CPACharge is specifically designed to help CPAs, enrolled agents, and accountants accept credit, debit, and eCheck payments from their clients.

Affordable and easy-to-use, CPACharge exceeds standards for internet security and PCI Level 1 compliance. In addition, there are no long-term contracts or setup fees to get started. Your firm benefits from simplified reporting and reconciliation created specifically for how financial professionals run their offices.

AICPA MEMBERS CAN VISIT:

cpacharge.com/aicpa
866-235-9577

CPACharge is a registered agent of Wells Fargo Bank, N.A., Concord, CA and Citizens Bank, N.A., Providence, RI.
16 | COVID-19 pandemic prompts many tax changes

Here are legislative and IRS responses to the coronavirus outbreak.

22 | Pandemic places accounting, auditing rules in flux
As the coronavirus gripped the world, regulators, standard setters, and others moved to adjust rules and effective dates that are important to businesses, CPAs, and their clients. Meanwhile, CPA Exam candidates will have additional opportunities for testing during an emergency testing period.

30 | Strategic disruption: An expert’s thoughts on moving forward
Rita McGrath, a professor of management at Columbia University’s Graduate School of Business who has written extensively on disruption, foresees changes in business strategy in the wake of the COVID-19 pandemic.

36 | How auditors can test inventory without a site visit
A few methods are available for providing sufficient appropriate evidence of inventory even if an auditor can’t make a site visit because of the coronavirus pandemic.

NEWs DIGEST

4 | Accounting profession leaders call for action against climate change
SEC exempts certain companies from ICFR attestation requirement
FASB proposes gift reporting update, issues narrow changes
AU-C 800 series amended to conform with auditor reporting standard
GASB addresses lease accounting, OPEB, financial statement disclosures
Survey shows how firms can advance women in the workplace
AICPA launches SOC for supply chain

COLUMNS

10 | Checklist
When hard times hit staff
Supporting valued staff experiencing losses and hardships can help organizations respond in compassionate ways, while still meeting the needs of the business.

12 | Professional Liability Spotlight
The indirect impacts of COVID-19 on CPA firms
When money is lost, those who are damaged will seek recourse from wherever they can find it, and CPAs can be high on that list of targets.

42 | Tax Matters
Supreme Court overturns consolidated group tax refund allocation rule
Sec. 6662(a) penalties require written supervisor approval
Failure to file FBAR is not due to reasonable cause
Reconsideration of estate’s penalty abatement yields same result
In-game currency not taxable, IRS clarifies
IRS to step up high-income taxpayer visits

46 | Inside AICPA
Where to Turn

CPE DIRECT
Another major benefit for JofA readers
Stay current through the JofA and earn CPE credit based on JofA articles — with the CPE Direct self-study subscription program. You can earn up to 48 CPE credits a year. Quarterly CPE Direct study guides combine JofA articles with supplementary materials and exams.

An annual subscription is $189 for AICPA members. For more information or to order, visit acipastore.com/cpe, or call 888-777-7077.

This symbol identifies articles in the CPE Direct self-study program.
Don’t worry; you can pick them all.

As an AICPA member, save on products and services with leading providers in insurance, travel, office supplies, shipping, technology and more, for personal and professional use.

It’s just one more benefit of membership, brought to you by the AICPA.

Start your savings at aicpa.org/discounts.
Accounting profession leaders call for action against climate change

Environment-related issues are recognized as a significant emerging risk.

Fourteen accounting bodies representing members worldwide recently published a call to action urging accounting professionals to put sustainability and the fight against climate change at the forefront of their work.

“The accounting profession has long focused on assessing and managing financial risks,” Barry Melancon, CPA, CGMA, president and CEO of the Association of International Certified Professional Accountants, said in a news release. “However, the global risks we are seeing today, in particular environment-related risks, are pushing our profession to expand its remit.”

The following global bodies signed the call to action: Association of Accounting Technicians (AAT); Association of Chartered Certified Accountants (ACCA); Association of International Certified Professional Accountants (the unified voice of the AICPA and CIMA); Chartered Accountants Australia and New Zealand (CAANZ); Chartered Accountants Ireland (CAI); Consiglio Nazionale dei Dottori commercialisti e degli Esperti Contabili (CNDCEC); CPA Australia; CPA Canada; Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW); Institute of Chartered Accountants in England and Wales (ICAEW); Institute of Chartered Accountants of Scotland (ICAS); International Federation of Accountants; Japanese Institute of Certified Public Accountants (JICPA); and Regnskap Norge/Accounting Norway.

The call to action came amid increasing pressure from the business world to address climate change. The accounting bodies’ call to action said members can help bring about meaningful change because of their expertise with advising businesses about risk management and their responsibility to act in the public interest.

“As core members of almost every business, government, and nongovernmental organization, accountants are ideally positioned to help organizations assess and manage these new risks,” Melancon said.

The global accounting body leaders asked accountants to:
- Integrate climate change risk into organizational strategy, finance, operations, and communications.
- Support sustainable decision-making.
- Provide sound advice and services.

This issue is relevant to accountants because of their role in risk management and the fact that climate change has emerged as a significant risk. Accountants also have a responsibility to act in the public interest.
SEC exempts certain companies from ICFR attestation requirement

Maintaining effective ICFR will still be required.

Smaller reporting companies with less than $100 million in revenue will no longer be required to obtain a separate attestation of their internal control over financial reporting (ICFR) from an outside auditor under amendments adopted by the SEC.

Under the amendments, these companies will continue to be required to establish and maintain effective ICFR. These companies’ principal executive and financial officers will be required to continue to certify that they are responsible for establishing and maintaining ICFR and have evaluated and reported on the effectiveness of the company’s disclosure controls and procedures.

These companies also will continue to be subject to a financial statement audit by an independent auditor, who will be required to consider ICFR in the performance of that audit. But the separate attestation of these companies’ ICFR by an outside auditor will no longer be required.

The amendments will:

- Exclude from the accelerated and large accelerated filer definitions any issuer that is eligible to be a smaller reporting company and had annual revenues of less than $100 million in the most recent fiscal year for which audited financial statements are available. Business development companies will be excluded in analogous circumstances.

- Increase the transition threshold for an accelerated and a large accelerated filer becoming a nonaccelerated filer from $50 million to $60 million. The transition threshold for exiting large accelerated filer status was raised from $500 million to $560 million.

- Add a revenue test to the transition thresholds for exiting both accelerated and large accelerated filer status.

- Add a check box to the cover pages of annual reports on Forms 10-K, 20-F, and 40-F to indicate whether an ICFR auditor attestation is included in the filing.

The amendments will take effect 30 days after publication in the Federal Register and apply to an annual report filing due on or after the effective date.

FASB proposes gift reporting update, issues narrow changes

Not-for-profits’ reporting of gifts-in-kind is affected.

FASB recently issued a Proposed Accounting Standards Update (ASU) designed to improve transparency in how not-for-profit organizations present and disclose contributed nonfinancial assets.

Also known as gifts-in-kind, contributed nonfinancial assets include fixed assets such as land, buildings, and equipment; the use of fixed assets or utilities; materials and supplies, such as food, clothing, or pharmaceuticals; intangible assets; and/or recognized contributed services.

The Proposed ASU, Not-for-Profit Entities (Topic 958), would require not-for-profit organizations to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. It would also require not-for-profits to make certain other disclosures related to contributed nonfinancial assets.

In other FASB news:

- **LIBOR relief provided:** FASB issued a standard that is designed to give financial statement preparers relief as they make the transition away from the London Interbank Offered Rate (LIBOR) and other similar rates that are being discontinued. The standard provides optional expedients and exceptions for applying GAAP to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another rate that is expected to be discontinued.

- **Financial instruments accounting:** FASB issued ASU No. 2020-03, Codification Improvements to Financial Instruments, to make narrow-scope changes that are intended to improve the board’s standards for financial instruments accounting, including the credit losses standard issued in 2016. The standard is part of FASB’s ongoing project to improve and clarify its Accounting Standards Codification and avoid unintended application. The items addressed are not expected to significantly affect current practice or create a significant administrative cost for most entities.

- **New leadership:** John Auchincloss, who was serving as acting president of the Financial Accounting Foundation during a national search for an executive director, was appointed the foundation’s executive director.
If you currently have AICPA life insurance and are between the ages of 45–74, discover how a simple change in status could lower your rates.

**on AICPA Life rates with Select status**
Select rates are available to members who are age 45–74 and in good health. Simply answer a few health questions to apply.

Save up to **52%**

**on AICPA Life rates with Preferred status**
Preferred rates are available to members who are age 50–74 and in excellent health. A brief medical exam, short health questionnaire, and a minimum of $250,000 in coverage are required to request Preferred status.

Save up to **66%**

No risk to apply! If for any reason you aren't approved, your insurance coverage won't be terminated or decreased. You'll simply pay the lowest rate you qualify for. Not covered under any of our plans? Now is a great time to see what you're missing out on.

Learn more at cpai.com/lifequote

Questions? Please call 800.223.7473.

Coverage is issued by The Prudential Insurance Company of America.

---

Percentages shown reflect savings for the CPA Life & Spouse Plans. The information above does not pertain to the AICPA Level Premium Term Plan as it has a different rate structure. For more information, visit cpai.com/lpt.

Aon Insurance Services is the brand name for the brokerage and program administration operations of Affinity Insurance Services, Inc. (TX 13695) (AR 100106022); in CA & MN, AIS Affinity Insurance Agency, Inc. (CA 0795465); in OK, AIS Affinity Insurance Services Inc.; in CA, Aon Affinity Insurance Services, Inc. (CA 0G94493), Aon Direct Insurance Administrators, and Berkeley Insurance Agency; and in NY, AIS Affinity Insurance Agency. The Plan Agent of the AICPA Insurance Trust, Aon Insurance Services, is not affiliated with Prudential.

