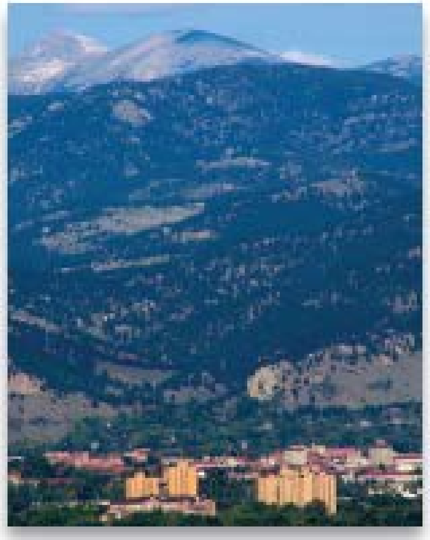
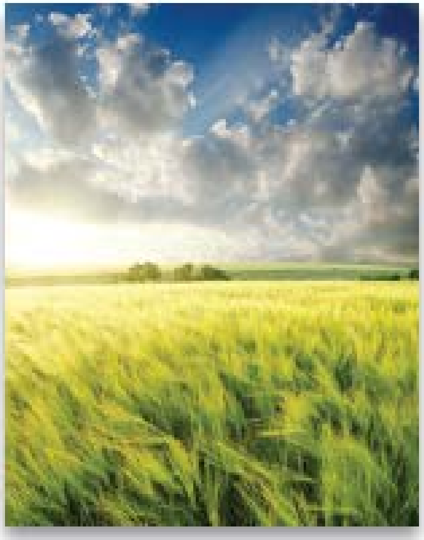
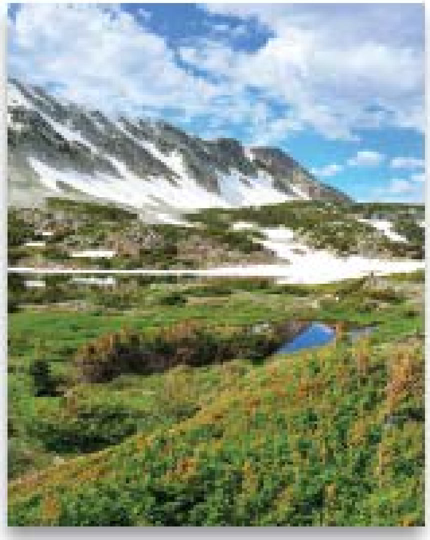

2018 Year-End CPE Update

Thursday, November 29, 2018

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Boulder 303.440.0399 | Denver 303.830.1120 | Northern Colorado 970.352.1700 | Laramie 307.755.1040

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Today's Agenda

- **Registration & Breakfast** - 7:30am- 8:00am
- **Opening Remarks** - 8:00am- 8:05am
- **Audit & Accounting Update** - 8:05am - 8:55am
- **Sales and Use /** ***Wayfair*** **Update** - 8:55am - 9:30am
- **Tax Reform - What to Expect** - 9:30am -10:10am
- **Break** - 10:10am - 10:25am
- **Robotics and Data Analytics** - 10:25am - 11:15am
- **The Future of Professionalism** - 11:15am - 12:05am

New ACM Partners

Sean McDonald, Audit Partner

David Shellan, Tax Partner

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ACM Recognitions

Greg Anton, Chairman + CEO
Bill Daniels Award Ethical Leader of the Year
AND
DBJ Top 100 Influencers in Finance

Stacey Hekkert, Managing Partner
Outstanding Women in Business

Brooke Hipp, Director of Marketing
DBJ C-Suites
Chief Marketing Officer Award

Kristin Holthus, Director of Finance + Operations
2018 Women to Watch - Emerging Leader of the Year
AND
CPA Firm Management Association –
Emerging Leader of the Year

Scott Norquist, Senior Tax Manager
COCPA Everyday Hero

Kevin Gile, Audit Partner
Denver Business Journal
Who's Who in Energy

Sumesh Tripathi, Tax Staff
2018 Shining Stars of VR Award
AND
DisabilityIN: NextGen Emerging Leader

Jessica Jalbert, Admin Manager
Admin Leadership Award

ACM Boulder Expansion

ACM LLP

Open Houses

- **Laramie** :: Thursday, January 17, 2019
- **Denver** :: Tuesday, January 22, 2019
- **NoCo** :: Thursday, January 24, 2019
- **Boulder** :: Tuesday, January 29, 2019

Housekeeping

- Sign in sheets on tables – please write legibly!
- Certificates will come from BDO in about 30 days
- You will receive an email a few days after the event with a link to download the materials and sign up for newsletters and invites to more events

Audit & Accounting Year-End Update

David Gantos, CPA

ACM Denver Audit Manager

Agenda

- ASC 842, Leases
- ASC 606, Revenue from Contracts with Customers
- FASB Accounting Standards Updates
- Cyber Security

ASC 842 - Accounting for Leases

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Overview

- Lessees
  - Right of use model – recognize ROU asset and lease liability at inception for all leases
  - Classify all leases as finance or operating
    - Finance lease – lessee effectively obtains control of underlying asset
    - Operating lease – lessee does not effectively obtain control of underlying asset
  - Similar balance sheet impact; different income statement and cash flow results
- Lessors
  - Classify all leases as sales-type, direct finance, or operating (similar to existing U.S. GAAP) based on same criteria as lessees
  - Subsequent accounting is consistent with existing U.S. GAAP

Overview

- Effective Date
  - Annual periods beginning after December 15, 2018 (public companies)
  - Annual periods beginning after December 15, 2019 (private companies)
  - Early adoption permitted
- Applies to all leases and subleases, except:
  - Leases of intangible assets (Topic 350)
  - Leases for exploration or use of certain natural resources (Topics 930 & 932)
  - Leases of biological assets (Topic 905)
  - Leases of inventory (Topic 330)
  - Leases of assets under construction (Topic 360)
  - Scope exception for short-term leases (term less than 12 months) Accounting policy must be made and disclosed

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Lessee Accounting

- Step 1: Identify the Lease
  - A contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration
- Step 2: Identify the Classification of the Lease (5 criteria)
  - If one or more of the above are met, classify as finance lease.
    1. Transfer of ownership of underlying asset to lessee by end of lease term
    2. Option to purchase underlying asset that lessee is reasonably certain to exercise
    3. Lease term = major part of remaining economic life of underlying asset
    4. Sum of PV lease payments and PV any residual value guaranteed by lessee ≥ substantially all of the FV of underlying asset
    5. Underlying asset is of such a specialized nature that it is expected to have no alternative use to lessor at end of lease term

Lessee Accounting

- Step 3: Identify the Lease Term
  - Estimated as the non-cancellable period of the lease
  - Include periods under option to extend IF lessee is *reasonably certain* to exercise option. Includes assessment of economic incentives
- Step 4: Identify Lease Payments
  - Fixed lease payments (less incentives to be paid by lessor)
  - Variable payments tied to an index (i.e. CPI). Measurement based on the rate at commencement
  - Variable payments which are in-substance fixed payments
  - Residual value guarantees (probable amount)
  - Exercise price of purchase option IF lessee is reasonably certain *to exercise* option
  - Termination penalties IF lease term reflects lessee exercising option
  - %Rent or Triple Net Leases???

Lessee Accounting

- Initial Measurement of ROU and Lease Liability (BS)
  - Present value (PV) of lease payments.
  - Discount Rate - use the rate implicit in the lease if determinable, otherwise use incremental borrowing rate. Nonpublic entities may elect to use risk-free rate
  - Calculation the same for Operating and Finance Leases
- Subsequent Measurement (IS)
  - Operating Leases – Display interest on lease liability and amortization of ROU asset as “lease expense.” Lease expense will be similar to current GAAP (i.e. straight-line)
  - Finance Leases – Display interest on lease liability as “interest expense” and amortization of ROU asset as “amortization expense”

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Lessee Accounting

- Cash Flow Statement (CF)
  - Operating Leases – cash payments will be included in operating activities
  - Finance Leases - repayments of the principal portion of the lease liability within financing activities and payments of interest on the lease liability within operating activities

Example

- Facts
  - **Lease Term:** Retailer enters into a 5-year lease agreement with a mall operator that includes three 5-year renewal options.
  - **Lease Payments:** Rent payments are $5,000/month plus 1% of sales during the initial term. Base rent shall increase 10% in each renewal period.
  - **Additional Information:** *Retailer incurs* costs of $500,000 installing leasehold improvements to customize space to its brand requirements. LHI has a useful life of 14 years. The Retailers Borrowing rate = 5.87%
- Questions
  1. Is this a contract that meets the definition of a lease (Step 1)?
  2. How should the lease be classified (Step 2)?
  3. What should be used as the lease term (Step 3)?
  4. What are the identified payments that should be included in ROU Calculation?

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Example

- Answers

  1. Lease: Yes - this contract meets the definition of a lease. There is a specific asset being utilized by the Retailer.

  2. Classification: Operating – All classification criteria would be presumed to be no

  3. Lease Term: 10Years - The existence of significant leasehold improvements with a useful live longer than the base lease term indicates that Retailer would incur an economic loss from not exercising the first renewal option.

  4. Identified payments: (1) the base rent during the initial period: $60,000/year; and (2) the first renewal option: $66,000/year after first renewal. The Percentage rent is variable, and thus is not included in lease payments. Instead expensed as incurred.

Example

As of December 31,20XX	Before	After
Assets		
Current assets:		
Cash and cash equivalents	450,000	450,000
Accounts Receivable	25,000	25,000
Inventory	65,000	65,000
Noncurrent assets		
Total property, plant, and equipment, net	150,000	150,000
Right of use asset	-	452,887
Total assets	690,000	1,142,887
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	75,000	75,000
Other noncurrent liabilities		
Note payable	150,000	150,000
Lease liability	-	455,887
Deferred rent	3,000	-
Total liabilities	228,000	680,887
Total members' equity	462,000	462,000
Total liabilities and shareholders' equ	690,000	1,142,887

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ASC 606 - Revenue from Contracts with Customers

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Overview

- ASC 606 Revenue from Contracts with Customers issued in May 2014
- A single, principle-based revenue standard for U.S. GAAP and IFRS that replaces almost all existing guidance
- The new revenue standard aims to improve accounting for contracts with customers by:
  - Providing a more robust framework for addressing revenue issues as they arise
  - Increasing comparability across industries and capital markets
  - Requiring enhanced disclosure

Overview (continued)

- Accounting Standard Updates 2016 and Forward
  - ASU 2015-14, Deferral of the Effective Date
  - ASU 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net)
  - ASU 2016-10, Identifying Performance Obligations and Licensing
  - ASU 2016-12, Narrow Scope Improvements and Practical Expedients
  - ASU 2016-20, Technical Corrections and Improvements to Topic 606
- Implementation Guides

Effective Dates

- Effective Dates
  - Public Business Entities - Fiscal years beginning after 12/15/17 (and interim periods within)
  - Nonpublic entities - Annual reporting periods beginning after Dec 15, 2018
- Applies to all industries, with certain transactions excluded:
  - Leases, insurance contracts, financial instruments, guarantees, and certain nonmonetary exchanges

Transition

- ASC 606 is required to be applied retrospectively by one of the following methods:
  - Retrospective application to each reporting period presented in accordance with ASC 250-10-45-5 through 45-10 (i.e. full restatement of comparative figures)
  - Modified retrospective with one or more practical expedients (i.e., completed contracts, use of hindsight for variable consideration, etc.)
  - Cumulative effect of change at adoption date (disclose effect of applying new standard)

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Introduction (continued)

- Core principle

Recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity *expects to be entitled* in exchange for those goods or services

- Steps to apply the core principle are:

Step #1 – Identify the contract

- Contracts can be written, oral, or implied by the entity's business practices
- Contracts with customers must meet ALL the following criteria:
  - The parties to the contract must approve it and be committed to perform their respective obligations;
  - Each party's rights regarding goods and services to be transferred can be identified;
  - The payment terms for goods and services to be transferred can be identified;
  - The contract must have commercial substance; and
  - It is probable that the entity will collect substantially all of the consideration to which it is entitled in exchange for the goods or services that will be transferred to the customer.
- Combining contracts – one or more contracts that are entered into at (or near) the same time with the same customer (or related party) are accounted for as a single contract if certain conditions are present
- Contract modifications

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Step #2 –Identify separate performance obligations

- A performance obligation is a promise to provide goods or services (or a bundle of goods or services) that are either:
  - Distinct (‘stand alone value’ and separable)
  - Series of similar distinct good/services, whereby:
    - Each distinct good or service is a promise satisfied over time and
    - The same method would be used to measure the entity’s progress towards complete satisfaction to transfer each distinct good or service to the customer

Step #2 –Identify separate performance obligations

Definition of a ‘Distinct’ Good or Service:

Can the customer benefit from the good or service, either on its own, or with other readily available resources?

(‘readily available resources’ are those that the customer possess or is able to obtain from the entity or another third party)

No → The good or service is not ‘distinct’

(these are then grouped into ‘bundles’ of goods and services that are themselves ‘distinct’)

Yes ↓

Is the promise to transfer a good or service separate from the other promised goods or services in the contract?

Indictors that it is <u>not</u> separately identifiable may include:

- The entity provides a significant service of integrating the goods and services.
- A good or service significantly modifies or customizes the other goods and services.
- A good or service is highly dependent or interrelated with the other goods and services.

No → The good or service is not ‘distinct’

Yes → The good or service IS ‘distinct’

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Step #3 – Determine the transaction price

- The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer (fixed or variable)
  - Excludes amounts collected on behalf of third parties – e.g. sales taxes etc.
- The consideration promised in a contract with a customer can vary in terms of nature and timing, and this affects the determination of the transaction price
- Specific consideration is given to:
  - Customer's credit risk (where appropriate)
  - Variable consideration (discounts, incentives, bonuses)
  - The existence of a significant financing component in the contract
  - Non-cash consideration
  - Consideration payable to a customer

Step #4 – Allocate the transaction price to Per. Obligations

- An entity allocates/splits the transaction price between its performance obligations
- The allocation is based on the relative standalone selling prices (the price at which an entity would sell a promised good or service separately to a customer) of each identified performance obligation
  - If an observable price of a good or service for sales in similar circumstances and to similar customers exists, that price should be used
  - If an observable price does not exist, the standalone selling price must be estimated, maximizing the use of observable inputs and considering all available information (e.g., market conditions, entity specific, customers). Several methods are available for estimating
- Discounts are allocated to either a specific performance obligation(s) or proportionately among all performance obligations, depending on circumstances

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Step #5 – Recognize revenue

- Revenue is recognized as/when an entity satisfies each performance obligation
- Satisfaction occurs as/when the entity transfers ‘control’ of the goods or services to the customer
    - ‘Control’ is the ability to direct the use of and obtain substantially all of the remaining benefits from an asset (or prevent others from doing so)
- Common examples where a customer would usually obtain ‘control’ include:
    - Using the asset to produce goods or provide services (including public services)
    - Using the asset to enhance the value of other assets
    - Using the asset to settle liabilities or reduce expenses
    - Selling or exchanging the asset
    - Pledging the asset to secure a debt liability
    - Holding the asset

Step #5 – Recognize revenue (continued)

Revenue is recognized either:

- Overtime, when any of the following indicators exists:
  - A customer simultaneously receives and consumes all of the benefits as the entity performs
  - The asset that is created or enhanced is controlled by the customer
  - The entity's performance does not create an asset with an alternative use to the entity and there is enforceable right for payment as performance is completed
- At a point in time:
  - Shipment of product, transfer of the good or service

Presentation

Balance sheet

- An entity is required to present the following items separately:
  - Receivables
  - Contract assets
  - Contract liabilities
    - Receivables represent an unconditional right to receive consideration, whereas contract assets represent a right to consideration in exchange for providing additional goods or services.

Income statement and other comprehensive income

- An entity presents revenue from contracts with customers separately from other revenue streams.
- Impairment on both receivables and contract assets is presented separately.

Disclosure

- The entity's contracts with customers
  - Disaggregation of revenue
  - Information about an entity's contract assets and contract liabilities (including reconciliations)
  - Information about the entity's performance obligations
  - The entity's remaining performance obligations at the end of the reporting period
- Significant judgments in the application of the guidance
  - Determining the timing of satisfaction of performance obligations
  - Determining the transaction price and amounts allocated to performance obligations
- Assets recognized from the costs to obtain or fulfill a contract with a customer
- Use of practical expedients

Other Considerations

- Costs to Obtain or Fulfill a contract
  - Acquisition Costs: Sales commissions, set up, engineering, design, etc. (direct, incremental, and recoverable = capitalization)
    - Practical expedient to expense costs as incurred for contracts with a duration less than one year.
  - Fulfilment costs: If not in scope of other GAAP, then evaluate under 606. (direct, generate or enhance future performance and recoverable= capitalize)
  - Amortization - consistent with the pattern of transfer of the good or services to which the asset relates to

Other Considerations

- Shipping Costs: Either a performance obligation or fulfilment cost (policy election)
  - P/O: Portion of transaction price allocated to shipping
  - Fulfillment: Revenue recognized when control is transferred and related cost is accrued
    - Both scenarios can produce different timing on when revenue is recognized

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Other Considerations

- Warranties:
  - Customer has option to purchase warranty separately = a separate performance obligation
  - Warranty provides a customer with a service in addition to assurance that the product complies with specification = a separate performance obligation
  - Standard warranty that product works as intended = accrue expected costs, not a separate performance obligation

FASB Accounting Standard Update

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Final ASUs Issued To Date in 2018

ASU 2018-	Title	BDO Alert
01	Leases (Topic 842): *Land Easement Practical Expedient for Transition to Topic 842*	Alert
02	Income Statement—Reporting Comprehensive Income (Topic 220): *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*	Alert
03	Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Financial Liabilities*	Alert
04	Investments—Debt Securities (Topic 320) and Regulated Operations (Topic 980): *Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 117 and SEC Release No. 33-9273 (SEC Update)*	Alert
05	Income Taxes (Topic 740): *Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (SEC Update)*	N/A

Information is current as of October 31, 2018

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Final ASUs Issued To Date in 2018

ASU 2018-	Title	BDO Alert
06	Codification Improvements to Topic 942, *Financial Services—Depository and Lending*	N/A
07	Compensation—Stock Compensation (Topic 718): *Improvements to Nonemployee Share-Based Payment Accounting*	Alert
08	Not-for-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*	Alert
09	*Codification Improvements*	N/A
10	*Codification Improvements to Topic 842, Leases*	Alert
11	*Leases (Topic 842): Targeted Improvements*	Alert
12	*Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*	Alert

Information is current as of October 31, 2018

Final ASUs Issued To Date in 2018

ASU 2018-	Title	BDO Alert
13	*Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*	Alert
14	*Compensation—Retirement Benefits—Defined Benefit Plans—General (Topic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*	Alert
15	*Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*	Alert
16	Derivatives and Hedging (Topic 815): *Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes*	*Coming Soon*
17	Consolidation (Topic 810): *Targeted Improvements to Related Party Guidance for Variable Interest Entities*	*Coming Soon*

Information is current as of October 31, 2018

ASU 2018-01 - Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842

- ASU 2018-01 eases the adoption of ASU 2016-02, Leases (Topic 842), for entities with land easements that exist or expire before an entity's adoption of Topic 842. The ASU will benefit entities that do not account for those land easements as leases under existing GAAP (Topic 840).
- Intended to reduce the cost and complexity associated with assessing whether all existing and expired land easements meet the definition of a lease.
- Allows entities who previously did not account for land easements under Topic 840 to elect a transition practical expedient to not assess those land easements under Topic 842.
- Once an entity adopts Topic 842, it must apply that Topic prospectively to all new or modified land easements, and may only apply the guidance in Example 10 of ASC 350-30 after concluding that a land easement does not meet the new definition of a lease.
- An entity that currently accounts for land easements under Topic 840 may not elect this practical expedient.
- Effective date generally coincides with ASU 2016-02.