Group Insurance coverage is issued by The Prudential Insurance Company of America, a Prudential Financial company, Newark, NJ. The Booklet-Certificate contains all details, including any policy exclusions, limitations, and restrictions, which may apply. Contract Series: 83500.

1019604-00002-00

AICPA Life & Spouse Plans

Aon | Prudential

Partnering with the AICPA for over 70 years
AU-C 800 series amended to conform with auditor reporting standard

Separately, ARSC amends four sections of SSARS No. 21.

A new standard issued by the AICPA Auditing Standards Board (ASB) is designed to align the AU-C 800 series in AICPA Professional Standards with the new standard on auditor reporting. Statement on Auditing Standards (SAS) No. 134, Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements, was issued in May 2019.

SAS No. 139, Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes From SAS No. 134, is part of the ASB’s ongoing effort to conform other AICPA auditing standards with SAS No. 134 and other recently issued SASs. SAS No. 139 makes changes to:

- AU-C Section 800, Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks.
- AU-C Section 805, Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement.
- AU-C Section 810, Engagements to Report on Summary Financial Statements.

SAS No. 139 was scheduled to take effect for periods ending on or after Dec. 15, 2020, but the ASB planned an April 20 meeting to consider a one-year delay for this standard and others as a result of the coronavirus pandemic.

Amendments to SSARS No. 21: The AICPA Accounting and Review Services Committee (ARSC) issued a new Statement on Standards for Accounting and Review Services (SSARS) that amends four sections of SSARS No. 21, Statements on Standards for Accounting and Review Services: Clarification and Recodification, to more closely align them with the auditing standards in AICPA Professional Standards, where appropriate, and with the international standards for review engagements.

GASB addresses lease accounting, OPEB, financial statement disclosures

FASAB clarified the loss allowance for federal government entities.

Issues for state and local governments related to lease accounting, other post-employment benefits (OPEB), and other topics were addressed in an omnibus standard issued recently by GASB.

The new standard, GASB Statement No. 92, Omnibus 2020, addresses various issues that include:

- Modifying the effective date of Statement No. 87, Leases, as well as associated implementation guidance, to fiscal years beginning after Dec. 15, 2019, to address concerns about interim financial reports. These requirements may be altered further based on GASB’s project to provide relief to government preparers as a result of the coronavirus pandemic.
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit OPEB plan.
- The applicability of certain GASB statements to reporting assets accumulated for pensions and OPEB.
- The applicability of certain requirements of Statement No. 84, Fiduciary Activities, to pension and OPEB arrangements.

GASB encourages early application of the requirements in the standard. Separately, GASB and the Federal Accounting Standards Advisory Board took the following actions:

Proposal would change note disclosure criteria: GASB issued a proposed concepts statement, Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements: Notes to Financial Statements, that would establish new criteria for state and local governments to follow in developing their disclosures for notes to financial statements.

CPA.com and Paychex have come together to help you simplify your clients’ payroll, retirement and HR services through the Paychex Partner Program.

Through world-class service, advanced tools and technology, the Paychex Partner Program can help you become your clients’ most trusted advisor.

Chat: with an Accountant Care Team specialist
Connect: with US-based, 24/7, dedicated service centers
Integrate: with leading accounting software including Quickbooks® Online, Sage Intacct®, and Xero™
Manage: with AccountantHQ, a dashboard that allows you easy access to your clients’ payroll and HR information

The Insights and Service You Need. The Simplicity You’ll Love.

Call 877.264.2615 or learn more:
CPA.com/Paychex
AICPA launches SOC for supply chain
The voluntary framework enables reporting on control effectiveness.

The AICPA has launched SOC for Supply Chain, a market-driven, flexible, and voluntary framework for organizations to communicate certain information about their manufacturing, production, or distribution system and the effectiveness of controls that mitigate supply chain risks.

The introduction of this new framework provides an opportunity for organizations to have an examination engagement performed on their manufacturing, production, or distribution system. This type of audit provides a CPA's opinion on the organization's description of the system it uses to manufacture, produce, or distribute products and an opinion on the effectiveness of the controls within that system.

Three resources that support the framework were also released (for more details, visit tinyurl.com/vwh5fo2):

■ **Description criteria:** The AICPA's Description Criteria for a Description of an Entity's Production, Manufacturing, or Distribution System in a SOC for Supply Chain Report includes the criteria used to prepare and evaluate the description of a manufacturer's, producer's, or distribution company's system.

■ **Trust services criteria (updated):** The AICPA's 2017 Trust Services Criteria for Security, Availability, Processing Integrity, Confidentiality, and Privacy is used to evaluate and report on the effectiveness of the controls within an organization's system.

■ **CPA guide:** The guide is titled Reporting on an Examination of Controls Relevant to Security, Availability, Processing Integrity, Confidentiality, or Privacy in a Production, Manufacturing, or Distribution System. Developed by a joint working group of the AICPA Assurance Services Executive Committee and the Auditing Standards Board, the guide provides guidance to CPAs on performing the new SOC for Supply Chain Examination.

The SOC for Supply Chain examination is part of the AICPA's suite of System and Organization Controls (SOC) services, which enable CPAs to examine and report on system or entity-level controls of a variety of different organizations. These services also include SOC 1, SOC 2, and SOC 3, which address system controls at service organizations; and SOC for Cybersecurity, which addresses organizationwide cybersecurity controls within any type of organization. (For more details, visit tinyurl.com/vqorssq.)

---

**Survey shows how firms can advance women in the workplace**

Modified work arrangements are popular and well regarded.

Firms that use modified work arrangements (MWAs) and formal advancement report that the benefits are clear for women in the workplace, according to the AICPA's 2019 CPA Firm Gender Survey.

The survey revealed that the vast majority of firms (94%) offered some form of MWA, such as flex time, reduced hours, or telecommuting, and that MWAs were considered effective attraction and retention tools. The survey also showed that half (50%) of firms had partners who used MWAs, and 62% of these partners had been on MWAs before becoming partner.

“We’re seeing MWAs become a viable option for people at all levels,” said Jacquelyn H. Tracy, CPA, CGMA, chair of the AICPA Women's Initiatives Executive Committee, which conducted the survey, and a partner at Mandel & Tracy LLC in Providence, R.I. “It’s helping us keep great people in the profession. It’s a big bang for virtually no bucks.”

Tracy said her practice has two partners — herself and another woman — and they both use their own form of MWA. They work long hours during busy season, then each works three to four days a week the rest of the year.

Respondents also generally ranked formal advancement programs such as mentoring and sponsorship programs as very beneficial in terms of attraction, retention, and advancement, but the survey found that not all firms had embraced these initiatives yet.

Firms that focus on gender diversity initiatives see tangible advantages, including enhanced attraction and retention of high-quality people, Tracy said. “Staff at entry and middle levels will see more people like them and realize they can aspire to leadership roles,” she said.

In another finding, nearly 40% of firms are monitoring gender pay parity, according to the survey, and 85% of those firms report they are addressing any disparities they find.

Tracy recommended that firms involve staff at all levels in any gender initiative to ensure engagement in and acceptance of the program and so that the initiative can benefit from a range of perspectives.
When hard times hit staff

Employees coping with the death of a loved one or a serious illness in the family may need time, space, and leave from work. Experts advise how to assess leave policies and offer support.

Respond with sympathy and empathy. How an employer relates to workers at the most difficult points in their lives can determine the level of loyalty employees will show in the future. “When an employee is dealing with a loss is a moment when the employer can show up in a way that keeps the employee engaged for a lifetime,” said David Kessler, founder of Grief.com and an expert on healing and loss. “That’s the time the employer can show they care not just about an employee’s productivity but about their life.”

Provide paid and unpaid time off. Some hardships, such as a sick relative or an employee’s own illness, can present staffing challenges to employers. Depending on the particulars, the Family and Medical Leave Act often permits significant unpaid time off. Many firms allow employees to use paid time off or take additional unpaid leave on top of the immediate bereavement allowance. Look into employee assistance programs to provide help to the employee and their family.

Be flexible. If an employee loses a close family member such as a parent, spouse, or child, he or she may need a few weeks to deal with logistics such as arranging a funeral or seeing to legal matters, as well as coping with the immediate emotions of the loss. Bereavement leave may also need to be spread out beyond the first few days following a loss. “Employees may not need the time immediately,” said Carole Walford, chief clinical officer for national hospice and end-of-life care charity Hospice UK. “It’s about valuing your workforce and working with them individually.”

Prepare managers. Line managers are the ones likely to have initial meetings with employees in crisis, so teaching them how to address personal losses and hardships sensitively but practically is crucial. Consider training managers ahead of time so they’ll know how to assess this type of situation. “There is a need for line managers to have the skills set to support their teams,” Walford said. “This can be through a well-timed conversation, by asking open-ended questions, or to know when simply to listen and then schedule to revisit, once managers and employees have had time to reflect.”

Recognize the grieving process is open-ended. Even after bereavement leave has ended, the grieving process may not be over. But this does not mean the employee cannot function well with the right support. “There is no timeline — grief is as unique as a fingerprint,” Kessler said. Some employers may hire another staff member to help out or look for ways to divide the work among other employees, said Susan Heathfield, a Michigan-based management consultant. “Most are willing to help in the short term if they see an end in sight,” Heathfield said. “If no endpoint exists, hire.” Though no one wants to see an employee struggle, having practices and procedures in place can help valued staff make their way through some of their toughest times.