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ASU 2018-02 - Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

- Provides entities the option to reclassify certain “stranded tax effects” resulting from the recent US tax reform from accumulated other comprehensive income to retained earnings.
- Reporting entities will select an accounting policy to either reclassify all stranded tax effects caused by tax reform from AOCI to retained earnings, or continue recycling stranded effects (including those caused by tax reform) through earnings in future periods.
- Disclosure of either policy is required in all cases.
- The reclassification from AOCI to retained earnings is presented in the statement of shareholders equity.
- Effective for fiscal years beginning after December 15, 2018.

ASU 2018-03 - Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities

- The amendments address the following specific issues within ASU 2016-01:
  1. Equity securities measured using measurement alternative – may change measurement approach to a fair value (FV) method through an irrevocable election that would apply to all identical or similar investments.
  2. Adjustments made under the measurement alternative are intended to reflect the FV of the security as of the date that the observable transaction for a similar security took place.
  3. Remeasuring the entire value of forward contracts and purchased options is required when observable transactions occur on the underlying equity securities.

4. When the FV option is elected for a financial liability, the guidance in paragraph 825-10-45-5 should be applied, regardless of whether the FV option was elected under either Subtopic 815-15 or 825-10
5. When the FV option is elected for a financial liability, the amount of change in FV that relates to the instrument- specific credit risk should first be measured in the currency of denomination when presented separately from the total change in FV of the financial liability. Then, both components of the change in the FV of the liability should be remeasured into the functional currency of the reporting entity using end-of-period spot rates.
6. The prospective transition approach for equity securities without a readily determinable FV in the amendments in ASU 2016-01 is meant only for instances in which the measurement alternative is applied.

- Effective date generally coincides with ASU 2016-01, with certain exceptions.

ASU 2018-05 - Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118

- SEC staff interpretations issued on 12/22/17
- Measurement period approach to account for US Tax Reform implications (up to 12 months from the enactment date to complete accounting for all of the effects)
- Incomplete accounting (SAB 118 can only be used when the accounting for one or more effect(s) cannot be completed in the enactment period)
- Reasonable estimate(s) until completed accounting (must determine a reasonable estimate(s) as soon as possible within the measurement period and continue revise them until the accounting is complete)
- Disclosure requirements (what accounting is incomplete and why, the provisional amounts used, information needed to complete the accounting, the completed accounting)
- FASB Staff Q&A issued mid January 2018 (FASB's staff does not object to private entities electing to use SAB 118 guidance to comply with the accounting for US Tax Reform

ASU 2018-06 – Codification Improvements to Topic 942, Financial Services—Depository and Lending

- **Issued:** May 2018
- **Summary:** ASU 2018-06 supersedes the guidance in Subtopic 942-740, Financial Services—Depository and Lending—Income Taxes, that is related to Circular 202 because that guidance has been rescinded by the Office of the Comptroller of the Currency and no longer is relevant. It is effective immediately upon issuance.

ASU 2018-07 - Improvements to Nonemployee Share-Based Payment Accounting

- **Summary:** ASU 2018-07 supersedes most of the prior accounting guidance on nonemployee share-based payments, and instead aligns the guidance with existing guidance on employee share-based payments in Topic 718.
- **Key Amendments**
  - Nonemployee share-based payment transactions will be measured by estimating the fair value of the equity instruments that an entity is obligated to issue.
  - Measurement date will be consistent with the measurement date for employee share-based payment awards (i.e., grant date for equity-classified awards).
  - Consider probability on nonemployee awards with performance conditions.
  - Classification will continue to be subject to the requirements of Topic 718.
  - Cost recognition of nonemployee awards is unchanged, i.e., as if paid in cash.
  - Use of calculated value for private companies.
  - One-time election for private companies to use intrinsic value on liability-classified awards.
- **Effective Date**
  - Public business entities – fiscal years beginning after 12/15/18, including interim periods within that fiscal year.
  - Other entities - fiscal years beginning after 12/15/19, and interim periods within fiscal years beginning after 12/15/20.
  - Early adoption is permitted, but no earlier than an entity's adoption date of Topic 606.

ASU 2018-08 - Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made

- **Summary:** ASU 2018-08 clarifies the accounting guidance for making or receiving contributions. This primarily affects not-for-profit (NFP) entities, although it also applies to businesses. The ASU will likely result in more grants and contracts being accounted for as either contributions or conditional contributions rather than exchange transactions compared to current guidance.

- **Key Amendments**
  - Provide a framework for evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance.
  - Provide guidance for determining whether a contribution is conditional.

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ASU 2018-08 - Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (cont'd)

- Effective Date - Contributions Received
  - Public entities* - annual periods beginning after 6/15/18, including interim periods within those annual periods.
  - Other entities - annual periods beginning after 12/15/18, and interim periods within annual periods beginning after 12/15/19.
- Effective Date - Contributions Made
  - Public entities* - annual periods beginning after 12/15/18, including interim periods within those annual periods.
  - Other entities - annual periods beginning after 12/15/19, and interim periods within annual periods beginning after 12/15/20.

**ASU 2018-08 defines public entity as public business entity or an NFP that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market and serves as a resource recipient*

ASU 2018-10 - Codification Improvements to Topic 842, Leases

- **Summary:** ASU 2018-10 includes sixteen narrow amendments to the leases standard to clarify the intended application of certain aspects of the new leases guidance and correct cross-reference inconsistencies. Effective date aligns with effective date of ASU 2016-02.

- **Key Amendments:**
  - Calculation of rate implicit in the lease when lease contains significant variable payments
  - Calculation of impairment of net investment in the lease
  - Calculation of certain transition adjustments
  - Transition guidance for amounts previously recognized in business combinations
  - 12 other less significant codification improvements

ASU 2018-11 - Leases: Targeted Improvements

- **Summary:** ASU 2018-11 provides entities with an additional (optional) transition method to adopt the new leases standard. ASU 2018-11 also provides lessors with a practical expedient, by class of underlying asset, to elect not to separate nonlease components from the associated lease component. Effective date aligns with effective date of ASU 2016-02.

- Transition—Comparative Reporting at Adoption:
  - Under the new transition method entities:
    - Can initially apply the new leases guidance at the adoption date (rather than at the beginning of the earliest period presented)
    - Recognize a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption (for example, January 1, 2019 for a calendar year-end public company)
    - Continue to present the comparative periods under Topic 840 (the legacy leases guidance)
  - If an entity elects the new transition method, it is required to provide the Topic 840 disclosures for all prior periods that remain under the legacy leases guidance.

ASU 2018-11 - Leases: Targeted Improvements (cont’d)

- Separating Components of a Contract
- ASU 2018-11 provides lessors with a practical expedient to not separate lease and nonlease components by asset class similar to the option lessees have; however, limitations apply for lessors.
  - In order for a lessor to qualify for the practical expedient, the nonlease components must be in the scope of the new revenue guidance. In addition, the following two criteria must be met:
    1. The timing and pattern of transfer of the nonlease component(s) and associated lease component are the same.
    2. The lease component, if accounted for separately, would be classified as an operating lease.
  - After combining, the lessor accounts for the combined item under either 842 or 606, depending on which component is predominant.

ASU 2018-11 - Leases: Targeted Improvements (cont'd)

- Separating Components of a Contract (cont'd)
  - Additional disclosures required when a lessor elects the practical expedient (including when the combined component is accounted for under Topic 606):
    - The fact that the entity elected the expedient
    - Which asset classes are affected
    - The nature of (a) the lease component and nonlease component(s) that were combined as a result of applying the practical expedient and (b) any nonlease components that were not eligible for the practical expedient and, thus, not combined
    - The Topic the entity applies to the combined component

ASU 2018-12 - Targeted Improvements to the Accounting for Long Duration Contracts

- **Summary:** ASU 2018-12 introduces targeted improvements to the existing recognition, measurement, presentation, and disclosure requirements for long-duration contracts such as life insurance, disability income, long-term care and annuities issued by an insurance entity. The changes do not apply to policyholders or noninsurance companies.
- **Key Amendments:**
  - Changes to assumptions used to measure the liability for future policy benefits for traditional and limited-payment contracts
  - Measurement of market risk benefits at fair value
  - Simplification of amortization of deferred acquisition costs
  - Additional disclosures
- **Effective Dates:**
  - Public business entities - FYs beginning after 12/15/2020
  - All other entities - FYs beginning after 12/15/2021

ASU 2018-13 - Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement

- **Summary:** Improves/clarifies disclosures related to fair value measurements required under ASC 820.
- **Modifications:**
  1. Nonpublic entities: Replaces rollforward of Level 3 measurements with information about transfers into/out of Level 3 and purchases/issues of Level 3 assets and liabilities.
  2. Requires disclosure of timing of liquidation of investee assets and date restrictions from redemption lapse related to investments in entities that calculation NAV <u>only</u> if investee has communicated timing.
  3. Clarifies that measurement uncertainty disclosure relates to uncertainty in measurement as of the reporting date.
- **Additions** (*For public companies only*):
  1. Disclose changes in unrealized gains/losses included in OCI for recurring Level 3 measurements held at the end of the reporting period.
  2. Disclose the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. Certain alternatives apply.

ASU 2018-13 - Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement

- Removals:
  1. Amount of and reasons for transfers between Level 1 and Level 2.
  2. The policy for timing of transfers between levels.
  3. The valuation processes for Level 3 fair value measurements.
  4. Nonpublic entities: changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period.

- Effective Date:
  - All entities* - FYs beginning after 12/15/2019

** An entity is permitted to early adopt all disclosure requirements in the ASU or early adopt only the removed and modified disclosures and delay adoption of the additional disclosures until their effective date.*

ASU 2018-14 - Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans

- **Summary:** Improves/clarifies disclosure requirements under ASC 715-20 for employers that sponsor defined benefit pension or other postretirement plans.
- **Additions:**
  1. Weighted-average interest crediting rates for cash balance plans and certain other plans.
  2. Explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period.
- **Clarifications:** For entities with multiple plans that provide aggregated disclosures, the following information for defined benefit pension plans should be disclosed:
  1. Projected benefit obligation (PBO) and fair value of plan assets for plans with PBOs in excess of plan assets.
  2. Accumulated benefit obligation (ABO) and fair value of plan assets for plans with ABOs in excess of plan assets.

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ASU 2018-14 - Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans (cont’d)

- Removals
  1. Amounts in AOCI expected to be recognized as components of net periodic benefit cost over the next fiscal year.
  2. Amount and timing of plan assets expected to be returned to employer.
  3. Disclosures related to June 2001 amendments to Japanese Welfare Pension Insurance Law.
  4. Certain related party disclosures
  5. Nonpublic entities: Replace reconciliation of opening balances to closing balances of plan assets measured on a recurring basis in Level 3 with the amounts of transfers into and out of Level 3 and purchases of Level 3 plan assets.
  6. Public entities: Effects of a 1% change in assumed health care cost trend rates on the (a) aggregate of service and interest components and (b) benefit obligation for postretirement health care benefits.
- Effective Dates:
  - Public business entities - FYs beginning after 12/15/2020
  - All other entities – FYs beginning after 12/15/2021

ASU 2018-15 - Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract

- **Summary:** Requires a customer in a hosting arrangement (service contract) to apply the guidance on internal-use software to determine which implementation costs to recognize as an asset and which costs to expense.
- **Key Amendments:**
  - Customer must determine whether an implementation activity relates to the preliminary project stage, the application development stage, or the post-implementation stage.
  - Costs for implementation activities in the application development stage will be capitalized depending on the nature of the costs, while costs incurred during the preliminary project and post-implementation stages will be expensed immediately.
  - Additional guidance on how to assess capitalized costs for impairment and appropriate presentation of capitalized costs and related amortization.
- **Effective Dates:**
  - Public business entities - FYs beginning after 12/15/2019
  - All other entities – FYs beginning after 12/15/2020

ASU 2018-16 - Inclusion of the Secured Overnight Financing Rate Overnight Index Swap Rate as a Benchmark Interest Rate for Hedge Accounting Purposes

- **Issued:** October 2018
- **Summary:** ASU 2018-06 to permit the use of the Overnight Index Swap (OIS) Rate based on Secured Overnight Financing Rate (SOFR) as a U.S. benchmark interest rates for purposes of hedge accounting under Topic 815, *Derivatives and Hedging*. An entity must adopt the amendments concurrently with the adoption of the amendments within ASU 2017-12.
- The Master Glossary defines the new term Secured Overnight Financing Rate (SOFR) Overnight Index Swap Rate as:

  "The fixed rate on a U.S. dollar, constant-notional interest rate swap that has its variable-rate leg referenced to the Secured Overnight Financing Rate (SOFR) (an overnight rate) with no additional spread over SOFR on that variable-rate leg. That fixed rate is the derived rate that would result in the swap having a zero fair value at inception because the present value of fixed cash flows, based on that rate, equates to the present value of the variable cash flows."

ASU 2018-17 - Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities (VIEs)

- **Issued:** October 2018
- **Summary:** Improves application of the consolidation guidance for targeted areas.
- **Key Amendments:**
  - Private company alternative – private companies may elect not to apply VIE guidance to legal entities under common control (including common control leasing arrangements) if both the parent and the legal entity being evaluated for consolidation are not public business entities.
  - Clarifies that indirect interests held through related parties in common control arrangements should be considered on a proportional basis for determining whether fees paid to decision makers and service providers are variable interests, consistent with how indirect interests held through related parties under common control are considered for determining whether a reporting entity must consolidate a VIE.
- **Effective Dates:**
  - Public business entities - FYs beginning after 12/15/2019
  - All other entities – FYs beginning after 12/15/2020

FASB STAFF Q&A
Private Companies and NFP's Can Apply SAB 118

- **Background:**
  - SEC staff released SAB 118 for applying Topic 740, Income Taxes, as it relates to the 2017 Tax Cuts and Jobs Act
  - Outlines the approach companies may take if they determine that the necessary information is not available (in reasonable detail) to
    - Evaluate
    - Compute
    - Prepare accounting entries
    - To recognize the effect(s) of the Act by the time the financial statements are required to be filed.
  - Companies may use this approach when the timely determination of some or all of the income tax effect(s) from the Act is incomplete by the due date of the financial statements.
  - SAB 118 also prescribes disclosures that reporting entities must provide

FASB STAFF Q&A Private Companies and NFP's Can Apply SAB 118 (cont'd)

- **Summary:**
  - The FASB staff would not object to private companies and not-for-profit entities applying SAB 118
    - Private company or not-for-profit entity opting to apply SAB 118 would need to do so in its entirety, including the disclosure requirements.
    - Reporting entity should also disclose its accounting policy of applying SAB 118, required by ASC paragraphs 235-10-50-1 through 50-3

EITF and PCC Matters Update

Emerging Issues Task Force (EITF)

Issue 18-A: Recognition under Topic 805 for an Assumed Liability in a Revenue Contract

Status: Consensus-for-Exposure

- Reaffirmed consensus-for-exposure that the performance obligation concept in Topic 606 would be used to determine whether a liability assumed from a revenue contract with a customer is recognized by the acquirer in a business combination.
- Recommended to the Board that the staff issue an Invitation to Comment to solicit input about measurement and other topics.

Issue 18-B: Cost Capitalization for Episodic Television Series

Status: Consensus-for-Exposure

- Reached tentative conclusions regarding impairment testing, including unit of account guidance.
- Reached tentative decision to align guidance in ASC 926-20 and ASC 920-350 on presentation of film costs by eliminating the specific classification requirements in both of those subtopics.

PCC Update

- Consolidation Targeted Improvements to Related Party Guidance for Variable Interest Entities
- Leases Implementation
- Distinguishing Liabilities from Equity
- Disclosure Framework: Disclosure Review—Income Taxes
- Share-Based Compensation

- Meeting recap here.

- The PCC is scheduled to meet next on December 11, 2018.

CyberSecurity

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Cybersecurity

- Focus on cybersecurity
- Staff disclosure guidance:
  - www.sec.gov/divisions/corpfin/guidance/cfguidance-topic2.htm
- Commission interpretive release on cybersecurity disclosures
  - Reinforces and expands Division's 2011 guidance
  - Disclosure requirements and related controls
  - Interpretive release available on the SEC's website: www.sec.gov/rules/interp/2018/33-10459.pdf
- BDO Alert: www.bdo.com/insights/assurance/sec/commission-statement-and-guidance-on-public-compan

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Top 10 Cybersecurity Trends of 2018

- Blurring of Cyber Threat Actors
  - The FBI/DHS and other law enforcement and intelligence agencies are all reporting the increased collaboration between nation-state cyber-attack groups and organized criminal cyber-attack groups worldwide, especially in China, Russia, Iran, and North Korea.
- Rise of Business Email Compromise (BEC) Attacks
  - Rapid growth of social engineering based cyber spoofing attacks on companies globally, typically focused on the payment of invoices to wrongful suppliers.
- Growth of Spear-Phishing Email Attacks
  - Increased number of spear-phishing attacks targeting senior company executives especially CEOs, CFOs, and Controllers for unauthorized electronic transfer of funds.
- Expansion of Ransomware Attacks
  - Over the past year there has been a 350% increase in the number of ransomware attacks globally, with an ever-increasing focus on the healthcare industry.