— By Andrea Chipman, a freelance writer based in the UK. To comment on this article or to suggest an idea for another article, contact Drew Adamek, a JofA senior editor, at Andrew.Adamek@aicpa-cima.com.
Lease Accounting Software
Purpose Built for the Lease Accounting Transition

FULLY COMPLIANT WITH
ASC 842     IFRS 16     GASB 87

See why we're rated #1 by CPAs.
Schedule a demo and get
$500 off your purchase.

LEASEQUERY.COM/DISCOUNT

1-800-880-7270
The indirect impacts of COVID-19 on CPA firms

By Sarah Beckett Ference, CPA; Deborah K. Rood, CPA; Stan Sterna, J.D.; and Joseph Wolfe

The world has changed dramatically in recent months. At the beginning of 2020, many CPAs were excited about the prospect of an “easier” busy season after dealing with the law known as the Tax Cuts and Jobs Act, P.L. 115-97, last year. Financial markets were at an all-time high, and everything appeared to be smooth sailing.

Then along came COVID-19. The travel and hospitality industry has all but disappeared. Commerce has declined dramatically. Millions of Americans are under shelter-in-place orders resulting in the need for owners and employees of CPA firms, and their clients, to work from home. Existing engagements for all areas of practice may be affected, and the new landscape also presents opportunities to help clients navigate these challenging times. While much of the world is focused on the immediate and direct impact of COVID-19, its indirect effects, such as the state of the economy or the services offered by CPA firms, have potential long-term professional liability consequences that should be addressed now.

EXISTING/CONTINUING SERVICES
Additional risks to consider vary by area of practice.

Audit and attest services
Chances are, previously completed engagement planning and risk assessment procedures did not address COVID-19 or the risk of a pandemic in general. New circumstances have arisen that necessitate a reassessment of, and likely, modifications to, a CPA firm’s planned approach.

Firms should consider the impact of COVID-19 on a client’s business, especially the impact on financial statement amounts that require judgment or estimation, such as asset valuations or revenue recognition. Additional disclosures, such as going concern and/or risks and uncertainties, or modifications to the CPA firm’s report may be necessary. If a client’s business fails at a later date, lenders and investors may be quick to blame the CPA firm for their lost investment, especially if, in hindsight, disclosure was inadequate or the firm failed to detect a misstatement in the financial statements.

Accommodations may be required for clients with upcoming fiscal year ends. For example, it may no longer be considered “safe” to perform physical inventories, and fraud inquiries may need to be performed virtually. If both the client and engagement team are working remotely, how will evidence be gathered and tested? Assess engagement plans to determine if modifications are required in order to comply with professional standards. Discuss modifications with the client as the engagement fee or realization may also be impacted.

Stay up to date on recently issued guidance. The AICPA’s FAQs — Audit Matters and Auditor Reporting Issues Related to COVID-19 (available at tinyurl.com/y72dx8bk) is an excellent resource. The SEC’s thoughts are included in its Statement on the Importance of High-Quality Financial Reporting in Light of the Significant Impacts of COVID-19 (available at tinyurl.com/tm3y33y). Other audit and financial reporting resources and guidance are continually being updated and are available at the AICPA’s Coronavirus (COVID-19) Audit and Accounting Resources page (available at tinyurl.com/yb8u78r2).

Tax services
While filing deadlines and estimated tax payments have been extended for many types of tax returns, they have not been extended for all, resulting in a complex calendar of future filing dates that is in constant flux. Be mindful of due dates that have changed, and those that have not, and work with clients to file returns on time. If this is not coordinated properly, the client may blame the CPA for any late-filing penalties. Refer to the AICPA’s Federal Due Dates Chart Updated for COVID-19 Relief (available at tinyurl.com/wxbc2x5; member login required) for the most up-to-date information regarding federal returns. In addition, the AICPA has created a State Due Dates Chart Updated for COVID-19 Relief that summarizes state filing deadlines (available at tinyurl.com/y7p3vxc; member login required).
A docket system, perhaps now more than ever, may be your best tool to help keep track of deadlines to ensure they are not missed. Be sure to update it for filing and payment date relief that has already been granted, and continue to do so as additional changes are announced. Review critical components of a docket system as discussed in “Professional Liability Spotlight: Docket or Lose It: Avoiding the Risk of Missed Deadlines,” JofA, Dec. 2018, tinyurl.com/u7kmbgc.

Ensure clients understand that first- and second-quarter estimated tax payments are both due July 15, 2020. Timely communication on this matter is critical to allow clients time to determine the source of their tax payments. What is the effect on the CPAs’ risk? If clients are forced to sell assets at a loss in order to make payments, they may later assert that the CPA is responsible for the losses due to unclear instructions.

As always, contemporaneous documentation of client communications is important and will help mitigate the risk of forgotten, misunderstood, or misinterpreted conversations down the road.

Consulting services
For many firms, consulting projects, including tax consulting, may be modified, postponed, or even ceased to enable clients to conserve cash flow. Address the status of consulting engagements proactively. If necessary, secure updated engagement letters or other written communication with the client detailing any modifications to scope. If services are temporarily halted, postponed, or cease altogether, confirm this in writing with the client.

Important considerations for all services

Revisit existing engagement letters: Review existing engagement letters to ensure they continue to accurately reflect the agreement between the firm and the client. Should planned due dates or work products be updated? Does the scope of service require modification or clarification to ensure it limits the firm's responsibility to only those services outlined in the engagement letter? For example, if tax compliance services are delivered, is the engagement letter strictly for tax compliance services? Or does it, for example, include “limited tax planning” or similarly vague language, which may be interpreted to include advising the client about tax planning or relief opportunities? In times of uncertainty, it is extremely important that clarity exists and is supported by a written communication between the client and the firm.

Monitor billing and collection activity:
Sadly, many clients may struggle to continue paying invoices when due, including those to their CPA firm. Review your client list to identify those that may have cash flow problems. Proactively discuss payment alternatives or requirements in order to continue providing services.

Emphasize timely billing, and monitor client collections. Invoices are more likely to be collected when the client’s memory of your services is fresh. If a client falls behind and a payment plan or other form of agreement cannot be reached, consider suspending services. Be mindful of the accumulation of large balances in work-in-process and receivables, and do not be afraid to revisit the client relationship if mutual satisfaction is not present.

Respond appropriately to requests from lenders: As the stability of the economy becomes less certain, lenders may be more aggressive in requiring a CPA’s confirmation of certain information, such as the impact of COVID-19 on a client’s business, when credit is extended or terms are modified. It is generally not appropriate or recommended to respond to most requests made by lenders. Doing so creates additional risk to the firm and is generally not supported by the services delivered to the client. Refer to the AICPA’s guidance on CPA Comfort Letter to Lenders and Third Party Verifications (available at tinyurl.com/wo7vbba) for more information on requests from lenders and a CPA’s suggested response (or lack thereof).

NEW SERVICE REQUESTS
The changes to the business environment, the introduction of new legislation and programs, and the expansion of existing ones have been swift. Clients face complex and confusing choices that may have long-term (and short-term) consequences. To add clarity to the chaos, many are turning to their CPAs as they grapple with these challenging times and attempt to navigate available incentives. While this creates new opportunities for CPA firms, it also introduces new, corresponding risk.
Connect

People
Processes
Technology
Numbers
Narrative
Quantitative Data
Qualitative Data
Structured Data
Unstructured Data
Reporting
Compliance

Helping you work better. Wherever. Whenever.

The Workiva connected reporting and compliance platform helps you nimbly adapt to new accounting standards, disclosure requirements, and our new normal.

Explore the power of connected reporting at workiva.com/joa2020
Stimulus activities undertaken by federal and state governments, especially the Coronavirus Aid, Relief, and Economic Security (CARES) Act, P.L. 116-136, present opportunities for new services such as:

- Assisting a client to evaluate various loan programs administered by the U.S. Small Business Administration to determine which program may provide the best benefit for the client;
- Amending prior-year tax returns to reflect the changes to the net operating loss rules; or
- Accounting for the usage of funds received from the Paycheck Protection Program, which was created by the CARES Act.

**RISK MANAGEMENT CONSIDERATIONS**

Fortunately, while the specific services requested may be new, the methods to mitigate risk are tried and true. These include:

**Client and engagement acceptance**

Does the client understand its responsibility to make management decisions and implement recommendations made by the CPA? Will the client be able to pay for these services? Does the CPA have the technical expertise to advise the client competently and the time to stay current on developments? The CARES Act is still in its infancy, and while guidance is being published regularly, much is unclear or untimely.

**Engagement letters**

CPAs can leverage their existing tax or consulting engagement letters and modify them for the specifics of these new engagements. Remember to address:

- **Engagement objectives and scope:** Be specific about the services to be provided and, if relevant, services that are not in scope. What tax form and year(s) will be amended? Will the firm advise on the attributes of the various loan programs or only assist clients with the gathering of information for a specific loan application?
- **Client responsibilities:** Clearly outline that the client is responsible for making all decisions, whether it’s addressing the advice and recommendations provided by the CPA or selecting the tax return position to be taken on an amended return. Be sure to include a statement that the client is responsible for providing complete and accurate information to the CPA.
- **CPA firm responsibilities:** For the most part, new services related to stimulus activities will be some form of consulting service. Ensure the client understands that the firm’s role is limited to providing advice and recommendations only and that the firm will not be auditing or verifying the client’s information or providing any deliverable or work product to a third party.
- **Deliverable:** Clearly describe what the client will receive as a result of the CPA’s services. Provide advice in writing. While not recommended, if oral advice must be provided, at a minimum, send a follow-up email to the client summarizing what was discussed.

**Risk allocation provisions:** Consider including risk allocation provisions such as hold-harmless, indemnification, or loss-limitation provisions to help further mitigate the firm’s risk. While important to consider for all services, these provisions take on more relevance due to the fluidity of the current environment.

**Documentation**

Document and date all client discussions during the engagement, following up with confirmatory emails detailing information required and next steps for both the client and your firm. Clarify that any advice or recommendations are made based upon information available at a specific point in time. The laws are evolving, and what is good advice today may not be so tomorrow. As such, be sure to inform the client that the CPA is not obligated to update the advice. Direct clients to resources available from government agencies, taxation authorities, and regulatory agencies, and advise the client to check them regularly. If legal advice is required, advise the client to consult with an attorney prior to taking action.

**FINAL THOUGHTS**

This is an extraordinary time for the world, our country, and the profession. While the full impact of COVID-19 is unknown and uncertain, what is certain is the need for CPAs to be vigilant and informed and to be flexible and adaptable in their response to these changing times. Taking necessary precautionary steps now is important and will help to provide protection from potential losses that may arise as the public health and economies recover.

**Editor’s note:** More COVID-19–related resources are available at the AICPA’s Coronavirus (COVID-19) Resource Center at tinyurl.com/sdmh7gn.

Sarah Beckett Ference, CPA, is a risk control director, and Deborah K. Rood, CPA, is a risk control consulting director, both at CNA. Stan Sterna, J.D., is a vice president, and Joseph Wolfe is a consultant, both at Aon Affinity. For more information about this article, contact specialtyriskcontrol@cna.com.
TAX

COVID-19 pandemic prompts many tax changes

Taxpayers have a variety of relief measures to help them through the economic disruption caused by the public health crisis.

By Alistair M. Nevius, J.D., and Sally P. Schreiber, J.D.

Legislative and administrative responses to the COVID-19 pandemic have given America’s taxpayers many short-term — and a few longer-term — tax breaks. From tax credits to filing postponements, here is a breakdown of the changes benefiting individuals and businesses.

FILING AND PAYMENT POSTPONEMENTS

In a series of notices issued in late March and early April, the IRS postponed many federal tax payment and return filing deadlines to July 15, 2020 (Notices 2020-18, 2020-20, and 2020-23). The relief applies to all taxpayers that have a filing or payment deadline falling on or after April 1, 2020, and before July 15, 2020, including individuals, trusts, estates, corporations, and other noncorporate tax filers, and that period will be disregarded by the IRS in calculating any interest, penalty, or addition to tax for failure to file the forms specified in the notice.

Notice 2020-23 grants automatic relief to affected taxpayers — they do not have to file extensions or send documents to the IRS to obtain relief. The relief encompasses forms and their related schedules and attachments, and applies to time-sensitive acts listed in Regs. Secs. 301.7508A-1(c)(1)(iv) through (vi) and Rev. Proc. 2018-58 (including, for example, Form 990, Return of Organization Exempt From Income Tax, and Form 5500, Annual Return/Report of Employee Benefit Plan). The IRS has posted online FAQs about the relief at tinyurl.com/s2wfh2u.

Federal tax forms and payments covered by the relief include:

- Individual income tax payments and return filings on Form 1040, U.S. Individual Income Tax Return, and other forms in the 1040 series;
- Calendar-year or fiscal-year corporate income tax payments and return filings on Form 1120, U.S. Corporation Income Tax Return, and other forms in the 1120 series;
- Calendar-year or fiscal-year year partnership return filings on Form 1065, U.S. Return of Partnership Income, and Form 1066, U.S. Real Estate Mortgage Investment Conduit (REMIC) Income Tax Return;
- Estate and trust income tax payments and return filings on Form 1041, U.S. Income Tax Return for Estates and Trusts, and other forms in the 1041 series;
- Estate and generation-skipping transfer tax payments and return filings on Form 706, United States Estate (and Generation-Skipping Transfer) Tax Return, and other forms in the 706 series;
- Form 8971, Information Regarding Beneficiaries Acquiring Property From a Decedent, and any supplemental Form 8971;
- Gift and generation-skipping transfer tax payments and return filings on Form 709, United States Gift (and Generation-Skipping Transfer) Tax Return, that were due on April 15 or on the date an estate is required to file Form 706 or Form 706-NA;
- Estate tax payments of principal or interest due as a result of an election made under Sec. 6166, 6161, or 6163 and annual recertification requirements under Sec. 6166;
- Exempt organization business income tax and other payments and return filings on Form 990-T, Exempt
Organization Business Income Tax Return (and Proxy Tax Under Section 6033(c)); and

- Excise tax payments on investment income and return filings on Form 990-PF, Return of Private Foundation or Section 4947(a)(1) Trust Treated as Private Foundation, and excise tax payments and return filings on Form 4720, Return of Certain Excise Taxes under Chapters 41 and 42 of the Internal Revenue Code.

Other relief provided by the IRS includes:

**Estimated taxes:** First and second quarter estimated tax payments with April 15 and June 15 deadlines are now due July 15.

**Unclaimed 2016 refunds:** The deadline for filing a 2016 tax return to claim a refund, normally April 15, is extended to July 15. The return must be postmarked by July 15.

**Installment payments under Sec. 965(h):** Installment payments of the Sec. 965 transition tax due on or after April 1, 2020, and before July 15, 2020, are postponed to July 15, 2020.

**American citizens living abroad:** Americans who live and work abroad can now wait until July 15, 2020, to file their 2019 federal income tax return and pay any tax due.

**PAYROLL TAX CREDITS**

On March 18, Congress passed and President Donald Trump signed into law the Families First Coronavirus Response Act, P.L. 116-127, which was a general relief bill, but included among its many provisions are several tax credits for employers who provide paid sick leave or family or medical leave for their employees who miss work for various coronavirus-related reasons.

**Payroll tax credit for required paid family leave**

Subject to certain limitations, the act provides an employer payroll tax credit that equals 100% of the qualified family leave wages paid by the employer under the portion of the act known as the Emergency Family and Medical Leave Expansion Act...
The Emergency Family and Medical Leave Expansion Act requires employers with fewer than 500 employees to provide public health emergency leave under the Family and Medical Leave Act (FMLA), P.L. 103-3, when an employee is unable to work or telework due to a need for leave to care for a son or daughter under age 18 because the school or place of care has been closed, or the child care provider is unavailable, due to a public health emergency related to COVID-19. (Employers with fewer than 50 employees can be exempted from the requirement.)

The credit is available for eligible wages paid during the period starting April 1, 2020, through Dec. 31, 2020. The credit applies against the employer portion of Sec. 3111(a) old age, survivors, and disability insurance (OASDI) taxes or Sec. 3221(a) Tier 1 Railroad Retirement Act excise taxes. The credit is generally available for up to $200 in wages for each day an employee receives qualified family leave wages. A maximum of $10,000 in wages per employee would be eligible for the credit. The amount of the credit is increased by the amount of the Sec. 3111(b) Medicare tax imposed on the qualified family leave wages for which a credit is allowed.

If an employer claims the credit, the employer’s gross income will be increased by the amount of the credit (meaning the credit is not taken into account for purposes of determining any amount allowable as a payroll tax deduction, deduction for qualified family leave wages, or deduction for health plan expenses), and no credit will be allowed for wages for which a Sec. 45S family and medical leave credit is claimed. The credit would not apply to the federal government, the government of any state or any subdivision of a state, or any agencies or instrumentalities of these entities. Employers also could elect not to apply the new provision for any calendar quarter.

**Self-employed individuals:** The act provides eligible self-employed individuals with a refundable credit against income tax for qualified family leave equivalent amounts. An eligible self-employed individual is an individual who regularly carries on any trade or business (as defined in Sec. 1402) and would be entitled to receive paid leave under the Emergency Family and Medical Leave Expansion Act if the individual were an employee.

Wages paid under the Emergency Family and Medical Leave Expansion Act are not considered wages for purposes of the Sec. 3111(a) OASDI tax or the Sec. 3221(a) Railroad Retirement Act excise taxes.

**Payroll tax credit for required paid sick leave**

Subject to certain limitations, the act provides an employer payroll tax credit that equals 100% of the qualified sick leave wages paid by the employer under the portion of the act known as the Emergency Paid Sick Leave Act (Division E of the act). The Emergency Paid Sick Leave Act requires employers with fewer than 500 employees to provide up to 80 hours of paid sick time through the end of this year if the employee is unable to work due to being quarantined or self-quarantined or having COVID-19 or because the employee is caring for someone who is quarantined or self-quarantined or has COVID-19 or if the employee is caring for children whose school has been closed because of COVID-19 precautions. (Employers with fewer than 50 employees can be exempted from the requirement.)

The credit is effective for sick leave wages paid starting April 1, 2020, through Dec. 31, 2020. The credit will apply against Sec. 3111(a) OASDI taxes or Sec. 3221(a) Tier 1 Railroad Retirement Act excise taxes. The credit is generally available for up to $11 in wages (for workers who are quarantined or self-quarantined or who have COVID-19) and wages of up to $200 for other workers for each day an employee receives qualified sick leave pay. The credit would be available for up to 10 days per calendar quarter. The amount of the credit is increased by the amount of the Sec. 3111(b) Medicare tax imposed on the qualified sick leave wages for which a credit is allowed.

To prevent double benefits, employers’ gross income will be increased by the amount of the credit (meaning the credit is not taken into account for purposes of determining any amount allowable as a payroll tax deduction, deduction for qualified sick leave wages, or deduction for health plan expenses), and no credit will be allowed for wages for which a Sec. 45S family and medical leave credit is claimed. The credit would not apply to the federal government, the government of any state or any subdivision of a state, or any agencies or instrumentalities of these entities. Employers also could elect not to apply the new provision for any calendar quarter.