- Exploitation of Supply Chain Network based Cyber-Attacks
  - Significant increase in the number of cyber data breaches resulting from initial unauthorized access via third-party vendors network connections to prime contractors.
- Recognition that Regulatory Compliance with Cybersecurity Industry Standards Does Not Ensure Real Data Security
  - Many companies who have invested in ensuring compliance with various industry standards for cybersecurity (i.e. PCI-DSS, NYDFS, HIPAA, ISO 27001, etc.) have experienced cyber data breaches. Thus, realizing that regulatory compliance with general information security requirements does not guarantee a company will not suffer a major cyber data breach.
- Higher Cost of Cyber Data Breaches = Higher Cyber Liability Insurance Premiums
  - As the average cost of a cyber data breach has increased every year for the past five years, so has the average cost of cyber liability insurance premiums.

- Increasingly Complex Cybersecurity Regulatory Landscape
  - Throughout the U.S. and internationally regulators at the multi-national, federal, state, and local levels are continually enacting new government regulations intended to protect consumers' personally identifiable information (PII), protected health information (PHI) via Electronic Health Records (EHR), and payment card information (PCI). All ultimately have a cost associated with compliance, which is passed on to the consumers.
- Shortage of Experienced Cybersecurity Professionals
  - There is a global shortage of experienced, trained, and certified cybersecurity professionals to meet the ever-increasing demand for cybersecurity advisory services and managed security services worldwide.
- Cyber-Attack Fatigue/Burn-out is Affecting Cybersecurity Investments
  - As a result of continuous news reports of massive cyber-attacks and data breaches internationally, more and more companies are becoming increasingly apathetic to the potential impact on their respective company, often assuming merely purchasing more cyber liability insurance is sufficient, rather than investing in trying to prevent an attack.

2019 Key Cybersecurity Recommendations

- Conduct Email Threat Assessments
  - Given the increasing number of cyberattacks via email systems, companies are increasingly looking to conduct periodic email threat assessments, especially to detect malware that made it through their anti-virus software and firewalls which have previously gone undetected.
- Perform Network & Endpoint Threat Assessments
  - With the expansion of information systems, software applications, bring your own devices, and Internet of Things (IoT), organizations are increasingly testing their network and endpoints via threat assessments using sophisticated Intrusion Detection Systems (IDS) to reduce potential vulnerabilities to cyber-attacks.
- Conduct Spear-Phishing Campaigns
  - Due to the significant increase in spear-phishing attacks, organizations should periodically test the cyber awareness and susceptibility of their employees to cyber-attacks via engaging certified ethical hackers who can conduct social engineering-based spear-phishing exercises.

- Perform Vulnerability Assessments & Penetration Testing
  - Most organizations either internally conduct or hire an independent firm to perform some form of vulnerability assessments, via computer malware scanning software, and penetration testing to discover potential external vulnerabilities to cyber-attacks. It is important to conduct these tests at least once a year but, twice or quarterly is better given the constant evolution of cyber-attacks.
- Implement Effective and Timely Software Patch Management Program
  - The most significant cyber data breaches in the past two years all resulted from organizations not implementing an effective and timely software patch management program of Microsoft and Cisco software.
- Establish a Cybersecurity Awareness/Education Program
  - The cost-effective means to improve cybersecurity is to create a human firewall by providing quality cybersecurity educational programs for all of your employees from the top of the company to the bottom.
- Conduct Cybersecurity Risk Assessments
  - It is important to independently verify that an organization's cybersecurity policies, plans, and procedures are sufficient to adequately protect the organization's digital assets and to ensure regulatory compliance with the appropriate industry cybersecurity standards.

- Implement an Incident Response (IR) Program
  - It is critical that every organization has a well thought through and periodically tested incident response (IR) program, including: policies, plan, process, procedures, standard forms, and periodic exercises and/or simulations.
- Ensure Continuous Monitoring, Detection, & Response (MDR)
  - Every organization should invest in an appropriate level of MDR services based upon the cyber threats their organization encounters or anticipates. The key is to rapidly detect intrusions to quickly contain and eradicate the malware to reduce negative impacts upon the information system and data assets.
- Invest in Business Continuity Planning/Disaster Recovery to Ensure Resilience
  - Given the high probability of a cyber data breach, it is essential to have a reliable and secure off-line data back-up system to ensure minimal impact to the organization's operational performance, and protection of the most valuable digital assets from loss or damage.

Thank You!

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Sales and Use / *Wayfair* Update

Ryan Sanger, CPA

ACM NoCO Tax Partner

The Cost of Being Present; New Sales Tax Rules After Wayfair

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Sales and Use Tax: Overview

Retail Sales Tax

- An excise on the retail sale of tangible personal property and certain enumerated services.
  - The key elements:
    - Sale or exchange
      - Tax base
    - Tangible personal property
      - Intangible personal property
      - Real property
    - Services

Consumer's Use Tax

- Use Tax
  - Complement to sales tax
    - Upon storage, use, or consumption of that bought at retail and upon which no sales tax was paid
    - "A sales tax is a tax on the freedom to purchase . . . a use tax is a tax on the enjoyment of that which was purchased.

Nexus – Overview of Presentation

- Defining nexus
- Review the leading court cases
- Distinguish income tax from sales tax nexus
- Looking forward

Nexus Defined

Nexus is the link or connection between a political jurisdiction and a taxpayer before that jurisdiction can impose a filing requirement for either sales or income tax.

Nexus: Constitutional Limitations

- *National Bellas Hess v. Department of Revenue,* 386 U.S. 753 (1967)
  - Physical presence is the "bright-line" test for sales/use tax nexus
  - So many tax jurisdictions is a burden on interstate commerce
  - Decision based upon both the due process and commerce clauses
- *Quill Corp. v. North Dakota*, 504 U.S. 298 (1992)
  - Physical presence is still the bright-line test for the commerce clause
  - The due process test can be met without physical presence

Wayfair

Overview of *Wayfair*

- On June 21, 2018, the U.S. Supreme Court issued its decision in *South Dakota v. Wayfair.*
- In a 5-4 decision, the Court ruled in favor of South Dakota and overruled *Quill Corp. v. North Dakota* and *National Bellas Hess, Inc. v. Department of Revenue of Ill.*

Overview of *Wayfair*…

- The concluded that “the physical presence of *Quill* is unsound and incorrect.
- Remanded to the South Dakota Supreme Court to evaluate if the provision meets the other tests for constitutionality (parties rumored to be negotiating a settlement.)
- As a result of the *Wayfair* decision, a physical presence is no longer required for substantial nexus under the Commence Clause.

Wayfair Threshold

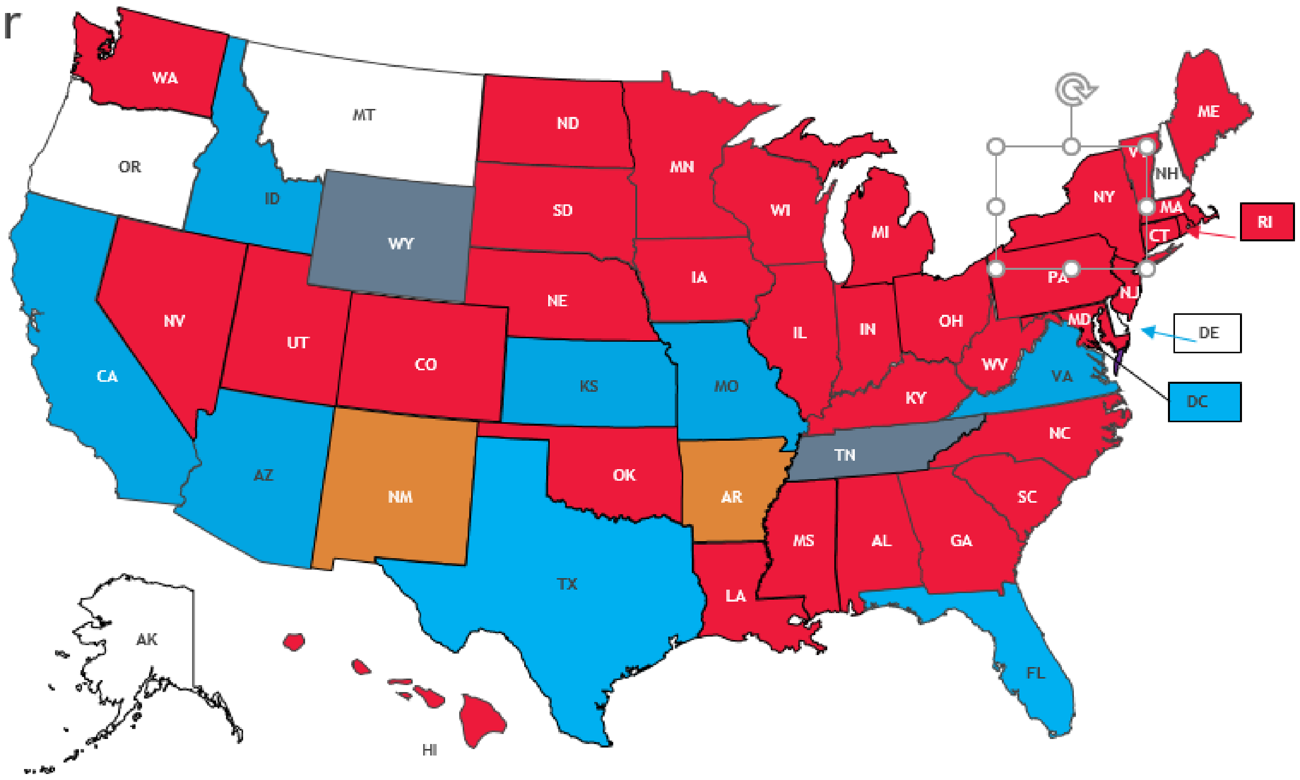
- To replace the physical presence rule of *Quill and National Bellas Hess*, the Court held that substantial nexus is established:
  - “When the taxpayer (or collector) ‘avails itself of the substantial privilege of carrying on business’ in” a state.
- *Wayfair’s* economic and virtual contracts with South Dakota, as measured by more than $100,000 of sales or 200 separate sales transactions satisfied *Wayfair’s* substantial nexus definition.

Will *Wayfair* Be Applied Retroactively?

- The South Dakota statute at issue in *Wayfair* could only be enforced prospectively.
- Most states are enforcing their sales/use tax economic nexus statutes prospectively.
- If currently under audit, taxpayers should aggressively resist any attempts to apply economic nexus on a retroactive basis.

States with Sales/Use Tax Economic Nexus Statutes
(as of 10/8/2018)

www.bdo.com/wayfair



Enacted statute/rule/admin

Proposed in 2018

Enforcement suspended

Statute/Rule not enacted to date*

*AK, DE, MT, NH, OR have no sales/use tax

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States with Enacted Economic Nexus Statutes

- **Effective Date/Enforcement Date Prior to June 21, 2018**
  - **Massachusetts** – $500,000 sales AND 100 transactions (effective 10/1/2017)
  - **Ohio** – $500,000 sales plus “cookies” (effective 1/1/2018)
  - **Oklahoma** – $10,000 sales (effective 4/10/2018)
  - **Pennsylvania** – $10,000 sales (effective 4/1/2018)
    - Effective 4/1/2019 for sales of digital products
  - **Rhode Island** – $100,000 sales or 200 transactions (effective/enforcement date 8/17/2017)

States with Enacted Economic Nexus Statutes…

- **Effective Date/Enforcement Date On/Near June 21, 2018**
  - **Hawaii** – $100,000 sales or 200 transactions (effective 7/1/2018)
  - **Maine** – $100,000 sales or 200 transactions (enforcement date: 7/1/2018)
  - **Vermont** – $100,000 sales or 200 transactions (effective 7/1/2018)

States with Enacted Economic Nexus Statutes…

- Effective Date/Enforcement Date September 1, 2018
  - – **Mississippi** - $250,000 sales (enforcement date 9/1/2018)

States with Enacted Economic Nexus Statutes…

- **Effective Date/Enforcement Date October 1, 2018**
  - **Alabama** – $250,000 sales (enforcement date: 10/1/2018)
  - **Illinois** – $100,000 sales or 200 transactions (effective 10/1/2018)
  - **Indiana** – $100,000 sales or 200 transactions (enforcement date: 10/1/2018)
  - **Kentucky** – $100,000 sales or 200 transactions (10/1/2018)
  - **Maryland**- $100,000 sales or 200 transactions (10/1/2018)
  - **Michigan** - $100,000 sales or 200 transactions (10/1/2018)
  - **Minnesota** – 10 or more sales totaling $100,000 or 100 transactions (enforcement date: 10/1/2018)
  - **Nevada** - $100,000 sales or 200 transactions (eff. 10/1/2018)
  - **North Dakota** – $100,000 or 200 transactions (enforcement date: 10/1/2018)
  - **Washington** – $100,000 sales or 200 transactions (“referrer” requires $267,000 apportioned income) (enforcement date: 10/1/2018)
  - **Wisconsin** – $100,000 sales or 200 transactions (enforcement date 10/1/2018)

States with Enacted Economic Nexus Statutes…

- **Effective Date/Enforcement Date On/After November 1, 2018**
  - **Colorado**– $100,00 sales or 200 transactions (effective 12/1/2018)
  - **Connecticut** – $250,000 sales AND 200 transactions (eff. 12/1/2018)
  - **Georgia** – $250,000 sales or 200 transactions (effective 1/1/2019)
  - **Iowa** – $100,000 sales or 200 transactions (effective 1/1/2019)
  - **Louisiana** – $100,000 sales or 200 transactions (enforcement date: 1/1/2019)
  - **Nebraska** - $100,000 sales or 200 transactions (effective 1/1/2019)
  - **New Jersey** – $100,000 sales or 200 transactions (effective 11/1/2018)
  - **North Carolina** - $100,000 sales or 200 transactions (enforce:11/1/2018)
  - **South Carolina** - $100,000 sales (eff. 11/1/2018)
  - **South Dakota** - $100,000 sales or 200 transactions (eff. 11/1/2018)
  - **Utah** – $100,000 sales or 200 transactions (effective 1/1/2019)
  - **West Virginia** - $100,000 sales or 200 transactions (eff. 1/1/2019)

States with Enacted Economic Nexus Statutes…

- **Effective Date/Enforcement Date Suspended or Pending**
  - **Tennessee** – $500,000 sales (enforcement prohibited based on 2017 legislation)
  - **Wyoming** – $100,000 sales or 200 transactions (effective 7/1/2017, but enforcement currently stayed)

How Does Wayfair Impact Colorado Home Rule Cities

- Minimal to no impact due to simplification language included in Supreme Court's ruling.
- Continue to monitor

Use Tax Notice and Reporting

- Effective Date/Enforcement Date Suspended or Pending
  - Colorado began enforcing 7/1/2017 (1/1/2018 for online marketplaces)
  - Option in lieu of economic nexus sales/use tax collection:
    - Alabama
    - Georgia
    - Iowa (marketplace facilitators)
    - Louisiana
    - Oklahoma
    - Pennsylvania
    - Rhode Island
    - Vermont
    - Washington

What Businesses Are Impacted by *Wayfair*?

- All industries are likely to see an impact from *Wayfair*, but these are likely to see the most impact:
  - Retail and Consumer Products
    - e-Commerce
    - Service providers
  - Technology
    - Online services (SaaS, seller of digital products)
  - Private Equity/M&A
    - PE firms and strategic buyers will need to address Wayfair exposure and ongoing compliance requirements of their portfolio companies and targets
  - Non-U.S. Businesses
    - U.S. tax treaties generally do not apply at the state level
    - A foreign business with no U.S. permanent establishment may still be subject to state economic nexus provisions

What Tax Types Are Impacted by *Wayfair*?

- Sales/use taxes
- Gross receipts taxes
- State corporate income taxes
  - Caveat: P.L. 86-272 still applies!
- State franchise taxes

Risks of Taking No Action

- Financial risks:
  - Sales tax – detection risks by departments of revenue
  - Use tax notification penalties
  - Qui Tam lawsuits – detection risk by non-government persons
  - Class action lawsuits – complying, but not properly, which results in overcharging tax
- Reputational risks
- Regulatory risks

Five Step Approach to get into Sales and Use Tax Compliance in the Wake of *Wayfair*

- Nexus Discussion
- Taxability Based on Revenue Streams
- Exposure Quantification
- Registration/Voluntary Disclosure Agreements (VDAs)
- Sales Tax Compliance

Questions a Business Should Ask

- Does my company sell goods or services into states where it is not registered or filing sales or use tax returns?
- Does my company ship goods or provide services to customers located in states where we have little or no physical presence?

Questions a Business Should Ask…

- Other questions that a company should also ask:
  - Does my company make online sales of services or digital goods?
  - Does my company file sales and use tax returns in every state where it ships or delivers good or services?
  - Has my company received a “nexus questionnaire” or audit notices from any state where we are not currently registered for sales and use taxes?

Financial Statement Considerations

- ASC 450
  - If a business maintains GAAP financial statements, then it must apply ASC 450, contingent liabilities, to account for *Wayfair's* sales/use tax effect
  - If it is certain that a business will be subject to a sales/use tax liability as a result of *Wayfair*, the liability is recognized and measured based on the applicable law. This does not represent a loss contingency (accounted for under ASC 450). Rather, it is a contractual obligation
    - The liability is de-recognized when extinguished in accordance with ASC 405, Liabilities.

Financial Statement Considerations…

- ASC 450…
  - If it is uncertain that a business will be subject to a sales/use tax liability as a result of *Wayfair*, the liability is a contingent liability accounted for under ASC 450
  - Under ASC 450, an estimated loss from a loss contingency must be accrued as a charge to income if both of the following conditions are met:
    - Information indicates that it is probable that a liability has been incurred as of the date of the financial statements; and
    - The amount of the loss can be reasonably estimated

Financial Statement Considerations…

- ASC 450…
  - If the business concludes that it is probable that it will be subject to sales/use tax, then the liability should be recognized and measured based on the provisions of applicable law.
    - Probable – The future event or events are likely to occur
    - Reasonably Possible – The chance of the future event or events occurring is more than remote but less than likely
    - Remote – The chance of the future event or events occurring is slight
  - Accrue the best estimate in a range or lowest amount in the range

Financial Statement Considerations…

- ASC 450…
  - Given the retroactivity concerns of *Wayfair*, some states intending to enforce retroactively, and new states enacting sales and use tax economic nexus laws, the ASC 450 analysis should be performed in a state-by-state basis
  - Businesses should consider the impact of *Wayfair* on positions they may have taken regarding sales and use taxes in state where they do not (or have not) had a physical presence

State Corporate Income Tax and Economic Presence Nexus Prior to *Wayfair*

- *Geoffrey, Inc. v. South Carolina (1993)* – first state supreme court to rule that economic presence nexus is constitutional under the Commerce Clause (out-of-state intangible holding company licensing trademarks to affiliated retailer)

- Prior to Wayfair, a number of states had enacted economic presence statutes with respect to banks and financial institutions or that asserted income tax jurisdiction when any out-of-state corporation had a "significant" or "substantial" economic presence, including: CT; IN (financials); MN (financials and non-financials); NH; TN (financials); WV (financials); WI

State Corporate Income Tax Economic - FACTOR Presence Nexus After *Wayfair*

- Eight states have adopted factor-presence nexus statutes for corporate income tax or gross receipts tax purposes: AL; CA; CO; CT; MI; NY; OH (“CAT”); TN; WA (“B&O”)
- All of these states’ sales thresholds exceed $100,000
- More states should be expected to adopt factor-presence nexus statutes after *Wayfair*
- P.L. 86-272 protections again state net income tax still apply!