The credit can be increased by certain qualified health plan expenses of the employer that are allocable to qualified sick leave wages for which the credit is allowed.

**Self-employed individuals:** The act also provides eligible self-employed taxpayers with a refundable credit against income tax for qualified sick leave equivalent amounts. An eligible
self-employed individual is an individual who regularly carries on any trade or business (as defined in Sec. 1402) and would be entitled to receive paid leave under the Emergency Paid Sick Leave Act if he or she were an employee.

Wages paid under the Emergency Paid Sick Leave Act are not considered wages for purposes of the Sec. 3111(a) OASDI tax or the Sec. 3221(a) Railroad Retirement Act excise taxes.

**CORONAVIRUS RELIEF LEGISLATION**

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, P.L. 116-136, enacted on March 27, contains a host of tax measures as part of a $2 trillion aid package designed to help the economy as it suffers from the effects of the coronavirus pandemic. While the focus of the legislation is not tax, a large number of tax provisions are included in the bill.

*Recovery rebates:* The act provides for payments to taxpayers — “recovery rebates,” also called “economic impact payments” by the IRS — which are being treated as advance refunds of a 2020 tax credit. Under this provision, individuals will receive a tax credit of $1,200 ($2,400 for joint filers) plus $500 for each qualifying child. The credit is phased out for taxpayers with adjusted gross income (AGI) above $150,000 (for joint filers), $112,500 (for heads of household), and $75,000 (for other individuals). The credit is reduced by 5% of the amount of the taxpayer’s AGI that exceeds those limits. The credit is not available to nonresident aliens, individuals who can be claimed as a dependent by another taxpayer, and estates and trusts. Taxpayers will reduce the amount of the credit available on their 2020 tax return by the amount of the advance refund payment they received.

Payments were scheduled to go out to most taxpayers in April. Taxpayers who filed a return for 2018 or 2019 social security and Railroad Retirement benefit recipients generally did not have to take any action to receive a payment. Other individuals who did not file a federal tax return for 2018 or 2019 must file a tax return to receive a payment, even though they are not otherwise required to file a tax return.

*Payroll tax credit refunds:* The act provides for advance refunding of the payroll tax credits enacted in the Families First Coronavirus Response Act. The credit for required paid sick leave and the credit for required paid family leave can be refunded in advance using Form 7200, *Advance Payment of Employer Credits Due to COVID-19.* The IRS is also waiving any penalties for failure to deposit payroll taxes under Sec. 3111(a) or 3221(a) if the failure was due to an anticipated payroll tax credit.

*Employee retention credit:* The act creates an employee retention credit...
The **remote work solution** for CPAs

The only cloud solution created specifically for CPAs and the businesses they serve. Learn how remote teams can save time and money by accessing their tax and accounting software from the cloud daily.

**Contact a Cloud Specialist today.**

rightnetworks.com  //  866-845-9283  //  sales@rightnetworks.com
for employers that close due to the coronavirus pandemic. Eligible employers are allowed a credit against employment taxes equal to 50% of qualified wages (up to $10,000 in wages) for each employee. Eligible employers are those that were carrying on a trade or business during 2020 and for which the operation of that business is fully or partially suspended due to orders from an appropriate governmental authority limiting commerce, travel, or group meetings due to the COVID-19 outbreak. Employers that have gross receipts that are less than 50% of their gross receipts for the same quarter in the prior year are also eligible, until their gross receipts exceed 80% of their gross receipts for the same calendar quarter in the prior year. For employers with more than 100 employees, wages eligible for the credit are wages that the employer pays employees who are not providing services due to the suspension of the business or a drop in gross receipts. For employers with 100 or fewer employees, all wages paid qualify for the credit. However, for purposes of the credit, eligible wages do not include wages counted for purposes of the paid sick leave and paid family leave payroll tax credits in the Families First Coronavirus Recovery Act. Also, if an employer receives a covered Paycheck Protection Program loan under Section 1102 of the act, the employer is not eligible to claim an employee retention credit.

Employers can claim an advance employee retention credit on Form 7200.

Retirement plans: Taxpayers can take up to $100,000 in coronavirus-related distributions from retirement plans without being subject to the Sec. 72(t) 10% additional tax for early distributions. Eligible distributions can be taken up to Dec. 31, 2020. Coronavirus-related distributions may be repaid within three years. For these purposes, an eligible taxpayer is one who has been diagnosed with the SARS-CoV-2 virus or COVID-19 disease or whose spouse or dependent has been diagnosed with the SARS-CoV-2 virus or COVID-19 disease or who experiences adverse financial consequences from being quarantined, furloughed, or laid off, or who has had his or her work hours reduced, or who is unable to work due to lack of child care. Any resulting income inclusion can be taken over three years. The act also allows loans of up to $100,000 from qualified plans, and repayment can be delayed. The act temporarily suspends the required minimum distribution rules in Sec. 401 for 2020. The act delays 2020 minimum required contributions for single-employer plans until 2021.

Charitable deductions: The act creates an above-the-line charitable deduction for 2020 (not to exceed $300). The act also modifies the AGI limitations on charitable contributions for 2020, to 100% of AGI for individuals and 25% of taxable income for corporations. The act also increases the food contribution limits to 25%.

Payroll tax delay: The act delays payment of 50% of 2020 employer payroll taxes until Dec. 31, 2021; the other 50% will be due Dec. 31, 2022. For self-employment taxes, 50% will not be due until those same dates.

Net operating losses (NOLs): The act temporarily repeals the 80% income limitation for NOL deductions for years beginning before 2021. For losses arising in 2018, 2019, and 2020, a five-year carryback is allowed (taxpayers can elect to forgo the carryback).

Excess loss limitations: The act repeals the Sec. 461(l) excess loss limitation. Sec. 461(l) was added to the Code by the law known as the Tax Cuts and Jobs Act (TCJA), P.L. 115-97, and it disallows excess business losses of noncorporate taxpayers if the amount of the loss exceeds $250,000 ($500,000 for married taxpayers filing jointly).

Corporate alternative minimum tax (AMT): The act modifies the AMT credit for corporations to make it a refundable credit for 2018 tax years.

Interest limitation: For tax years beginning in 2019 and 2020, Sec. 163(j) is amended to increase the adjusted taxable income percentage from 30% to 50%. Also, taxpayers can elect to use 2019 income in place of 2020 income for the computation.

Qualified improvement property: The act also makes technical corrections regarding qualified improvement property under Sec. 168 by making it 15-year property, fixing the so-called retail glitch introduced by the TCJA and making the property eligible for bonus depreciation.

Aviation taxes: Various aviation excise taxes are suspended until 2021.

Health plans: The rules for high-deductible health plans (HDHPs) are amended to allow them to cover telehealth and other remote care services without charging a deductible. In Notice 2020-15, the IRS also allowed HDHPs to cover testing for and treatment of COVID-19 without a deductible, or with a deductible below the minimum deductible for an HDHP. Over-the-counter menstrual care products are added to the list of items that can be reimbursed out of a health savings account, Archer medical savings account, or health reimbursement arrangement.
NEWS

Pandemic places accounting, auditing rules in flux

The coronavirus caused regulators, standard setters, and others to adjust requirements and effective dates.

By Ken Tysiac

After the COVID-19 pandemic raised concerns that harried company finance departments would struggle to implement new accounting standards, FASB voted to add a project to its technical agenda to propose delaying the effective dates of its standards on revenue recognition and lease accounting for certain entities because of challenges related to the coronavirus pandemic.

The board voted unanimously to consider amending...
the effective date of FASB Accounting Standards Codification (ASC) Topic 606, Revenue From Contracts With Customers, including subsequent amendments, for franchisors that are not public business entities.

FASB also voted unanimously to consider amending the effective date of ASC Topic 842, Leases, including subsequent amendments, for:

- Private companies and private not-for-profit entities; and
- Any not-for-profit 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 that has not yet issued financial statements. (FASB calls these public not-for-profits).

FASB directed its staff to draft a proposal with a 15-day comment period.

The lease accounting standard is scheduled to take effect for private companies and private not-for-profits for fiscal years beginning after Dec. 15, 2020, and interim periods within fiscal years beginning after Dec. 15, 2021. The proposal would defer the effective date for those entities to fiscal years beginning after Dec. 15, 2021, and interim periods within fiscal years beginning after Dec. 15, 2022.

For public not-for-profits, the standard would delay the lease accounting standard effective date to fiscal years beginning after Dec. 15, 2019, including interim periods within those fiscal years.

Franchisors have raised questions about the timing of revenue recognition under Topic 606 for initial franchise fees, which typically are paid in a lump sum to the franchisor when a franchise agreement is signed. The franchising industry has requested that FASB evaluate how to reduce the costs of implementation of applying Topic 606 to initial franchise fees.

For those entities, FASB plans to propose deferring the effective date for the revenue recognition standard by one year, so it will take effect for annual reporting periods beginning after Dec. 15, 2019, and interim reporting periods within annual reporting periods beginning after Dec. 15, 2020. The proposal would make the amendment optional.

The board also added a research project to its agenda to evaluate how to reduce the costs of implementation of applying the revenue recognition standard to initial franchise fees.

FASB Chairman Russell Golden indicated that FASB will consider additional effective date delays, if necessary, as a result of the pandemic.

Editor’s note

CPAs and the clients and businesses they serve have been significantly affected by the coronavirus pandemic and its fallout on the business environment and economy. Here is a summary of noteworthy pandemic-related nontax news that affects CPAs. Information is current as of April 20.

“We will continue focus and continue to monitor the progression toward transitioning to those standards that will be effective in 2021 and 2022 and beyond, as well as the sunset provision in the recently issued simplification regarding the transition from LIBOR,” he said.