Where Am I Subject to Tax?

- In light of *Wayfair*, states now have a “green light” to assert economic presence nexus and factor-presence nexus for state income taxes
- Review your business’s sales, by state
  - Is the date “good data”? Know your source of information!
  - Quantify and identify material states
- For material states:
  - Does the business already have an in-state physical presence? Does P.L. 86-272 provide immunity from state’s net income tax?
  - No in-state physical presence, but material sales? Does the state assert economic nexus? Does P.L. 86-272 provide immunity?
  - Don’t forget about Market-based sourcing!

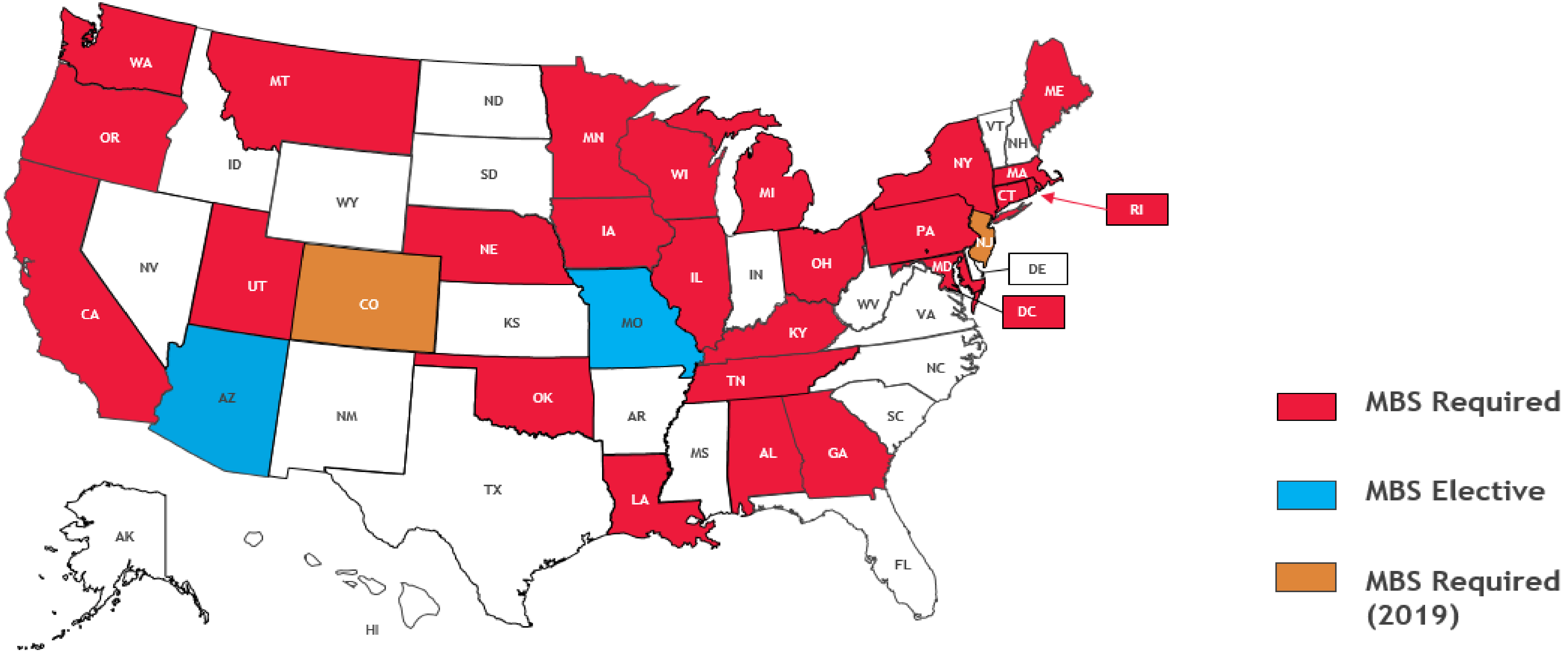
Significance of Market-Based Sourcing

- The sales thresholds of state factor-presence nexus statutes are tied to the state's sales factor sourcing provisions.
- Currently, 25 states require service providers and licensors of intangibles to use market-based sourcing.
- Starting in 2019, Colorado and New Jersey will join these 25 states. Arizona and Missouri require market-based sourcing if SSF is elected (Missouri will require SSF and market-based sourcing starting in 2020.)
- All of the eight states with factor-presence nexus statutes require the use of market-based sourcing (except Colorado, which will starting with the 2019 tax year).

Significance of Market-Based Sourcing…

- Market-based sourcing "look-through rules" – sourcing sales of services to the location of the customer of the customer
- "Professional" services sourcing under market-based sourcing rules – investment, consulting, management, finance, etc.
- Drop shipment seller/suppliers of tangible personal property with destination state sales shipped via common carrier
- Intercompany sales of goods and services, including "professional"/management services

States Requiring Market-based Sourcing



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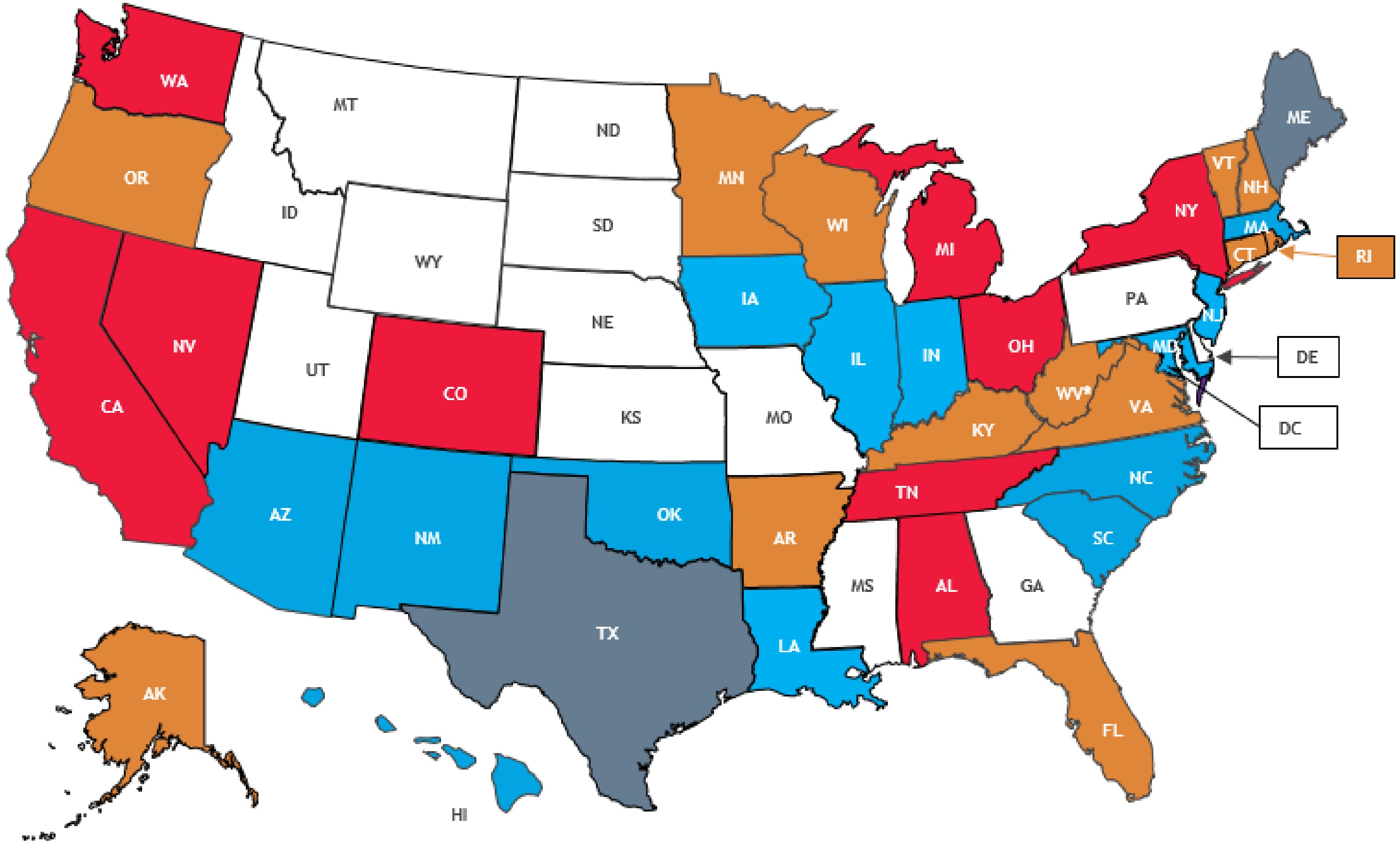
What Solutions Are Available?

- State Nexus and Apportionment Reviews
- Exposure Quantification
  - Assess Wayfair retroactivity by state
  - Quantify historic exposure
  - May be part of an assessment under ASC 740
- Audit Defense
- Mitigation and Remediation
  - State voluntary disclosure agreements (VDAs) and amnesty programs, if applicable
  - Tax planning

States with Income Tax/Gross Receipts Tax Economic Nexus Statutes (as of 9/10/2018)



Economic nexus case law

Factor-presence nexus statutes

Other economic nexus statute or rule

Fullest extent under US Const.

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Thank You!

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STATE SALES & USE TAX ECONOMIC NEXUS STATUTES

Several states have enacted economic nexus statutes for sales/use taxes. See below for thresholds, legal effective dates, and administrative enforcement dates for each state. States not listed have not yet adopted economic nexus or have not yet announced thresholds or effective/enforcement dates.

Alabama

Economic Nexus Threshold: $250,000 AL sales for previous calendar year, AND at least one other activity enumerated under Alabama law

Legal Effective Date: 1/1/2016

Administrative Enforcement Date: 10/1/2018

Colorado

Economic Nexus Threshold: $100,000 in gross revenue from the sale of TPP or services delivered into CO, OR 200 or more separate transaction of such sales, in the previous or current calendar year

Legal Effective Date: 12/1/2018

Administrative Enforcement Date: 12/1/2018

Connecticut

Economic Nexus Threshold: $250,000 in annual gross receipts AND 200 retail sales during the 12-mo period ended on Sept. 30th immediately preceding the monthly or quarterly period with respect to which such person's liability for tax is determined

Legal Effective Date: 12/1/2018

Administrative Enforcement Date: 12/1/2018

Georgia

Economic Nexus Threshold: $250,000 in GA sales in current or prior calendar year delivered electronically or physically to GA, OR 200 separate sales transactions in current or prior calendar year delivered electronically or physically to GA

Legal Effective Date: 1/1/2019

Administrative Enforcement Date: 1/1/2019

Hawaii

Economic Nexus Threshold: In the current, or immediately preceding calendar year, $100,000 gross income or gross proceeds from the sale of TPP delivered in HI, services used or consumed in HI, or intangible property used in HI; OR 200 separate transactions from such sales

Legal Effective Date: 7/1/2018

Administrative Enforcement Date: 7/1/2018

Illinois

Economic Nexus Threshold: $100,000 in cumulative gross receipts from sales of TPP or services to purchasers in IL, OR 200 separate transactions for the sale of TPP or services to purchasers in IL (in prior 4 quarters)

Legal Effective Date: 10/1/2018

Administrative Enforcement Date: 10/1/2018

Indiana

Economic Nexus Threshold: $100,000 in IN sales in current or prior calendar year delivered electronically or physically to IN, OR 200 separate sales transactions in current or prior calendar year delivered electronically or physically to IN

Legal Effective Date: 7/1/2017

Administrative Enforcement Date: 10/1/2018

Iowa

Economic Nexus Threshold: Gross revenue from IA sales of $100,000 for an immediately preceding calendar year or current calendar year, OR makes IA sales in 200 separate transactions for an immediately preceding calendar year or current calendar year

Legal Effective Date: 1/1/2019

Administrative Enforcement Date: 1/1/2019

Kentucky

Economic Nexus Threshold: $100,000 in KY sales in current or prior calendar year delivered electronically or physically to KY, OR 200 separate sales transactions in current or prior calendar year delivered electronically or physically to KY

Legal Effective Date: 7/1/2018

Administrative Enforcement Date: 10/1/2018

BDO

Louisiana

Economic Nexus Threshold: If during the previous or current calendar year, either: $100,000 from sales of TPP, products transferred electronically, or services; OR 200 separate transactions

Legal Effective Date: 6/21/2018

Administrative Enforcement Date: 1/1/2019

Maine

Economic Nexus Threshold: $100,000 in ME sales in current or prior calendar year, OR 200 separate sales transactions in current or prior calendar year

Legal Effective Date: 10/1/2017

Administrative Enforcement Date: 7/1/2018

Maryland

Economic Nexus Threshold: Vendors with more than $100,000 of gross revenue from the sale of TPP or taxable services delivered into MD, OR 200 or more separate transactions of such sales must register and collect sales tax.

Legal Effective Date: 10/1/2018

Administrative Enforcement Date: 10/1/2018

Massachusetts

Economic Nexus Threshold: Out-of-state internet vendors that have certain software or hardware in MA and who make sales of TPP or services in MA in excess of $500,000; AND who make such sales for delivery in MA in at least 100 transactions in the preceding calendar year have nexus in MA (i.e., "cookie" nexus)

Legal Effective Date: 10/1/2017

Administrative Enforcement Date: 10/1/2017

Michigan

Economic Nexus Threshold: Sales into MI (both taxable and non-taxable) exceeding $100,000, OR a seller that completes 200 or more separate transactions of sales into this state (both taxable and non-taxable) in the previous calendar year

Legal Effective Date: 10/1/2018 (RAB 2018-16)

Administrative Enforcement Date: 10/1/2018

Minnesota

Economic Nexus Threshold: 10 or more retail sales totaling $100,000 from outside MN to destinations within MN for a period of 12 consecutive months, or 100 or more retail sales from outside MN to destinations within MN for a period of 12 consecutive months; AND engages in any of the activities that demonstrate the regular or systematic solicitation of sales under Minnesota law

Legal Effective Date: 6/21/2018

Administrative Enforcement Date: 10/1/2018

Mississippi

Economic Nexus Threshold: $250,000 in MS sales for prior 12 months AND remote seller must engage in other MS activities such as advertising, direct mail marketing, e-mailing, texts, telephone solicitation, etc.

Legal Effective Date: 12/1/2017

Administrative Enforcement Date: 9/1/2018

Nebraska

Economic Nexus Threshold: Sales of $100,000 or more, OR 200 separate transactions into NE annually.

Legal Effective Date: 1/1/2019

Administrative Enforcement Date: 1/1/2019

Nevada

Economic Nexus Threshold: Gross revenue of retail sales into NV in the prior or current year is greater than $100,000 OR the business conducts 200 or more retail sales into the state.

Legal Effective Date: 10/1/2018

Administrative Enforcement Date: 11/1/2018

New Jersey

Economic Nexus Threshold: Seller's gross revenue from delivery of TPP, specified digital product, or services into NJ in the calendar year exceeds $100,000, OR 200 separate transactions

Legal Effective Date: 11/1/2018

Administrative Enforcement Date: 11/1/2018

New York

Economic Nexus Threshold: In the immediately preceding four quarters, the cumulative total of gross receipts from sales of TPP delivered into NY exceeds $300,000, AND more than 100 sales of property delivered into NY

Legal Effective Date: Since at least 1/1/2009

Administrative Enforcement Date: No additional guidance

North Carolina

Economic Nexus Threshold: $100,000 in NC gross retail sales in the current or prior calendar year, OR 200 separate sales transactions in current or prior calendar year.

Legal Effective Date: 1/1/2017

Administrative Enforcement Date: 11/1/2018

North Dakota

Economic Nexus Threshold: $100,000 in ND sales in current or prior calendar year, OR 200 separate sales transactions in current or prior calendar year

Legal Effective Date: 6/21/2018

Administrative Enforcement Date: 10/1/2018

Ohio

Economic Nexus Threshold: Use in-state software to sell or lease TPP or services in excess of $500,000 in the current or prior calendar year, or enter into an agreement with a person to provide a content distribution network and make sales in excess of $500,000 in current or prior calendar year

Legal Effective Date: 1/1/2018

Administrative Enforcement Date: 1/1/2018

Oklahoma

Economic Nexus Threshold: “Remote seller,” “marketplace facilitator” or “referrer has $10,000 in OK sales in prior 12 month period

Legal Effective Date: 4/10/2018 (election to register and collect or comply with use tax notice and reporting must be made by 7/1/2018)

Administrative Enforcement Date: 7/1/2018

Pennsylvania

Economic Nexus Threshold: $10,000 of sales of TPP delivered to PA in prior 12 months

Legal Effective Date: 4/1/2018 (delayed until 4/1/2019 forremote sellers of digital products)

Administrative Enforcement Date: 4/1/2018

Rhode Island

Economic Nexus Threshold: $100,000 in RI sales in the prior calendar year, OR 200 separate sales transactions in the prior calendar year

Legal Effective Date: 8/17/2017

Administrative Enforcement Date: 8/17/2017

South Carolina

Economic Nexus Threshold: $100,000 in gross revenue from the sales of TPP, products transferred electronically, and services delivered into SC in the previous or current calendar year.

Legal Effective Date: 11/1/2018

Administrative Enforcement Date: 11/1/2018

South Dakota

Economic Nexus Threshold: $100,000 in SD sales in current or prior calendar year, OR 200 separate sales transactions in current or prior calendar year

Legal Effective Date: 11/1/2018

Administrative Enforcement Date: 11/1/2018

Tennessee

Economic Nexus Threshold: Remote seller engaged in regular and systematic solicitation in TN and sales in prior 12 months exceeded $500,000

Legal Effective Date: 1/1/2017 (remote seller must register by 3/1/2017 and begin collecting 7/1/2017)

Administrative Enforcement Date: Enforcement stayed during pendency of in-state litigation.