FINANCIAL INSTITUTIONS USING CARES ACT DEFERRALS WON’T VIOLATE GAAP, SEC SAYS

Meanwhile, the SEC cleared up uncertainty for preparers and auditors related to accounting provisions included in the $2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act, P.L. 116-136. The CARES Act was signed into law on March 27 and contains a deferral for depository institutions of FASB’s new accounting standard on credit losses and a suspension for financial institutions of FASB’s troubled debt restructuring rules.

This development created an interesting question. Since FASB sets GAAP, would financial institutions that take advantage of these exceptions be violating GAAP? In a statement issued by the commission, SEC Chief Accountant Sagar Teotia answered this question. He stated that eligible financial institutions will not be in violation of GAAP if they take advantage of the deferrals or suspensions of two FASB standards as permitted in the new federal coronavirus relief law.

Section 4014 of the CARES Act states that no insured depository institution, bank holding company, or any affiliate thereof shall be required to comply with FASB Accounting Standards Update No. 2016-13, Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, until the earlier of the end of the national emergency related to the pandemic or Dec. 31, 2020.

Section 4013 of the CARES Act permits a financial institution to elect to suspend troubled debt restructuring accounting under FASB Accounting Standards Codification Subtopic 310-40, Receivables — Troubled Debt Restructurings by Creditors, in certain circumstances, beginning March 1 and ending on the earlier of Dec. 31,
Make crypto tax preparation less cryptic

Cryptocurrency tax prep is complex. It's also an important new opportunity for firms to step into an advisory role with their clients. CPA.com and Lukka have partnered to deliver the first institutional-grade crypto tax preparation solution, making it easy for firms to get their crypto accounting capabilities up and running – fast.

LukkaTax for Professionals offers intuitive tools for navigating a complex crypto tax environment. With LukkaTax, firms can accurately calculate gains and losses, scaling up or down based on their needs – all in a secure, tested SOC 1 Type 2/SOC 2 Type 2 infrastructure.

Step into the new world of crypto tax prep with confidence.

To get started today, visit
CPA.com/Crypto

©2020 The Globe Design is a trademark owned by the Association of International Certified Professional Accountants and licensed to CPA.com.

CPA.com and Lukka
Crypto Asset Solutions
ASB DEFERS EFFECTIVE DATES OF SEVERAL STANDARDS

In recognition of this challenging environment, the effective dates of seven private company auditing standards were delayed for one year as the result of a vote Monday by the AICPA Auditing Standards Board (ASB).

Delaying the effective dates of Statements on Auditing Standards (SASs) No. 134–140 provides relief to audit firms amid the challenges created by the coronavirus pandemic. The delay is designed to help firms with a high-quality implementation after the pandemic subsides.

The standards are primarily related to substantial changes to the auditor’s report. The standards now will take effect for audits of financial statements for periods ending on or after Dec. 15, 2021.

Early implementation is permitted, and the ASB expressed its intent that SASs No. 134–140 be implemented at the same time. Firms that already have methodologies or tools in place and implementation planned may wish to move forward with those plans despite the change in the effective date, according to AICPA Chief Auditor Bob Dohrer, CPA, CGMA.

“ASB provides an option to delay the effective date of SASs No. 134–140. This option will help our members who are facing unprecedented challenges due to the pandemic. We are also making the standards available for early implementation, which will provide our members with a choice of when to apply them,” Dohrer said in a news release.

‘We will continue focus and continue to monitor the progression toward transitioning to those standards that will be effective in 2021 and 2022 and beyond, as well as the sunset provision in the recently issued simplification regarding the transition from LIBOR.’

Russell Golden, FASB chairman

REGULATORS PROVIDE OPTIONAL EXTENSION

To make it easier for banking organizations to continue lending to households and businesses, federal bank regulators are providing an optional extension of the regulatory capital transition for FASB’s new credit losses standard.

The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency jointly announced the issuance of an interim final rule that would allow banking organizations to mitigate the effects of FASB’s credit losses standard in their regulatory capital.

The federal regulators took action amid concerns related to the coronavirus pandemic’s effect on banks’ continued ability to provide loans to individuals and businesses. The new interim final rule states that banking organizations that are required to adopt FASB’s credit losses standard this year can mitigate the estimated cumulative regulatory capital effects for up to two years, in addition to the three-year transition period that already is in place.

Alternatively, banking organizations can follow the capital transition rule issued by the banking agencies in February 2019. The changes took effect immediately, and the agencies will accept comments on the interim final rule for 45 days following the March 27 announcement.

FASB, a not-for-profit established in 1973, is recognized by the SEC as the accounting standard setter for public companies and sets standards for private companies and not-for-profit entities as well.

Sections 4013 and 4014 of the CARES Act left financial statement preparers and auditors wondering if companies that took advantage of the deferral and the suspension would be in violation of GAAP. Teotia said the SEC’s Office of the Chief Accountant received inquiries from preparers and auditors asking if election of these narrow and limited options would be deemed to be in accordance with GAAP.

Teotia said that for entities that are eligible for and elect to apply Section 4013 or Section 4014 of the CARES Act, the SEC staff would not object to the conclusion that this is in accordance with GAAP for the periods when these elections are available.

‘We will continue focus and continue to monitor the progression toward transitioning to those standards that will be effective in 2021 and 2022 and beyond, as well as the sunset provision in the recently issued simplification regarding the transition from LIBOR.’

Russell Golden, FASB chairman
Automate your expense management process

CPA.com and Expensify partnered to streamline your client accounting services with easy expense management. Join the ExpensifyApproved! Partner Program for exclusive benefits, including:

- Preferential discounts for your firm and clients
- Firm-wide training and assistance with client onboarding
- Expedited support for your firm and clients
- Co-branded marketing materials and networking opportunities

Learn more at
CPA.com/Expense-Management
SASs No. 134–140 are interrelated and, within this group, subsequent SASs amend previously issued SASs. The effective dates of SASs No. 134–140 were aligned so that they would be implemented at the same time. Accordingly, the ASB recommends that all these SASs be implemented concurrently.

**CPA EXAM EMERGENCY TESTING PERIOD INVOKED**
CPA Exam candidates will have additional opportunities for testing during an emergency testing period that is being invoked by the National Association of State Boards of Accountancy (NASBA), the AICPA, and Prometric.

Prometric closed its testing centers in the United States and Canada to protect its test takers and workers during the coronavirus pandemic. The test centers are scheduled to remain closed at least through May 1.

In anticipation of the reopening of test centers, NASBA, the AICPA, and Prometric have decided to invoke an emergency testing period. As part of this procedure, the 2020 second-quarter testing window will be extended from June 10 to June 30.

The decision was made with the understanding that candidates are concerned about their testing options amid the disruption caused by the pandemic.

NASBA also previously announced that all Notices to Schedule expiring between April 1 and June 30 will be extended through Sept. 30, 2020. NASBA is waiving all rescheduling fees.

**GASB PROPOSES POSTPONING EFFECTIVE DATES**
The effective dates of most GASB statements and implementation guides due to be implemented for fiscal years 2019 and later would be postponed under a proposal issued by GASB.

The full list of proposed effective date delays for state and local government accounting can be found at tinyurl.com/ydebot7r. Two of GASB’s most significant recently issued standards — Statement No. 84, *Fiduciary Activities*, and Statement No. 87, *Leases* — would be included in the delays, if approved.

GASB considered the delays after numerous state and local government officials and public accounting firms requested relief. Many state and local government offices closed because of the pandemic, preventing access to information needed to implement GASB pronouncements.

Comments on the proposal will be accepted through April 30, and the board plans to consider a final statement for issuance on May 8.

**SEC EXTENDS PANDEMIC-RELATED RELIEF**
Relief provided to public companies, funds, and investment advisers affected by the coronavirus pandemic was extended by the SEC to cover a longer period.

Public companies now have a 45-day extension to file certain disclosure reports that otherwise would have been due between March 1 and July 1, according to an updated SEC order. A previous notice of relief issued March 4 covered the period from March 1 to April 30.

The SEC also issued orders that gave certain investment funds and investment advisers additional time with respect to holding in-person board meetings and meeting certain filing and delivery requirements. This extends the filing period covered by the SEC’s original orders issued March 13.

Conditions for public companies to utilize the order include a current report of a summary of why the relief is needed in the particular circumstances for each periodic report that is delayed.

For investment funds and investment advisers, the conditions include notifying SEC staff and/or investors, as applicable, of the intent to rely on the relief. Investment funds and advisers generally no longer need to describe why they are relying on the order or estimate a date by which the required action will occur.

The SEC’s Division of Corporation Finance also issued Disclosure Topic No. 9, which provides the division staff’s views regarding disclosure and other securities law obligations that companies should consider with respect to the coronavirus pandemic and related business and market disruptions.
Get news CPAs can use.

The free CPA Letter Daily email newsletter delivers news and guidance, tailor-made for accounting professionals, directly to your inbox. Over 200,000 of your colleagues already subscribe. Keep up with the latest developments in tax, accounting, audit, technology, personal financial planning and more.

Not receiving the e-brief? Subscribe today at:
smartbrief.com/cpa
In addition, the SEC encouraged companies and other related persons to consider their activities in light of their disclosure obligations under the federal securities laws, including insider trading laws.

“Health and safety continue to be our first priority,” SEC Chairman Jay Clayton said in a news release. “These actions provide temporary, targeted relief to issuers, investment funds, and investment advisers affected by COVID-19.

“At the same time, we encourage public companies to provide current and forward-looking information to their investors and, in these uncertain times, companies are reminded that they can take steps to avail themselves of the safe harbor in Section 21E of the Exchange Act for forward-looking statements.”