Utah

Economic Nexus Threshold: In the previous or current calendar year, $100,000 in gross revenue into UT from the sale of TPP, any product transferred electronically, or services; OR 200 or more separate transactions of such sales

Legal Effective Date: 1/1/2019

Administrative Enforcement Date: 1/1/2019

Vermont

Economic Nexus Threshold: During any 12 month period remote seller has $100,000 of VT sales, OR 200 separate sales transactions in VT and engages in regular, systematic, or seasonal solicitation

Legal Effective Date: 7/1/2018

Administrative Enforcement Date: 7/1/2018

Washington

Economic Nexus Threshold: "Remote seller" or "marketplace facilitator" has $100,000 of annual gross retail sales to WA customers, OR 200 separate sales transactions in WA. A "referrer" with $267,000 of income apportioned to WA. If a "remote seller" or "marketplace facilitator" has more than $10,000, but less than $100,000 of annual gross retail sales, the seller must make the "Retail Sales Tax Choice" and elect either registration and collection or use tax notice and reporting.

Legal Effective Date: 1/1/2018

Administrative Enforcement Date: 10/1/2018 (but remains 1/1/2018 for sellers subject to "retail sales tax choice")

West Virginia

Economic Nexus Threshold: $100,000 of goods or services into WV, OR 200 separate transactions for the delivery of goods and services in WV, during calendar year 2018

Legal Effective Date: 1/1/2019

Administrative Enforcement Date: 1/1/2019

Wisconsin

Economic Nexus Threshold: $100,000 gross annual sales into WI (taxable and nontaxable sales), OR 200 separate annual sales transactions

Legal Effective Date: Since at least 4/18/2018

Administrative Enforcement Date: 10/1/2018

Wyoming

Economic Nexus Threshold: $100,000 in WY sales in current or prior calendar year, OR 200 separate sales transactions in current or prior calendar year

Legal Effective Date: 7/1/2017

Administrative Enforcement Date: Enforcement stayed during pendency of in-state litigation.

This information is current as of October 8, 2018.

**This chart assumes the remote seller will collect/remit sales tax, rather than elect to comply with notice/reporting requirements, if that is an option.*
***Legal effective date is the date the statute or regulation indicates the remote seller rules are effective.*
****Some states are seeking to apply economic nexus only for periods on/after the Wayfair decision.*
*****Guidance relied upon may include informal announcements by the state or a state representative.*

Tax Reform – Planning for Changes

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Tax Cuts and Jobs Act and Planning for Changes

- TCJA changes are generally effective for tax years starting 1/1/2018 and expires 12/31/2025.
- Review of major tax law changes
    - Individuals
    - Estates, Gifts, & Trusts
    - Partnerships
    - Corporations
    - International
- Understanding changes and discuss tax planning opportunities

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Individuals – Tax Rates

Before Reform

Married Filing Jointly and Surviving Spouses:

10% (Taxable income not over $18,650)
15% (Over $18,650 but not over $75,900)
25% (Over $75,900 but not over $153,100)
28% (Over $153,100 but not over $233,350)
33% (Over $233,350 but not over $416,700)
35% (Over $416,700 but not over 470,700)
39.6% (over $470,700)

Married Filing Separately:

10% (Taxable income not over $9,325)
15% (Over $9,325 but not over $37,950)
25% (Over $37,950 but not over $76,550)
28% (Over $76,550 but not over $116,675)
33% (Over $116,675 but not over $208,350)
35% (Over $208,350 but not over $235,350)
39.6% (over $235,350)

Head of Household:

10% (Taxable income not over $13,350)
15% (Over $13,350 but not over $50,800)
25% (Over $50,800 but not over $131,200)
28% (Over $131,200 but not over $212,500)
33% (Over $212,500 but not over $416,700)
35% (Over $416,700 but not over $444,550)
39.6% (over $444,550)

Single Individuals:

10% (Taxable income not over $9,325)
15% (Over $9,325 but not over $37,950)
25% (Over $37,950 but not over $91,900)
28% (Over $91,900 but not over $191,650)
33% (Over $191,650 but not over $416,700)
35% (Over $416,700 but not over $418,400)
39.6% (Over $418,400)

After Reform

Married Filing Jointly and Surviving Spouses:

10% (Taxable income not over $19,050)
12% (Over $19,050 but not over $77,400)
22% (Over $77,400 but not over $165,000)
24% (Over $165,000 but not over $315,000)
32% (Over $315,000 but not over $400,000)
35% (Over $400,000 but not over 600,000)
37% (over $600,000)

Married Filing Separately:

10% (Taxable income not over $9,525)
12% (Over $9,525 but not over $38,700)
22% (Over $38,700 but not over $82,500)
24% (Over $82,500 but not over $157,500)
32% (Over $157,500 but not over $200,000)
35% (Over $200,000 but not over $300,000)
37% (Over $300,000)

Head of Household:

10% (Taxable income not over $13,600)
12% (Over $13,600 but not over $51,800)
22% (Over $51,800 but not over $82,500)
24% (Over $82,500 but not over $157,500)
32% (Over $157,500 but not over $200,000)
35% (Over $200,000 but not over $500,000)
37% (Over $500,000)

Single Individuals:

10% (Taxable income not over $9,525)
12% (Over $9,525 but not over $38,700)
22% (Over $38,700 but not over $82,500)
24% (Over $82,500 but not over $157,500)
32% (Over $157,500 but not over $200,000)
35% (Over $200,000 but not over $500,000)
37% (Over $500,000)

Individuals – Capital Gains Tax Rates

Married Filing Jointly (and Surviving Spouses):

15% Rate Threshold - $77,200
20% Rate Threshold - $479,000

Married Filing Separately:

15% Rate Threshold - $38,600
20% Rate Threshold - $239,500

Head of Household:

15% Rate Threshold - $51,700
20% Rate Threshold - $452,400

Other Individuals:

15% Rate Threshold - $38,600
20% Rate Threshold - $425,800

- Tax rates apply to tax years beginning after December 31, 2017 and before January 1, 2026
- Rates are the same but reform law added thresholds

Individuals – Standard Deductions & Personal Exemptions

Standard Deductions

- Married Filing Jointly: from $12,700 to $24,000
- Head of Household: from $9,350 to $18,000
- Other Individuals: from $6,350 to $12,000

Personal Exemptions

- Personal exemptions have been suspended under TCJA

Individuals – Income Tax, Property Tax, and Interest Deductions

State and Local Tax, Real and Personal Property Tax

- The aggregate itemized deduction for state and local and foreign income tax, state and local real property taxes, personal property taxes, and general sales taxes is limited to $10,000 ($5,000 for married individuals filing separately).

Home Mortgage and Home Equity Interest Deduction

- The deduction for interest on home equity debt is suspended, and the deduction for home acquisition mortgage interest is limited to underlying debt of up to $750,000 ($375,000 for married taxpayers filing separately).

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Individuals – Bunching Deductions
Scenario 1 & 2

	MFJ 2017	MFJ 2018	MFJ 2019	MFJ 2020	MFJ 2021	MFJ 2017	MFJ 2018	MFJ 2019	MFJ 2020	MFJ 2021	
SCENARIO 1	ACTUAL					DEDUCTIBLE					
State Income Tax	15,000	15,000	15,000	15,000	15,000	15,000	10,000	10,000	10,000	10,000	
Property Tax	5,000	5,000	5,000	5,000	5,000	5,000					
Mortgage Interest	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	
Charitable Donation	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	
						33,000	23,000	23,000	23,000	23,000	
Standard Deduction	12,700	24,000	24,000	24,000	24,000	12,700	24,000	24,000	24,000	24,000	
						33,000	**24,000**	**24,000**	**24,000**	**24,000**	**129,000**

	MFJ 2017	MFJ 2018	MFJ 2019	MFJ 2020	MFJ 2021	MFJ 2017	MFJ 2018	MFJ 2019	MFJ 2020	MFJ 2021	
SCENARIO 2	ACTUAL					DEDUCTIBLE					
State Income Tax	15,000	15,000	15,000	15,000	15,000	15,000	10,000	10,000	10,000	10,000	
Property Tax	5,000	5,000	5,000	5,000	5,000	5,000					
Mortgage Interest	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	
Charitable Donation	5,000	-	10,000	-	10,000	5,000	-	10,000	-	10,000	
						33,000	18,000	28,000	18,000	28,000	
Standard Deduction	12,700	24,000	24,000	24,000	24,000	12,700	24,000	24,000	24,000	24,000	
						33,000	**24,000**	**28,000**	**24,000**	**28,000**	**137,000**

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Individuals – Bunching Deductions Scenario 3 & 4

	MFJ 2017	MFJ 2018	MFJ 2019	MFJ 2020	MFJ 2021	MFJ 2017	MFJ 2018	MFJ 2019	MFJ 2020	MFJ 2021	
SCENARIO 3	ACTUAL					DEDUCTIBLE					
State Income Tax	15,000	15,000	15,000	15,000	15,000	15,000	10,000	10,000	10,000	10,000	
Property Tax	5,000	5,000	5,000	5,000	5,000	5,000					
Mortgage Interest	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	
Charitable Donation	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	
						35,000	25,000	25,000	25,000	25,000	
Standard Deduction	12,700	24,000	24,000	24,000	24,000	12,700	24,000	24,000	24,000	24,000	
						35,000	**25,000**	**25,000**	**25,000**	**25,000**	**135,000**

	MFJ 2017	MFJ 2018	MFJ 2019	MFJ 2020	MFJ 2021	MFJ 2017	MFJ 2018	MFJ 2019	MFJ 2020	MFJ 2021	
SCENARIO 4	ACTUAL					DEDUCTIBLE					
State Income Tax	15,000	15,000	15,000	15,000	15,000	15,000	10,000	10,000	10,000	10,000	
Property Tax	5,000	5,000	5,000	5,000	5,000	5,000					
Mortgage Interest	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	
Charitable Donation	7,000	-	14,000	-	14,000	7,000	-	14,000	-	14,000	
						35,000	18,000	32,000	18,000	32,000	
Standard Deduction	12,700	24,000	24,000	24,000	24,000	12,700	24,000	24,000	24,000	24,000	
						35,000	**24,000**	**32,000**	**24,000**	**32,000**	**147,000**

Individuals – Medical Expense, Charitable Donations, Miscellaneous Deductions

Medical Expense

- For 2017 and 2018, unreimbursed medical expenses are deductible if it exceeds 7.5% of AGI. Starting 2019, it increases to 10% of AGI.

Charitable Donations

- For contributions made in tax years beginning after 12/31/2017 and before 1/1/2026, the AGI limitation for cash contributions to public charities and certain private foundations is increased from 50% to 60% of AGI.

Miscellaneous Deductions

- For tax years beginning after 12/31/2017 and before 1/1/2026, the deduction for miscellaneous itemized deductions that are subject to the 2% floor is suspended.

Individuals/Trusts – Alternative Minimum Tax (AMT)

AMT exemption amounts are increased:

- $109,400 for married filing jointly
- $54,700 for married filing separately
- $70,300 for single taxpayers
- $22,500 for trusts and estates

These exemption amounts are reduced (not below zero) to an amount equal to 25% of the amount by which the taxpayer's AMTI exceeds increased phase-out thresholds:

- For joint returns and surviving spouses: $1,000,000
- For all other taxpayers: $500,000
- For estates and trusts, $75,000

Individuals – Alimony, Moving Expenses, Affordable Care Act

Alimony Deduction

- For divorce and separation agreements executed after 12/31/2018, the deduction for payment of alimony will not be available. Conversely, payee's receipt of alimony payments is not includable in income.

Moving Expenses

- Moving expenses are suspended except for active duty members of the Armed Forces who move pursuant to a military order and incident to a permanent change of station.

Affordable Care Act

- For months beginning after Dec. 31, 2018, the amount of the individual's shared responsibility payment or penalty is reduced to zero.

Trusts, Gifts, and Estates – Tax Rates, Lifetime and Annual Exclusions

Trust Tax Rates

- 10% on income $2,550 and under
- 24% on income in excess of $2,550 but not over $9,150
- 35% on income in excess of $9,150 but not over $12,500
- 37% on income in excess of $12,500

Lifetime Estate and Gift Tax Exclusion

- The federal estate and gift tax unified credit basic exclusion amount increased to $10 million, effective for decedents dying and gifts made after 2017 and before 2026.

Annual Gift Tax Exclusion

- The annual gift tax exclusion amount was raised to $15,000.

Pass-through Entities – Technical Terminations Repealed

Technical Terminations Section 708(b)(1)(B)

- For tax years beginning after December 31, 2017, technical termination rules have been repealed.
- No changes have been made to actual termination rules.
- No need to restart depreciation recovery period upon sale or exchange of more than 50% capital and profits interest in a partnership
- Eliminates issues arising from extra filing requirement, filing penalties, and failure to make appropriate elections.

Pass-through Entities – Carried Interest Recharacterization

Carried Interest Section 1061

- Under Section 1061, gain allocated in respect of the carried interest will qualify as long-term capital gain only if the underlying asset giving rise to the allocable gain was held for more than three years.
- It doesn't require a carried interest be recast as ordinary income but does place more stringent limitation on what capital gain can qualify as long-term

Pass-through Entities – Qualified Opportunity Zone Tax Incentive

Qualified Opportunity Zone (QOZ)

- QOZs were designed to spur investment in distressed communities throughout the country through tax benefits.
- QOZ Timeline:

Day 1	Day 180	Year 1	Year 5	Year 7	2026	Year 10+
Capital gain is triggered	Must reinvest in QOF	Rollover capital gain	10% basis boost	Additional 5% basis boost	Deferral ends on initial gain	Basis = FMV

- Qualified Opportunity Zone Fund is any investment vehicle which is organized as a corporation or a partnership for the purpose of investing in qualified opportunity zone property (other than another qualified opportunity fund) that holds at least 90 percent of its assets in qualified opportunity zone property.

Pass-through Entities – Qualified Opportunity Zone Tax Incentive Example

Day 1	Day 180	Year 1	Year 5	Year 7	2026	Year 10+
Capital gain is triggered	Must reinvest in QOF	Rollover capital gain	10% basis boost	Additional 5% basis boost	Deferral ends on initial gain	Basis = FMV

- **Day 1:** Sold $1.1M Stock Inc. with $100K basis. Triggered $1M capital gain.
- **Day 180:** Reinvested $1M in a Qualified Opportunity Fund.
- **After 5 years:** Taxpayer is given a $100K (10%) basis in the QOF.
- **After 7 years:** Taxpayer is given an additional 5% basis, making the total basis $150K in the QOF.
- **On 12/31/2026:** The deferral of taxes on the original $1M capital gain ends. However, the taxpayer only pays tax on the $850K capital gain.
- **After 10 years:** Taxpayer sells QOF for $1.2M. The basis at this point is equal to the FMV of the QOF. Essentially, the $200K of appreciation in the QOF after 12/31/2026 is tax free.

Pass-through Entities – QOZ Tax Incentive vs. §1031 Exchanges

	§1031 Like-Kind Exchange	Opportunity Fund Investment
Rollover	• An investor must reinvest the principal and capital gain within 180 days of sale. • This transaction must be conducted through a qualified intermediary in many instances.	• An investor must reinvest capital gains only. • An investor is not required to roll over the entire gain, but only the rolled over portion is eligible for tax advantages. • An investor may place Opportunity Fund investments directly, and no intermediary is required.
Qualified Assets	• Real estate only can qualify for a 1031 Exchange.	• Capital gains from sale of real estate or another investment can qualify for an Opportunity Fund.
Capital Gains Tax Deferral	• Capital gains tax payments for the initial investment may be deferred indefinitely.	• Tax payment on capital gains of the initial investment may be deferred until 12/31/2026, which for most taxpayers the tax bill isn't due until April 2027.
Capital Gains Tax on Final Sale	• An investor owes capital gains tax on final sale of the asset.	• If the investment is held for at least 10 years, the investor can expect to owe no capital gains tax on any appreciation of the initial opportunity fund investment upon sale of such investment.

Pass-through Entities – Qualified Business Income Deduction General Rules

Qualified Business Income Deduction Section 199A

- 2018 Thresholds:
  - Married filing jointly: $315,000
  - All other taxpayers: $157,500
- Taxpayers with taxable income **below** the threshold amount are entitled to a deduction equal to the lesser of:
  - 20% of the taxpayer's Qualified Business Income

    OR
  - An amount equal to 20 percent of the excess, if any, of the taxable income of the taxpayer for the taxable year over the net capital gain of the taxpayer for such taxable year.

Pass-through Entities – QBI Deduction Example: Under threshold

- 2018 Thresholds:
  - Married filing jointly: $315,000
  - All other taxpayers: $157,500
- Taxpayers with taxable income **below** the threshold amount are entitled to a deduction equal to the lesser of:
  - 20% of the taxpayer's QBI

    OR
  - An amount equal to 20 percent of the excess, if any, of the taxable income of the taxpayer for the taxable year over the net capital gain of the taxpayer for such taxable year.

In 2018, a married filing jointly taxpayer has the following:

QBI:	$100,000	
Capital Gain:	$100,000	
Deductions:	($30,000)	
Taxable Income:		$170,000

QBI Deduction calculation:

Deduction equal to the **LESSER** of:

- 20% of (QBI)

  20% of ($100,000) = $20,000

  OR
- 20% of (Taxable Income – Capital Gain)

  20% of ($70,000) = $14,000

In this case, the taxpayer is entitled to a **$14,000** deduction.

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Pass-through Entities – Qualified Business Income Deduction General Rules

Qualified Business Income Deduction Section 199A

- 2018 Thresholds:
  - Married filing jointly: $315,000
  - All other taxpayers: $157,500
- Taxpayers with taxable income **in excess** of the threshold amount are entitled to a deduction equal to the lesser of:
  - 20% of the taxpayer's Qualified Business Income

    OR
  - The greater of:
    - 50% of W-2 wages

      or
    - 25% of the W-2 wages, plus 2.5% unadjusted basis immediately after acquisition of qualified property

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Pass-through Entities – QBI Deduction Example: Under threshold

- 2018 Thresholds:
  - Married filing jointly: $315,000
  - All other taxpayers: $157,500
- Taxpayers with taxable income **in excess** of the threshold amount are entitled to a deduction equal to the lesser of:
  - 20% of the taxpayer's Qualified Business Income

    OR
  - The greater of:
    - 50% of W-2 wages

      or
    - 25% of the W-2 wages, plus 2.5% unadjusted basis immediately after acquisition of qualified property

In 2018, a married filing jointly taxpayer owns 100% of S Corporation. The S Corp has the following:

QBI:	$400,000
Wages paid:	$100,000

QBI Deduction calculation:

Deduction equal to the **LESSER** of:

- 20% of (QBI)

  20% of ($400,000) = $80,000

  OR
- 50% of (W-2 wages)

  50% of ($100,000) = $50,000

In this case, the taxpayer is entitled to a **$50,000** deduction.

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Pass-through Entities – Qualified Business Income Deduction Exceptions

Specified Service Trade or Businesses

- A qualified trade or business is any active trade or business *except* for specified services trade or businesses (SSTB). SSTBs are any trade or business involved with the performance of a services in (but not limited to):

• Health	• Athletics
• Accounting	• Financial services
• Actuarial sciences	• Brokerage services
• Performing Arts	• Investing and investment management
• Law	• Trading
• Consulting	• Dealing in securities, commodities

- any trade or business where the principal asset of the trade or business is the reputation or skill of one or more of its employees or owners.

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Tax Reform – What to Expect

David Shellan, CPA
2019 ACM Denver Tax Partner

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Choice of Entity

- No bright-line determinations!
- The popularity of a C corporation as a taxpayer's choice of entity is expected to rise, and taxpayers have already started the challenging task of modeling out choice of entity determinations for their existing operations or targeted acquisitions.
- The reduced rate, coupled with limitations on the deductibility of state and local income taxes and the application of AMT at the individual level, may reduce the attractiveness of a pass-through entity structure.
- The gap between C corporation and flow-through entities has decreased but flow-through entities in general still provide overall lower tax rate in most (but not all situations).

Choice of Entity – Rate Differences

FINAL LAW	TOP MARGINAL TAX RATE
Passive C Corporation Shareholder	39.80%
Active C Corporation Shareholder	39.90%
Passive Partner (No Wages)	40.80%
Passive Partner (With Wages)	32.64%
Active Partner (No Wages)	37.38%
Active Partner (With Wages)	30.72%
Active S Corporation S/H (No Wages)	37.01%
Active S Corporation S/H (With Wages)	30.72%

Choice of Entity

- Current distribution vs. reinvestment of after-tax cash
- Expected rate of return on reinvestment after-tax cash
- Potential exit event and timing considerations
- Impact of tax reform on taxable income calculations
- Availability of 199A deductions
- The lower corporate rate creates additional available after-tax cash

Choice of Entity

- Planned use for this excess cash flow, i.e., current distribution vs. reinvestment, can impact future value
- Consider rate of return that may be earned incremental available cash flow
- Consider the time horizon before exit event
- LLCs and partnerships remain the best choice for real estate.
- S Corporations remain the best choice for active owners due to the self-employment tax savings
- C Corporations remain the best choice for start-ups and entities that require flexibility in ownership and capital raising. Consider planned use of excess cash flow

Corporate Tax Rate

- Permanently reduced maximum corporate tax rate from 35% to 21%
- Repeal of corporate AMT
  - Would continue to allow the prior year minimum tax credit to offset the taxpayer’s regular tax liability for any tax year. For tax years beginning after 2017 and before 2022, the prior year minimum tax credit would be refundable in an amount equal to 50%
- Financial ratios such as liquidity, working capital, and earnings per-share will be affected, and taxpayers will need to evaluate the impact on existing debt covenants and dividend distribution and cash flow planning.
- Does not require a special rate for personal service corporations (i.e. – health, law, accounting services)

Accounting Methods for Tax Reporting

- New $25M threshold for small taxpayers
  - Expands ability to use overall cash method of accounting
  - Exception from requirement to keep inventory and UNICAP
- Automatic Change Form 3115

Business Interest Expense

- The Act includes a limitation on the deduction of business interest by any taxpayer for tax years beginning after December 31, 2017.
- The Act limits the deduction for net interest expenses incurred by a business to the sum of:
    1) business interest income;
    2) 30% of the adjusted taxable income of the business (a metric similar to EBITDA)
    3) floor plan financing (financing related to dealers of certain vehicles and equipment)
- Businesses with average annual gross receipts of $25 million or less are exempt from the limit on deducting interest expense, and certain industries are exempt from the limitation.
- Interest disallowed is carried to the following tax year, and will have an indefinite carryover period.
- Change in control impacts will need to be evaluated, as the disallowed interest expense carryover will be subject to the same limitations on utilization as net operating losses ("NOLs") following certain corporate ownership changes or a shift in equity structure.
- Businesses with excess cash that are subject to the limitation may consider paying down high interest or variable interest debt, and the impact on this provision to the after-tax return on investment ("ROI") of leveraged acquisitions will need to be assessed as part of transaction structuring.

Pass-through Entities – Business Interest Limitation

Business Interest Limitation Section 163(j)

- Tax years beginning after December 31, 2017, TCJA created a new limitation on the deductibility of net business interest expense that exceeds 30% of a taxpayer's "adjusted taxable income."

Gross Receipts	100	TI before Interest Limitation	10
Interest Income	5	Addback: Net Interest Expense	10
Cost of Goods Sold	(70)	Addback: Depreciation	10
Interest Expense	(15)	Adjusted Taxable Income	30
Depreciation	(10)	Multiply by 30%	X 30%
TI before Interest Limitation	10	**Business Interest Deduction Limitation**	**9**

- Small business exception: Businesses with average annual gross receipts over a trailing three-year period of $25 million or less are not subject to the limitation. The gross receipts of related businesses must be combined for purposes of the $25 million test.

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Pass-through Entities – Business Interest Limitation Exceptions

Real Property Business

- Taxpayers engaged in a real property business (ie: real estate development, construction, rental, management, or brokerage business) may elect out of the interest limitation.
- The election is irrevocable and electing taxpayers are required to use the alternative depreciation system (ADS) for their nonresidential real property, residential rental property, and qualified improvement property.

Utility companies

- A business is not subject to the business interest limitation if it furnishes or sells any of the following:
- Electrical energy, water, or sewage disposal services
- Gas or steam through a local distribution system
- Transportation of gas or steam by pipeline

Depreciation

- The Act's provisions on expensing business assets allows the 100% expensing of cost for qualified property acquired and placed in service after September 27, 2017 and before January 1, 2023.
- Importantly, this so-called "bonus depreciation" is now allowed for the acquisition of used property.
- When planning for an acquisition, the expansion of favorable expensing to used property will increase the desire of buyers to acquire the assets of a target, and will increase the frequency of deemed asset acquisitions (stock acquisitions treated as asset acquisitions for federal tax purposes).

Meals & Entertainment

- Entertainment expenses are 100% disallowed as a deduction
- Meals provided to employees while required to be on-site are 50% deductible (after 2025 they will be 0% deductible)
- Overtime allowance are 50% deductible and no longer a de minimus fringe benefit (i.e. - snacks and drinks for employees)
- Company parties (such as picnics, Christmas party) are still 100% deductible.

Net Operating Losses

- The Act limits the deduction of NOLs to 80% of a taxpayer's taxable income for losses arising in tax years beginning after 2017.
- The Act eliminates both the two-year carryback of NOLs and the expiration of NOL carryovers arising in tax years ending after 2017.
- Taxpayers will have to separately track and maintain NOLs arising before and after the effective date of the Act to properly account for their utilization, and businesses may consider deferring certain deductions to years where they are fully deductible as opposed to a year that may limit the deduction to 80% of taxable income.

International

- “Quasi-territorial” system vs. worldwide tax system.
- Shift to a participation exemption system.
- One-time transition tax on previously deferred foreign earnings and profits (“E&P”).
- 100% dividends received deduction for foreign source portion of dividends received from specified 10% owned foreign corporations by U.S. corporations that are U.S. shareholders.
- Variety of “base erosion” safeguards along with new incentives to earn foreign income on U.S. – domiciled intangible property.
- Repeal of “indirect” foreign tax credit

What should your CPA be talking to you about?

- Planning year for new tax law
- Choice of Entity - domestic and international
- 21% corporate rate
- 20% pass-through deduction
- Accounting Methods
- Opportunity Zones
- Expected technical corrections
- Expected regulations
- Expected IRS guidance

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Thank You!

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Demystifying Robotics Process Automation (RPA) and Data Analytics for Companies

Michael A. Carabott, BDO

UNDERSTANDING THE POWER OF DATA ANALYTICS

With you today

MICHAEL CARABOTT

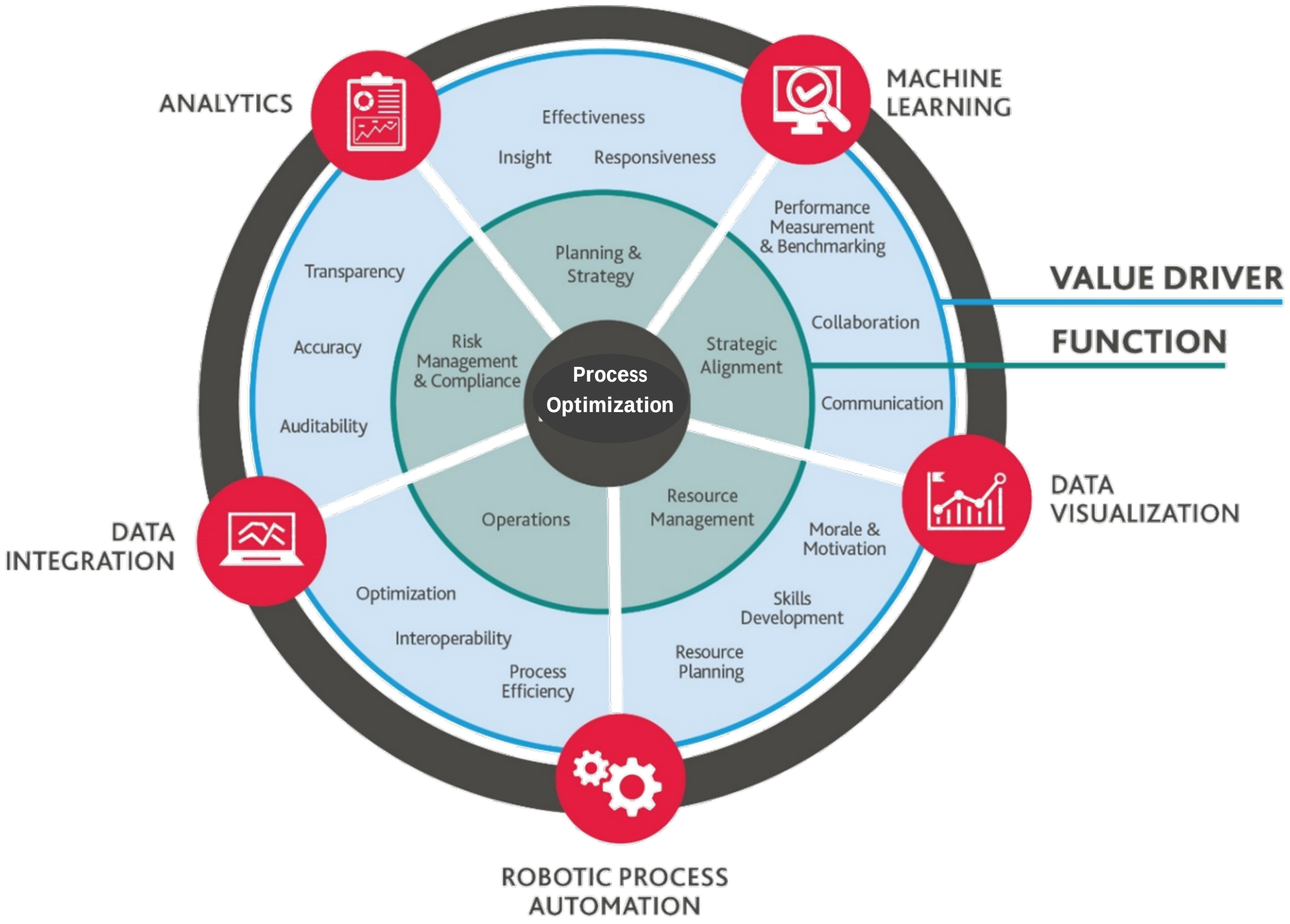
Senior Manager, Tax Transformation Services

- Over 18 years corporate tax technology and corporate tax accounting experience
- Certified implementer of ONESOURCE™ products
- Broad base of tax, accounting and tax automation experience
- Mike’s primary focus is understanding client’s needs and developing and implementing process re-engineering and automation solutions that enable clients to maximize the benefits of existing software, implement new software tools and utilize advanced automation techniques to address process challenges and software gaps.

Agenda

- Transformation Value Drivers
- What is a turbocharged department?
- Optimized Process Overview
- Technology Toolbox Review

Transformation value drivers



Department transformation

As accounting, compliance, and reporting requirements become increasingly complex, process and technology solutions offer opportunities to increase efficiency and effectiveness throughout every function of a corporation.

Corporate departments are facing a wide range of issues in today's fast moving environment including:

- Resource limitations
- Increasing breadth and depth of technical demands
- Shortened reporting deadlines
- Increased need for accuracy
- Demand for real-time information

Processes and technology are converging and becoming further blurred every day.

DEPARTMENT PROCESS DESIGN

IMPLEMENTATION OF VENDOR TECHNOLOGY

ANALYTICS AND AUTOMATION

OUTSOURCING USING VENDOR TECHNOLOGY

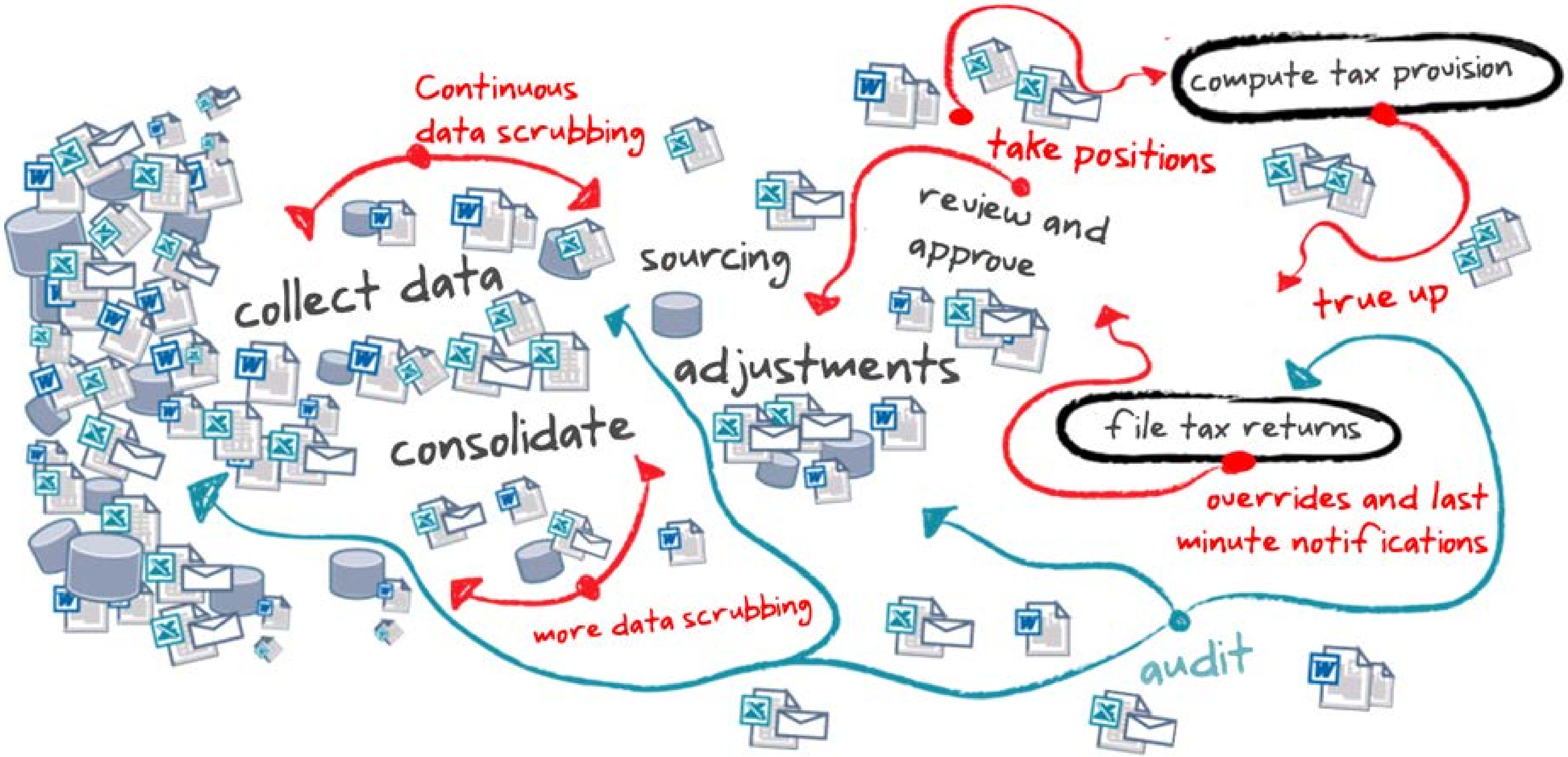
PORTALS

A turbocharged department

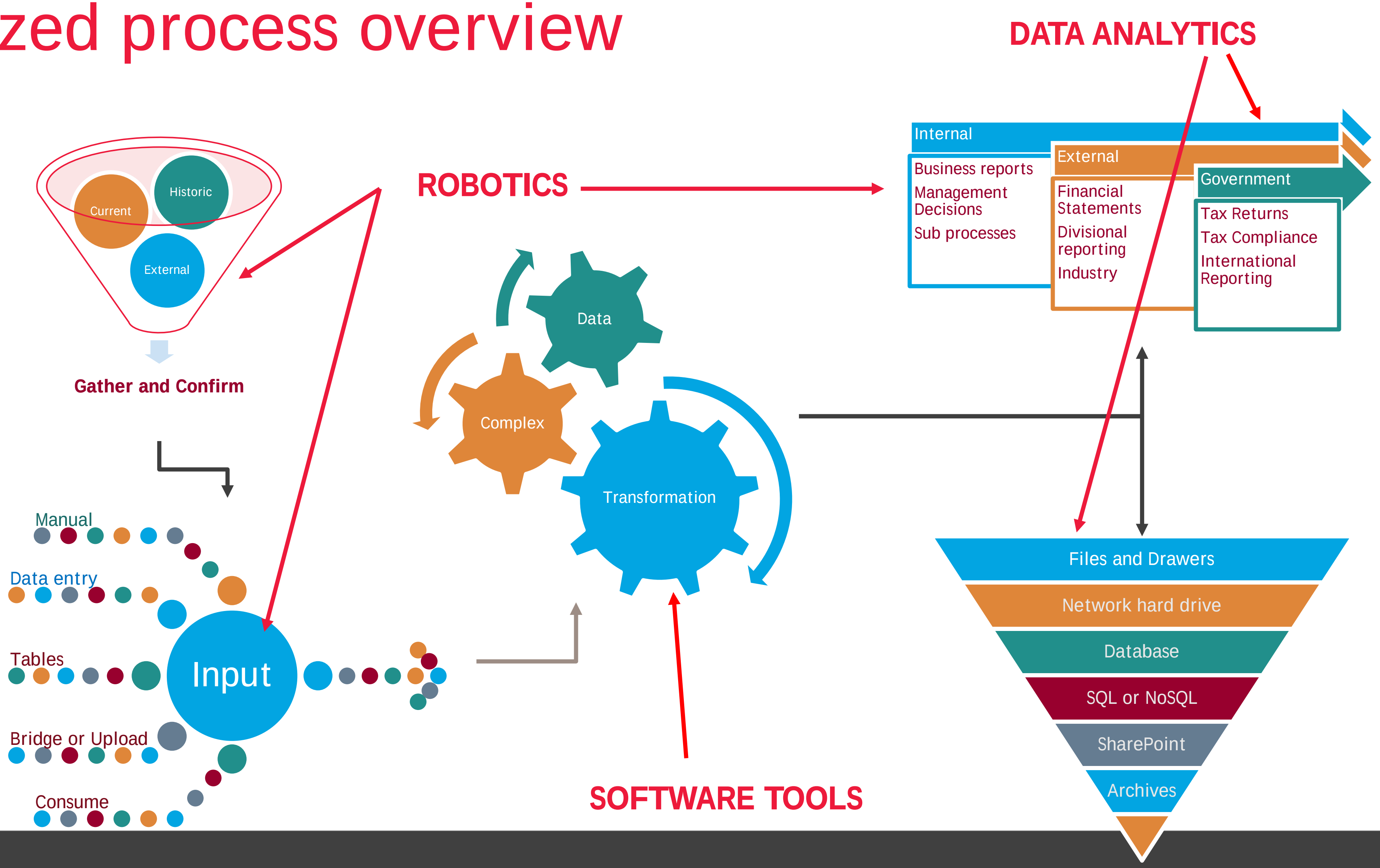
How do you identify a turbocharged department?