SEC UPDATES STAFF GUIDANCE ON SHAREHOLDER MEETINGS

The pandemic has created challenges for company officials attempting to follow rules governing accountability to shareholders. In recognition of this, the SEC updated its staff guidance for conducting shareholder meetings during the coronavirus pandemic.

In the updated guidance, SEC staff addressed four main issues:

- **Changes in date, time, or location of shareholder meetings:** The updated staff guidance says if an issuer has already mailed and filed its definitive proxy materials, it can notify shareholders of a change in the date, time, or location of its shareholder meeting without mailing additional soliciting materials or amending its proxy materials if it:
  - Issues a press release announcing the change and files the announcement as definitive additional soliciting material on EDGAR.
  - Takes all reasonable steps necessary to inform other intermediaries in the proxy process and other relevant market participants.

- **Virtual shareholder meetings:** SEC staff guidance calls on issuers to provide timely notification to its shareholders, intermediaries in the proxy process, and other market participants of any plans for a virtual or hybrid meeting. The notification should include logistical details such as how shareholders can remotely access, participate in, and vote at such a meeting.

- **Presentation of shareholder proposals:** The updated staff guidance encourages issuers, to the extent feasible under state law, to provide shareholder proponents or their representatives with the ability to present their proposals through alternative means, such as by phone, during the 2020 proxy season.

- **Delays in printing and mailing of full set of proxy materials:** The updated guidance encourages issuers facing printing and mailing delays caused by COVID-19 to use all reasonable efforts to provide shareholders with material information in a timely manner so they can make informed voting decisions. However, such efforts should not endanger the health or safety of anyone involved.

In circumstances where delays are unavoidable due to COVID-19, SEC staff would not object to an issuer using the “notice-only” delivery option permitted by Exchange Act Rule 14a-16, even if the issuer can’t meet all of the rule’s notice and timing requirements, as long as shareholders are provided with proper notification and receive the proxy materials with enough time before the meeting to review the materials and exercise their voting rights under state law in an informed manner.

PCAOB PROVIDES OPPORTUNITY FOR INSPECTION RELIEF

Registered audit firms that request relief from PCAOB inspections as a result of the coronavirus pandemic will be granted up to a 45-day relief period, with the exception of providing the board access to audit documentation for certain engagements.

The PCAOB advised audit firms that wish to use all or part of the 45-day relief period to reach out to their designated PCAOB inspections point of contact. The board expects to fully resume inspections by May 11.

In a news release, the PCAOB said the pause will give audit firms the time, resources, and flexibility to work through significant matters with their issuer and broker-dealer clients. Meanwhile, the board said its inspections staff can continue its work by reviewing documentation for certain engagements remotely and preparing for inspections.

The board will continue to monitor the evolving situation and reassess its policies.

The board said its core considerations at this time of uncertainty are the health and safety of its employees and those with whom it interacts, and its statutory mission to promote audit quality.
MANAGEMENT ACCOUNTING

Strategic disruption: An expert’s thoughts on moving forward

A ‘new normal’ sparked by the COVID-19 pandemic is bound to shake up well-established business models and dispel long-held assumptions.

By Neil Amato
Rita McGrath, a professor of management at Columbia University’s Graduate School of Business, has written several books on business disruption. Her thoughts would be relevant anytime, but they are especially relevant in spring 2020, a time of unprecedented uncertainty and upheaval wrought by the global spread of the novel coronavirus.

McGrath shared insights on several topics in an April 1 interview with the JofA. Here are four of her observations on the future of business strategy.

THE END OF COMPETITIVE ADVANTAGE

In 2013, McGrath addressed strategy in turbulent times in her book *The End of Competitive Advantage: How to Keep Your Strategy Moving as Fast as Your Business*. It was about shattering the notion that companies could sustain a unique position or competitive advantage for many years. Instead, the companies that would succeed would be the ones that could recognize early on where they wanted to go in the future and what lines of business they should focus on or abandon.

She said that before the COVID-19 pandemic, company leaders’ level of buy-in on the concept of transient rather than enduring advantage fell into three buckets:

“The first bucket is, ‘No, doesn’t apply to me.’ As a private banker said to me, ‘You know, private banking hasn’t changed in 300 years. You give me money, I invest it, 10 years from now, you come back, and there should be more of it.’ That’s how he described it. I think the first group of people are basically in denial, and that group seems to be getting smaller and smaller.

“The second group would be characterized as kind of freaked out. They’re saying, ‘All the old rules don’t apply. I don’t know what the new rules are.’ And, unfortunately, they can get dysfunctional about that, so they start dashing off in all directions and doing all kinds of crazy things.

“The third group are actually the ones I work
Power your transformation

OnPoint A&A Suite

Designed to fuel and empower transformation of accounting & auditing services, the OnPoint A&A Suite offers an online suite of products built on the CaseWare Cloud platform.

The suite brings together a unique set of applications that drive efficiency, quality and value for firms and their clients. Offering a secure ecosystem that supports visibility, collaboration and workflow, the OnPoint A&A Suite includes access to engagement templates, integrated AICPA methodology and more.

Call 855.855.5CPA or learn more at: CPA.com/OnPoint
with the most, and they almost are relieved to have a language to talk about this new world and to have a set of principles they can follow to think more constructively about how they take action.”

THE NEW NORMAL
McGrath believes that the pandemic’s effects will absolutely lead to changes by businesses on numerous fronts. Take the simple notion of travel for in-person meetings, or a company building that has enough desks for every employee to work in the office all week.

“There will be a complete reevaluation of business models, of taken-for-granted assumptions in the business,” she said. “If it goes on as long as people seem to think it is, we’ll have adopted a lot of new habits by … whatever the next phase is. And you’ll see people questioning, ‘Why did we do it that way? And why was I getting on airplanes and sleeping in hotels four days a week?’

“There’s going to be an awful lot of rethinking some of these taken-for-granted assumptions about how we think about things and how we do business together. I think, almost without there being a conscious effort to do so, we’re all going to be in this transient advantage mindset going forward.”

NEAR-TERM CONCERNS AND SHORTER-TERM BUDGETING
Now may be the time for that innovative, entrepreneurial mindset to take root at organizations, but some ideas will have to wait. Many companies are focusing first on survival, which may include a pivot and/or spending money held in reserve to make up for a sharp downturn in revenue.

It won’t be like flipping a switch when concerns about the pandemic subside, McGrath said. Companies will have to spend time getting accustomed to their new, normal business environment before they can proceed with a transient advantage mindset.

“You can’t spend money you don’t have,” she said. “For some [businesses], they’re having to make some pretty tough choices. If they don’t have cash coming in the door and they can’t raise capital in some way, it’s hard to justify paying people when you just can’t afford it. On the other hand, the research suggests that the companies that somehow manage to retain more of their workforce through these dips and downturns tend to come out of it stronger than companies that ruthlessly cut themselves to the bone and moved on from there.”

Companies that use more of a rolling forecast than a static annual budget can be better positioned to emerge from the pandemic’s effect on their finances. McGrath cited the work of the Beyond Budgeting Round Table, a global member organization, as espousing the notion that standard budgeting can be a dysfunctional process. Sales targets and other metrics for the calendar year are likely unreachable, so it’s better for organizations to forecast in a shorter time range, updating scenarios as they get more clarity. (For more information, see “If the Coronavirus Outbreak Disrupts Your Budget,” FM magazine, March 11, 2020, tinyurl.com/vch4cjv, and “Steering Your Budget Amid Coronavirus Uncertainty,” FM magazine, March 23, 2020, tinyurl.com/qq68zy9.)

RETHINKING PROCESSES AND PRODUCTS
That short-term notion ties in with McGrath’s thinking that companies should be constantly testing, or as she calls it, “running experiments at the

What to read in times like these
Author and strategist Rita McGrath recommends several books and authors that business leaders today should seek out:

The Invincible Company: How to Constantly Reinvent Your Organization With Inspiration From the World’s Best Business Models
One of the book’s authors, Alexander Osterwalder, is the inventor of a strategic management tool called the Business Model Canvas. “He’s done a very visually appealing, very fun kind of way of thinking about how you do two things: One is explore, and the other is exploit,” McGrath said. “The book offers very practical ways of thinking about, in the explorer space, what are some things to do to find new ideas and validate and test them? And the exploit space, what are some ways you could run the business like a business?”

Reimagining Capitalism in a World on Fire
McGrath said the book, by Harvard business professor Rebecca Henderson, “points out that the way we constructed a lot of our systems are just not sustainable, and offers some alternatives to what we can do differently.”

‘The Leader as Coach’
Author and London Business School professor Herminia Ibarra, a recent guest of McGrath’s for an online fireside chat, focuses her writing on leadership. “She talks about having leaders seen as coaches and how when you coach people, you can really mobilize them in a way that’s very different than if you sort of tell them what to do.” Ibarra recently co-authored an article in Harvard Business Review called “The Leader as Coach.”
Automate every step of client bill pay.

Bill.com is the platform for automating your firm’s outsourced AP and AR processes.

Solve client bill pay challenges with simplicity and control from receipt to reconciliation:
- Spend 50% less time on AP with workflow and approval automation.
- Collect payments 2x faster with ACH, credit cards, and more.
- Keep organized across all clients with the Accountant Console.

Learn more and sign up for a risk-free trial at CPA.com/Bill.
edges of your organization.”

For example, McGrath said, Columbia University is testing the appetite and willingness of consumers to pay for a virtual version of executive education classes by mocking up brochures and emailing them to see how people react to them before developing an entire course.

“We are facing probably the most uncertainty I’ve ever encountered in a business context, and it feels almost surreal,” McGrath said in early April. “And the reality is none of us know. The data don’t exist. What we’re going to have to do is create some data. Usually what that means is formulating some kind of hypothesis and then very rapidly testing it and validating or invalidating it.