- Streamlined and standardized processes
- Automation
- Focus on data review
- Time spent on long-term goals
- Time spent on high value tasks
- Ability to address internal and external changes
- Evaluate and adopt emerging technologies
- Reduced Turnover

Does this look familiar?



Optimized process overview



Where to begin?

Functional effectiveness review

Review, analyze and assess a company's function, including operational efficiencies and effectiveness in achieving its stated goals and objectives. The review is designed to help the function improve performance by exploring opportunities to refine and reduce redundant processes.

The goal is to define, prioritize, mobilize, and support the implementation of change initiatives that fundamentally enhance the operating model, delivering both transactional and value-added improvements to the department.

EFFICIENCY

- Lean/waste reduction principles
- Process and organizational streamlining
- Technology and tools enablement

EFFECTIVENESS

- Key performance indicators definition and management
- Performance reporting and management
- Organizational alignment, agility, and accountability

RISK

- Controls development and monitoring
- Risk mitigation strategy and planning
- Internal controllership development

Technology tools

The main sets of tools in a department's toolbox are:

- RPA
- Built-in software automation
- Data analytics
- Visualizations
- Dashboards
- Portals

RPA – Robotic Process Automation Software

RPA

WHAT IS RPA?

- Specialized software that is used to create "bots"
- Bots are used to automate specific and repetitive tasks using rule-based procedures
- Bots utilize user interfaces and can span across multiple desktop applications

CONSIDERATIONS

- With the right resource commitment, departments can self-serve
- Do not underestimate the need for developer/designer input
- Monitoring and maintenance

Organizational challenges

- Deploying automation during a time of change
- Deploying automation to an unprepared organization
- Deploying automation without an oversight and maintenance plan
- Deploying automation too broadly
- Process documentation

Identifying and prioritizing which processes to automate

Picking the right process is the most important step in successfully implementing RPA

- Traditional process measures
- Risk assessment
- Scalability
- Departmental reaction

Fixed Assets CS

File Edit Tasks Utilities Setup Help

Search for assistance

For Help, press F1

Robotic process automation

Client success stories

ABOUT THE CLIENT	ENGAGEMENT BACKGROUND & CHALLENGES	CLIENT NEEDS	CLIENT IMPACT
FRANCHISE	A franchisor of laundromat facilities had multiple locations, each with a different instance of a point of sale system. They needed to pull data from each system on a daily basis, aggregate it, and report on it in real time. Their current process required manual logging into each system, running individual reports, and combining each for additional reporting to management. The process took three to four hours every day. This task would become impossible as they grew from four locations to 200 locations in the next year.	BDO was asked to develop an automated solution that could pull reports from each location and aggregate the data in one place for accurate and efficient reporting. This process needed to be efficient enough to also be deployed to all new locations as they opened.	Our bot captured the necessary data and was able to run in the background overnight. The bot allowed management to focus on decisions they could now make in real time about the business. It also allowed them to add more locations easily to the process without needing additional resources. This resulted in an estimated savings of $200,000 per year.

Robotic process automation

Client success stories

ABOUT THE CLIENT	ENGAGEMENT BACKGROUND & CHALLENGES	CLIENT NEEDS	CLIENT IMPACT
MANUFACTURER	Our client recognized that the calculation for determining qualification for a specific job tax credit was extremely tedious (100+ hours) due to extensive analysis of new hire/termination activity and manual data entry using spreadsheets.	BDO was tasked with creating an error-free and efficient model to automate the calculation of the credit.	Our automated solution takes in payroll and HR data and is able to quickly create a summary of job tax credit opportunities for the client. This solution reduced the client's manual effort in some cases from hundreds of hours to mere minutes. This resulted in a savings of $25,000 per analysis.

Robotic process automation

Client success stories

ABOUT THE CLIENT	ENGAGEMENT BACKGROUND & CHALLENGES	CLIENT NEEDS	CLIENT IMPACT
RETAIL	A retail client was filing returns in multiple states. As part of their process, they submitted address information to their sales tax return software. However, if the address was invalid (incorrect spelling, wrong zip code/city/state match), then the entire submission was marked as an error by the software. The client's team would then spend hours reviewing the addresses in order to identify the error so that the submission could be updated. If there was more than one inaccuracy, the team would potentially have to resubmit several times.	BDO was engaged to provide an automated solution that could validate addresses and cut down on the time-consuming work of address verification.	Our customized and automated solution was able to take the addresses and automatically review and fix the incorrect ones, returning a clean file with a log of what was updated. The automated solution would then resubmit on behalf of the team to the sales tax return tool. This reduced the time spent on each review to only a few minutes. The client experienced an estimated savings of $20,000 per year.

Robotic process automation

Client success stories

ABOUT THE CLIENT	ENGAGEMENT BACKGROUND & CHALLENGES	CLIENT NEEDS	CLIENT IMPACT
MEDICAL EQUIPMENT MANUFACTURING	BDO was tasked with developing an automated solution that could reduce the amount of time it took to prepare presentation material for a monthly update to their CFO. Information for their report was being pulled from multiple sources and involved a large amount of manual data entry. A major issue occurred when the numbers changed last minute and they had to quickly recreate the presentation.	The client needed BDO to develop an automated solution to remove excessive manual work, specifically a solution that could recreate presentation slides quickly and at the last minute.	Our automated solution saved the team 15 hours every quarter, while ensuring accuracy. It also allowed them to not only provide the update to the CFO before the quarterly deadline, but also to update it quickly if numbers changed at the last minute. Because all of the data was now being pulled together in a database, they were also able to add value to their current update by analyzing trends over time, hence creating a more insightful analysis to the CFO. This resulted in an estimated savings of $7,500 per year.

Implementing robotics

INTERNAL IMPLEMENTATION

- Leverage what you have
- What is the timing of the plan?
- Is it a global or local plan?
- How will robotics projects be prioritized?
- When can you expect to start seeing the benefits?
- Understand your corporate automation strategy

EXTERNAL IMPLEMENTATION

- Firm licenses robotics development software
- Firm provides experienced development team
- You work with the firm to design the solution
- You license the software to run the bots (minimal fee)
- Bot is still a desktop application running within your firewall
- Firm develops and maintains bots
- When the firm is ready, the bots can be passed over to internal resources

Process characteristics

Processes that could be enhanced through RPA usually exhibit these characteristics:

- Mature
- Repetitive
- Rapid processing
- Multi-system interaction
- Data manipulation and formatting
- Excessive user interface navigation
- Focus on business impact
- 20-step guideline

Department benefits of robotics

- Department can “self-serve”
- Talent can be allocated to tasks that have a higher value
- Tasks can be performed with a high degree of consistency
- Tasks can be performed at any time using a variety of triggers
- The process can be scaled to easily accommodate increasing volumes of data
- Speed, quality and consistency of data
- Short payback period with little or no integration costs
- High potential ROI

Other considerations

COSTS

- Software license for RPA software – development vs. executing
- Software license for the bots
- User training

TIME

- Creating and testing the bot
- Monitoring the performance of the bot
- Maintenance of the bot as processes change

Built-in software automation techniques

Automation techniques that are included with or added to purchased software that maximize the value of your existing software purchases

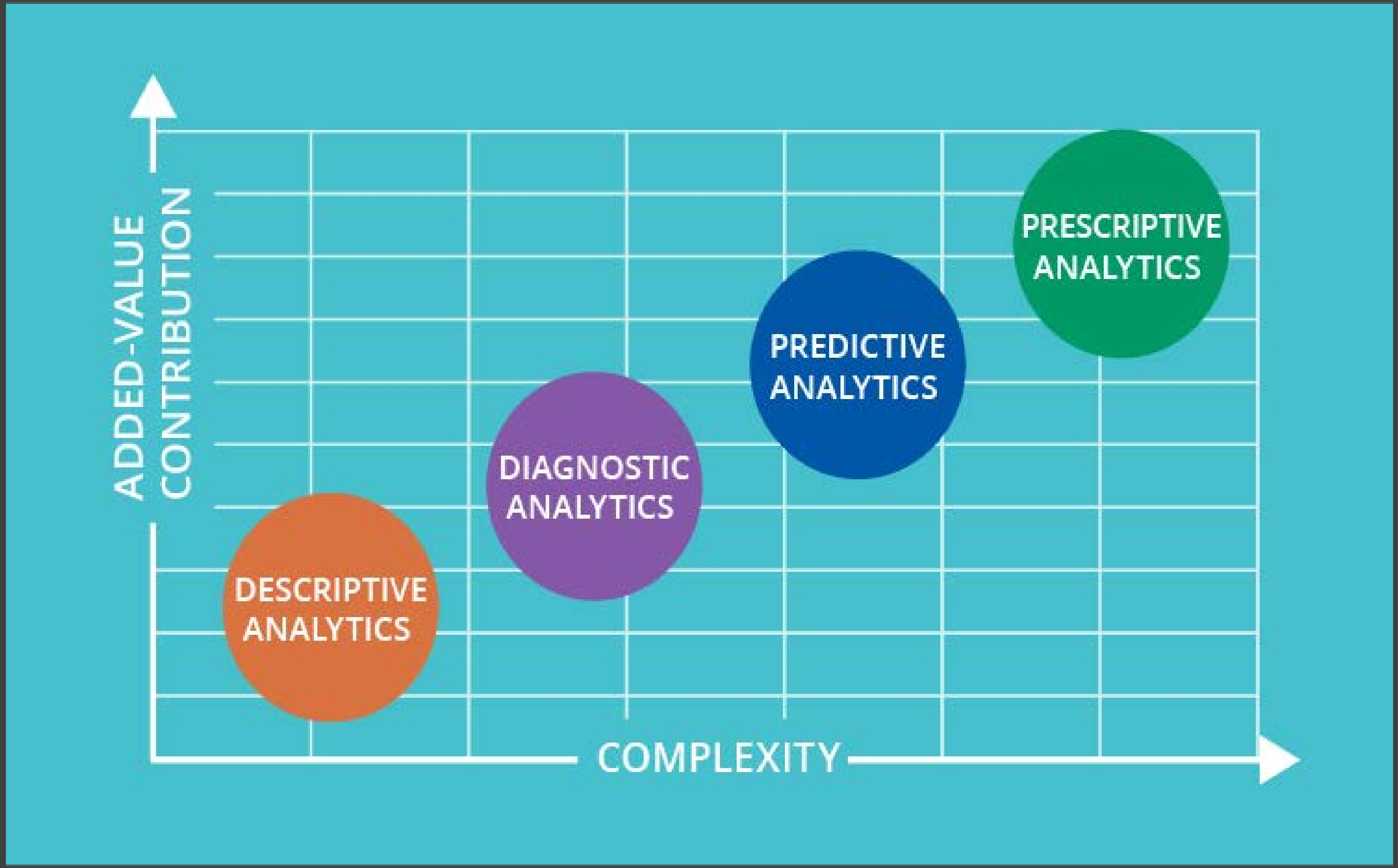
EXAMPLES

- Import Functions
- Auto Adjustments
- Workflow Management
- Excel Integrations
- Document Management

CONSIDERATIONS

- Small, incremental or zero cost
- Vendor support
- Best-suited for tasks within the software or getting data into the software

Data Analytics



Data analytics

- The process of collection, identifying details, categorizing key items and creating visualizations that help users understand a set of data and its meaning.

- The key to data analytics is not only to understand the data but having a good understanding of the questions that need to be answered. It is also important to note that when someone is reviewing data in a manual fashion, the more data they have the more difficult it is to understand. With Data Analytics the larger the data set available, the clearer the results become and the easier it will be to draw more accurate conclusions.

Your data - without visualization

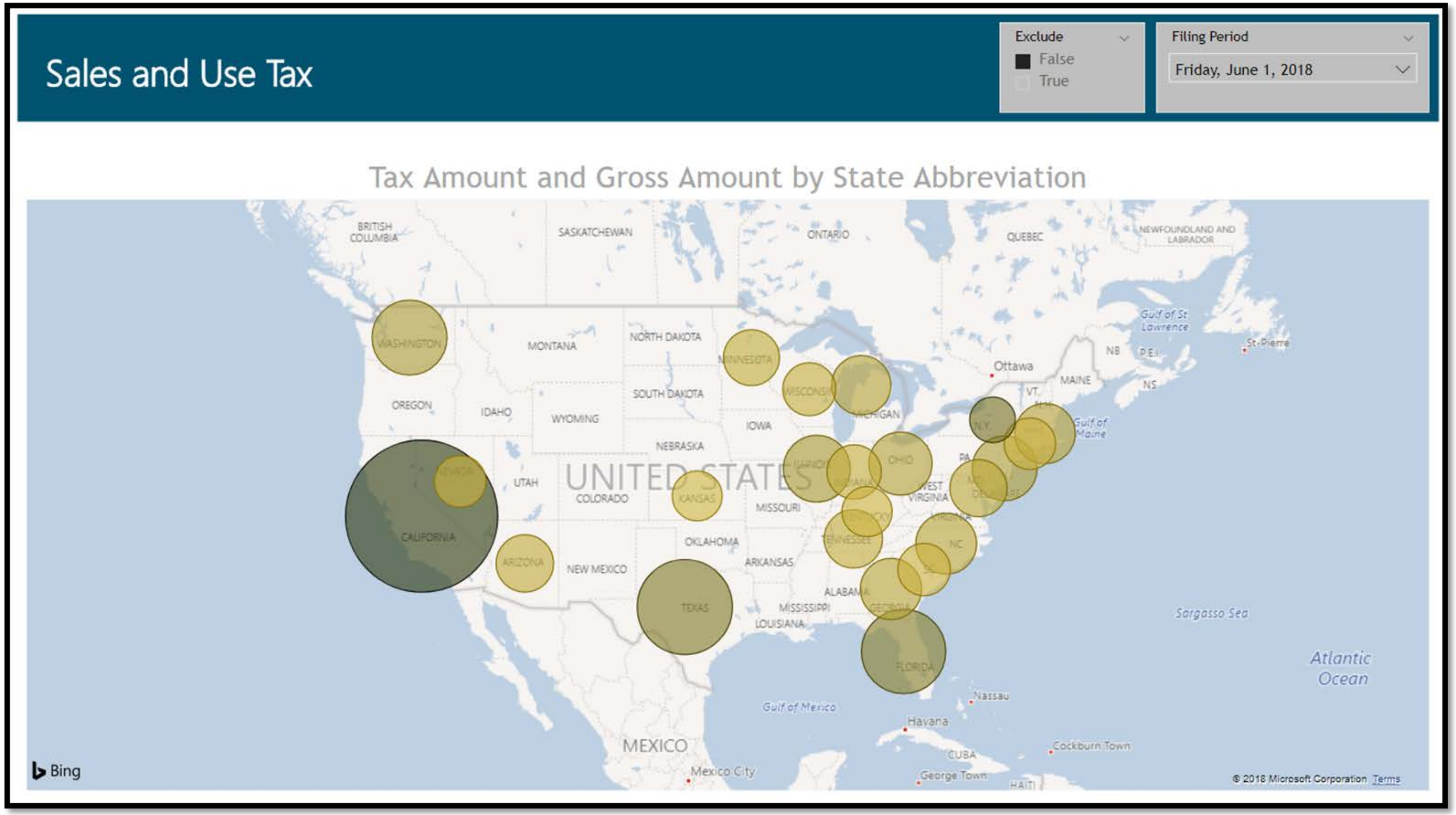
Sales and Use Tax

Exclude
False
True

Filing Period
Friday, June 1, 201

State Abbreviation	Division Code	Tax Category Code	Gross Amount	Gross Amount (Vertex)	Tax Amount	Tax Amount (Vertex)
AL		1	56,623.31	56,623.31	0.00	0.00
AR		1	29,551.30	29,551.30	0.00	0.00
AZ		1	127,011.44	127,011.43	9,064.57	6,064.52
CA		1	956,227.83	956,500.60	81,556.99	56,805.61
CT		1	71,953.42	71,953.42	4,525.81	4,525.81
DC		1	30,583.64	30,583.64	0.00	0.00
FL		1	446,441.19	446,441.19	29,629.78	26,222.79
GA		1	168,276.68	168,276.56	11,948.23	6,612.94
HI		1	35,948.53	35,948.53	0.00	0.00
IA		1	49,178.32	49,178.32	0.00	0.00
ID		1	39,043.68	39,043.68	0.00	0.00
IL		2	256,918.76	256,918.76	16,255.65	16,255.65
IN		1	96,330.64	96,330.64	6,656.20	6,656.20
KS		2	38,991.27	39,012.80	3,262.58	2,418.22
KY		1	59,679.31	59,679.31	3,502.94	3,502.94
LA		1	67,697.89	67,697.89	0.00	0.00
MA		1	181,878.06	181,878.06	11,259.60	11,259.60
MD		1	149,898.04	149,898.04	8,875.16	8,875.16
ME		1	31,088.74	31,088.74	0.00	0.00
MI		1	179,549.72	179,549.72	10,520.19	10,520.19
MN		1	109,294.08	109,295.14	7,928.50	7,296.15
MO		1	95,390.88	95,390.88	0.00	0.00
MS		1	25,161.06	25,161.06	0.00	0.00
NC		1	167,960.30	167,959.82	11,715.88	7,889.91
ND		1	15,104.18	15,104.18	0.00	0.00
NE		1	33,831.82	33,831.82	0.00	0.00
NJ		1	223,625.04	223,625.04	14,720.37	14,720.37
NM		1	30,642.73	30,642.73	0.00	0.00
NV		1	59,141.46	59,142.07	4,713.06	2,652.01
NY		1	545,633.21	545,633.21	60.59	27.76
OH		1	192,403.37	192,403.31	13,492.81	10,806.69
OK		1	49,696.78	49,696.78	0.00	0.00
Total			**6,031,343.48**		**330,695.06**	**276,725.57**

Your data – with visualization



Portals

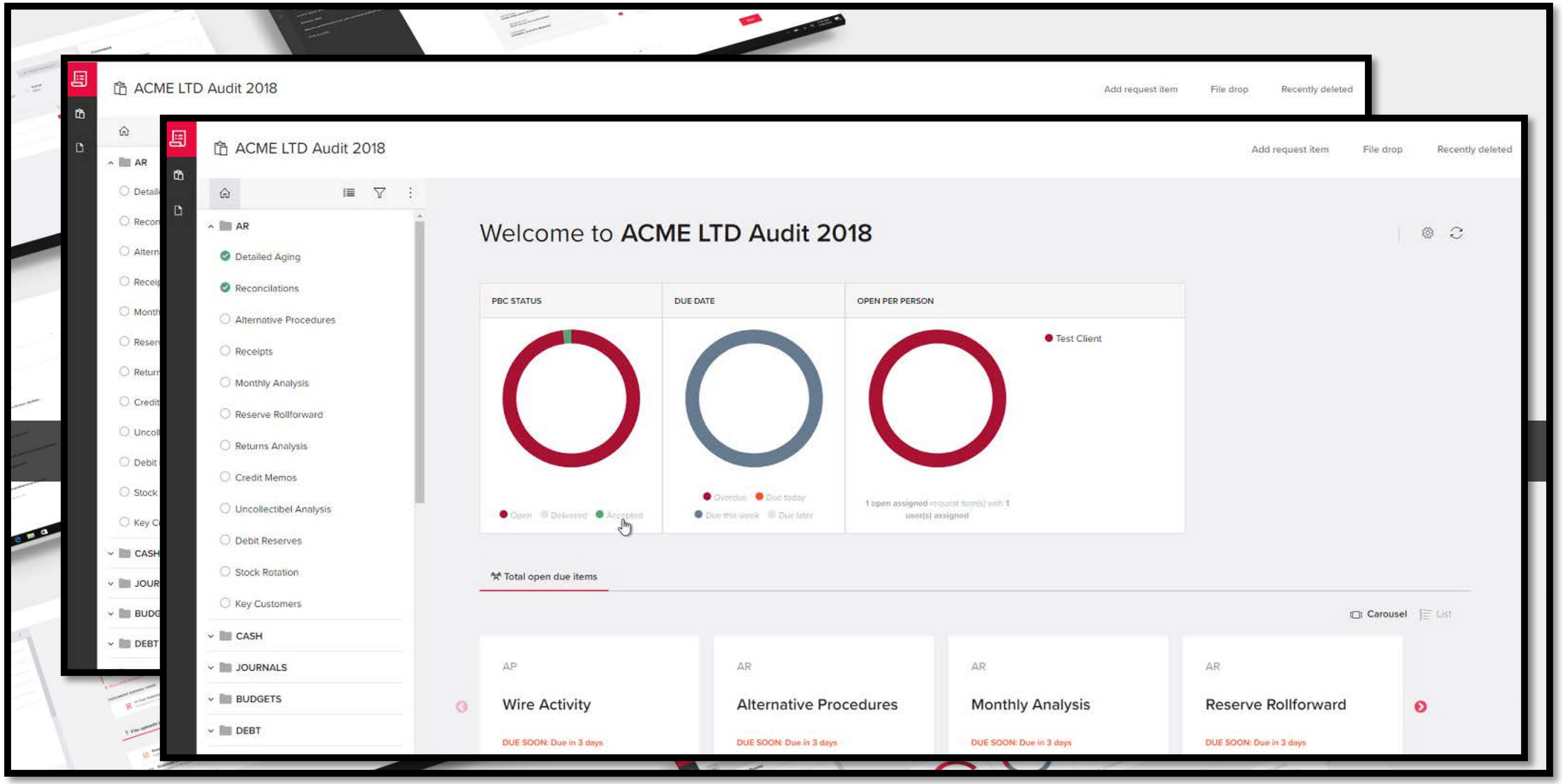
Portals

Client portals are a response to the increasing needs of corporate departments to manage multiple projects in multiple jurisdictions on a collaborative basis including communicating with internal professionals, as well as external service providers.

Clients who use portals experience:

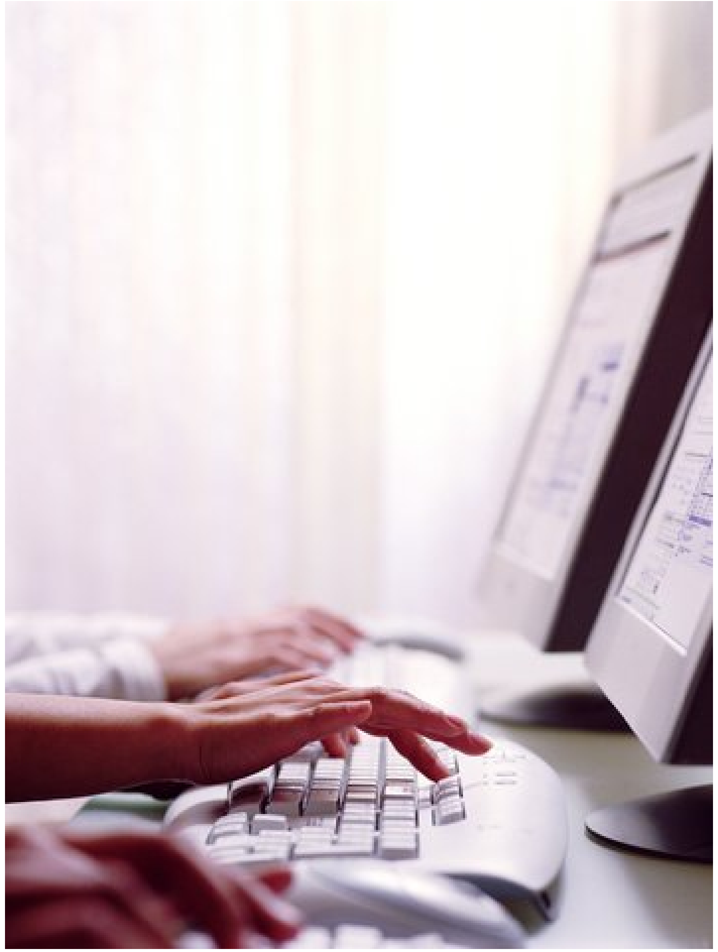
- One-touch global communication
- One-point secure document storage with flexible security options
- Centralized project management functions
- Consolidated worldwide project and compliance calendar
- Automatic deadline notifications and reminders
- Discussion threads-document discussion points more effectively than emails or other communication vehicles
- Secure and simple document upload/download
- Information updates (tax law, etc.)

Global portal



Dashboards

Dashboards



In information technology, a dashboard is a user interface that, somewhat resembling an automobile's dashboard, organizes and presents information in a way that is easy to read. A computer dashboard is more likely to be interactive than an automobile dashboard (unless it is also computer-based).

Dashboards

Total tax liability

TOTAL TAX LIABILITY - ABC Corporation

2013 — 2017

Tax Type
- Select All
- Income Tax
- Other Tax
- Property Tax
- Real Estate Tax
- Sales Tax

Breadth
- Federal
- Foreign
- State

US State: All

Country: All

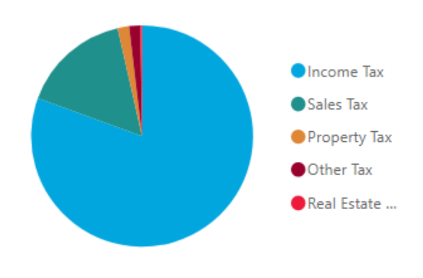
Revenue by Year

Year	Gross Revenue	Growth Rate	Tax Amount
2013	307,500,000	0.00 %	20,670,000
2014	334,200,000	8.68 %	22,474,000
2015	348,200,000	4.19 %	23,412,000
2016	395,600,000	13.61 %	26,597,000
2017	430,000,000	8.70 %	28,915,000
Total			**122,068,000**

Total Tax Breakdown

Tax Type	Federal	Foreign	State	Total
Income Tax	85,066,000	6,180,000	7,098,000	**98,344,000**
Other Tax		1,979,000		**1,979,000**
Property Tax			2,047,000	**2,047,000**
Real Estate Tax		307,000		**307,000**
Sales Tax			19,391,000	**19,391,000**
Total	**85,066,000**	**8,466,000**	**28,536,000**	**122,068,000**

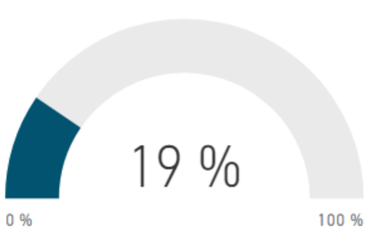
Tax Amount by Tax Type



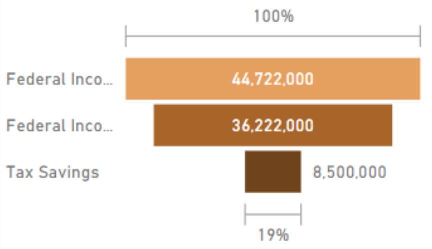
Total Tax Scorecard

Year	Subject Matter	Service Performed	Tax Savings
2016	IRS Audit Support	Audit defense and consulting	$5,000,000
2016	R&D Tax Credit	Calculation of R&D Tax Credit	$1,000,000
2017	Tax Due Diligence	Tax DD and QOE Analysis	$2,000,000
2017	Accounting Method Change	Warranty Reserve	$500,000
Total			**$8,500,000**

Percentage Tax Savings



Federal Income Tax Pre-Savings, ...



Strategic vs. tactical automation

TACTICAL AUTOMATION

- Focus is on "low hanging fruit"
- Works poorly with untrained users
- Little prioritization
- Benefits can be difficult to quantify

STRATEGIC AUTOMATION

- Focus is on automating based on a prioritized plan
- Manage disruption
- A change management
- Business case
- Training
- Governance and buy-in

Strategic automation succeeds where tactical automation fails

Bottom line

Robotics, Automation, AI and Data Analytics allows you to do more with less.

If you think that there must be a better way, then there probably is!

What's Your And?
The Future of Professionalism

John Garrett, The Recovering CPA

AN INDEPENDENT MEMBER OF BDO ALLIANCE USA

ACM Anton Collins Mitchell LLP Accountants & Consultants

What's Your And?

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What if how we define

Expertise

isn't complete?

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Eudaimonia

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Culture Circle

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Culture starts

OUTSIDE

the office walls

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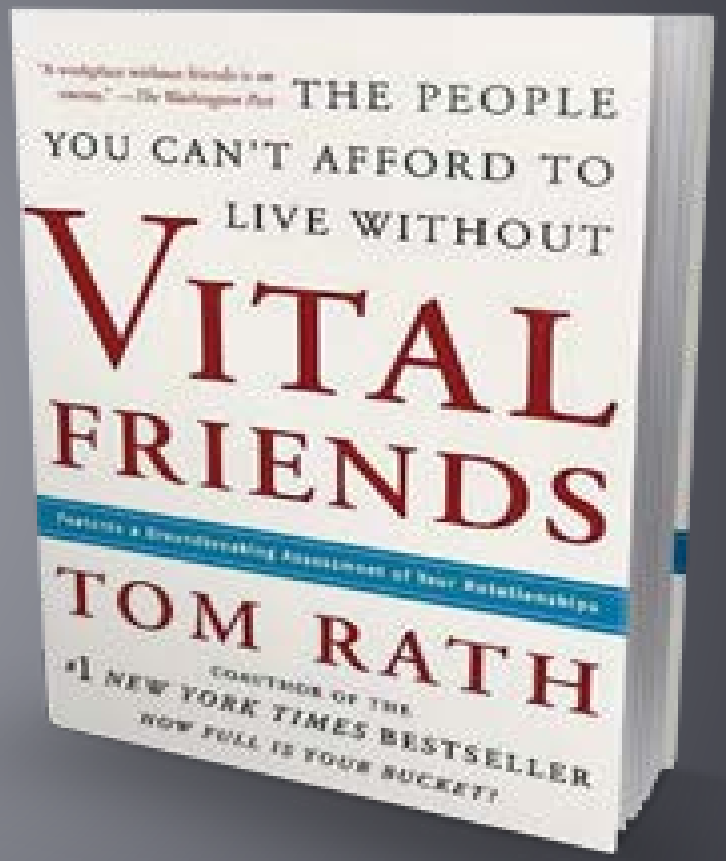
96%

of people that have
3 close friends
at work are more
satisfied with their
lives



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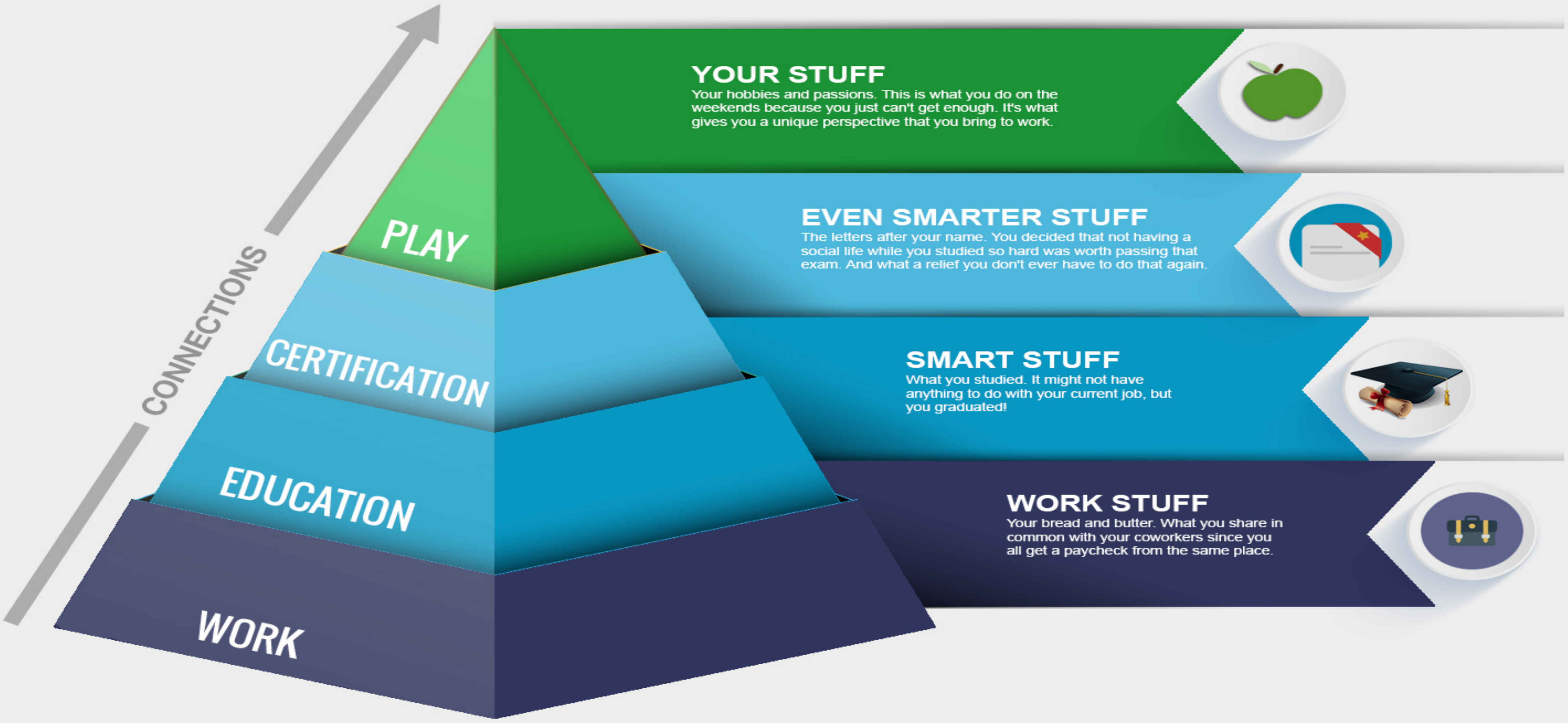
CONNECTIONS
PLAY
CERTIFICATION
EDUCATION
WORK
YOUR STUFF
Your hobbies and passions. This is what you do on the weekends because you just can't get enough. It's what gives you a unique perspective that you bring to work.
EVEN SMARTER STUFF
The letters after your name. You decided that not having a social life while you studied so hard was worth passing that exam. And what a relief you don't ever have to do that again.
SMART STUFF
What you studied. It might not have anything to do with your current job, but you graduated!
WORK STUFF
Your bread and butter. What you share in common with your coworkers since you all get a paycheck from the same place.

What if your

vulnerabilities

were actually your

strengths?

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MAKE ACCOUNTING WEIRD!

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