“The more experiments and the more tests you can run, the faster you’re going to learn, and the clearer the picture is going to become. I think it’s almost like applying the scientific method to deciding what we’re going to do next.”

While it may be hard to summon the energy now for experimenting, McGrath is an advocate for keeping innovation warm. “I think the mistake is to crawl under a rock and forget about investing in innovation or improvement or anything like that. What you’ll find is the organizations that do figure out how to stay in the game are going to be that much more ahead of the game once we reach the other end of whatever this is.”

Rethinking products and processes might be a positive that emerges for businesses from the harrowing pandemic. Companies are figuring out how to do things in a new and cheaper way, and some of those practices will stick. McGrath said the digitization of tasks should be given a boost.

Among the questions company leaders are asking themselves: “With constrained resources, can we accomplish the same outcomes perhaps in a different way? Can we do things in a way that perhaps is more cost-effective, less resource intensive? Maybe there’s a completely new way to rethink and digitize what we’re doing.

“Start really looking critically at what is in your existing portfolio. You may find that there are products or lines of business which are there because they always have been, and this would be a really good time to decide to stop doing the things that aren’t really taking you toward your future.”
AUDITING

How auditors can test inventory without a site visit

The COVID-19 pandemic has made it difficult or impossible to physically inspect inventory, but sufficient appropriate evidence can still be observed and documented.

By Bob Dohrer, CPA, CGMA, as told to Ken Tysiak
As a result of the coronavirus, there are situations where by law we may not be able to go out to a client location and physically observe inventory as we've done in the past (see the sidebar, “Remote Auditing Comes to Forefront During Pandemic”). We do have standards directly related to physical observation of inventory that we need to comply with. Those are in AU-C Section 501, Audit Evidence — Specific Considerations for Selected Items, Paragraphs .11–.14, and then a series of application paragraphs that go along with it.

When you step back at a principles level, what are those requirements really driving at? For any organization, any business where inventory is material, the existence of that inventory is going to be a relevant assertion. And I think in the vast majority of cases, historically, it has just been generally accepted that the way that an auditor can test the existence of that inventory is to physically observe its counting.

Of course, the generally accepted procedure that has been there for years has been stood on its head when you can't actually get to the client’s site to observe the inventory. But there are probably a handful of alternatives available. They all have their pros and their cons, of course. But I think it’s important for auditors to recognize that there are alternatives.

**ROLL BACK AND ROLL FORWARD**
The most obvious alternative may work if the client doesn't have a looming deadline to have its audit
The method that we’re getting the most questions about is video observation, which is certainly worth considering. A common question is, “Is it even permissible under the auditing standards to not physically count inventory in person?” One aspect is that Paragraphs .11 and .14 of AU-C Section 501 reference the requirement to attend the physical inventory counting unless it is impracticable to do so. There are actually some application paragraphs (Paragraph .A34 of AU-C §501) that indicate that one circumstance that may make a physical observation impracticable is if the inventory is held in a location that may pose threats to the auditor’s safety.

I think it’s a very reasonable interpretation of that paragraph in the standard to say that COVID-19 is putting auditors’ safety in jeopardy. I don’t think there would be any problem with an interpretation of our standards that says the health crisis is making attendance at the physical inventory counting impracticable. And, therefore, alternative procedures would be appropriate. I think that’s very supportable under our standards.

The overriding question is, can we use video to observe the inventory? And I think the answer is “yes.” I think some of the special considerations are around how well trained the personnel using the video equipment and technology are and what type of video you are going to use. There is great variety in video capabilities. A GoPro camera can be strapped to a person’s baseball cap or hard hat, and they can walk around and perform a counting. A lot of warehouses also have security cameras that record and can be remotely controlled to focus in on different areas of the warehouse. That’s a different option for video. The other alternative that we’re hearing some firms are considering is a situation where client personnel go out and make a video recording of the counting of inventory.

The overriding consideration when using remote video submission of a certain date. Auditors can work with the client and think about whether it would be possible and realistic to postpone the inventory counting and observation to a later date, when perhaps the stay-at-home orders might be lifted and people might feel safe visiting the client site. The auditor could count inventory and observe it at that point and then perform additional testing on the sales subsequent to year end as well as on subsequent purchases, which probably aren’t extensive in this environment. You could effectively roll back the inventory to the year end, even if it was counted subsequent to year end. Actually, this is not an extraordinarily rare thing for auditors to do, especially in situations where, for example, you’re engaged to perform an audit after year end, so you weren’t even engaged when the inventory was counted. That’s one option, although I don’t think anybody knows how soon we might be able to do that.

The other more traditional alternative procedure can be performed if the client is using a cycle count procedure and a perpetual inventory system. A cycle count procedure is where the client essentially has controls in place where on a periodic basis — a lot of times, quarterly — they will conduct their own test counts of just a portion of their inventory. And then they go back to their perpetual system and prepare the counts, make corrections, and things like that.

With cycle counting, the client doesn’t perform one huge year-end, wall-to-wall count in most cases. If the auditor had been testing those controls and relying on those controls to establish the existence of inventory, the auditor may be able to go back to the last prior cycle count that was taken and then be able to roll forward to year end, again using sales transactions and purchase transactions and testing those during that interim period.

So roll forward and roll back are two available alternatives.

**IN BRIEF**

- The coronavirus pandemic has made it difficult for auditors to visit clients to observe inventory. In some cases, such a visit may even be prohibited by law.
- Auditors following the generally accepted auditing standards maintained by the AICPA Auditing Standards Board do have options for observing inventory that may not require a site visit at this time.
- Roll-forward and roll-back procedures provide the potential for combining observations from site visits at different times with sales transactions and purchase transactions to determine inventory at the fiscal year-end date.
- Video observation may be an acceptable method for auditors to use to observe inventory. Use of a live video feed in which a camera holder follows the commands of the auditor while moving through the site may be the most reliable way for a practitioner to gather audit evidence on video.
Immediate approval is available for Standard or Select rates only, when you apply online for coverage at cpai.com/spouseapply. In certain circumstances, additional information may be needed. A brief medical exam is required for Preferred rates. The maximum coverage amount available is based on your spouse's age and your memberships.

Aon Insurance Services is the brand name for the brokerage and program administration operations of Affinity Insurance Services, Inc. (TX 13695) (AR 100106022); in CA & MN, AIS Affinity Insurance Agency, Inc. (CA 0795465); in OK, AIS Affinity Insurance Services Inc.; in CA, Aon Affinity Insurance Services, Inc. (CA 0694493), Aon Direct Insurance Administrators, and Berkely Insurance Agency; and in NY, AIS Affinity Insurance Agency. The Plan Agent of the AICPA Insurance Trust, Aon Insurance Services, is not affiliated with Prudential.

Group Insurance coverages are issued by The Prudential Insurance Company of America, a Prudential Financial company, Newark, NJ. The Booklet-Certificate contains all details, including any policy exclusions, limitations, and restrictions, which may apply. Contract Series: 83500.

It's never been easier to make sure your family has the insurance protection they'll need. With a new faster approval process, you could get up to $2.5 million of AICPA Spouse Life coverage in minutes. Coverage is issued by The Prudential Insurance Company of America.

Plus, new lower rates if your spouse is under age 40 make the decision to apply practically a no-brainer.

NEW!
Immediate approval for up to $2.5 million.*

Questions? Please call 800-223-7473. We're available 8:30am–6pm ET, Monday–Friday.

Learn more about AICPA-endorsed Spouse Life Insurance at cpai.com/spouse.
Remote auditing comes to forefront during pandemic

By Ken Tysiac

In addition to creating a public health emergency accompanied by devastating economic consequences, the coronavirus pandemic has accelerated the movement of the auditing profession toward using remote techniques to perform engagements.

Remote auditing has long been a challenging topic for the profession because of the belief that auditors may be more likely to discover fraud, malfeasance, or simple mistakes when they visit a site.

That’s why practitioners who are performing procedures remotely must make certain they are following the standards and take extra care to use all the technology at their disposal to avoid missing anything. When performing remotely, auditors have the same obligations to comply with standards and deliver high quality as they would when working on-site.

“We just can’t cave — on our commitment to quality, adherence to our standards, and our level of service to our clients,” said Jodi Malis, CPA, CGMA, partner in charge of quality control at Hancock Askew & Co. in Atlanta.

Videoconferencing technology, which gives auditors the ability to hold live interviews with clients and watch for visual cues that would be observed during a site visit, is essential for a successful remote audit.

Secure web portals, meanwhile, are critically important for secure sharing of documents.

Although this is a challenging time for auditors and everyone in the business world, practitioners still are required to meet the auditing standards as they fulfill their duties to protect the public interest.

Documentation requirements, for example, are just as important in remote audit procedures as they are at the client’s business site. Communication also remains vital to a high-quality audit when remote procedures are being performed.

Some tips for auditors to consider as they conduct remote audits amid the coronavirus pandemic include:

- Consider accuracy, completeness, relevance, and reliability.
- Beware of the potential for cyberattacks.
- Turn on laptop cameras for team meetings.
- Embrace flexible schedules. Remote auditing may not be a complete solution for all the challenges the coronavirus has created for auditors. But when it’s possible to perform remote audit procedures in a thorough manner, they may be a valuable tool for auditors at this difficult time.
do essentially what you would do, and you would be able to look at that through the video feed. A lot of options are available to us.

Another issue with a live feed is who should hold the camera. A third party who doesn’t work for the client might be good, but if you’re not able to go to the client’s site because of health concerns, I’m not sure you’re going to find many third parties who are willing to go there.

If you’re dealing with a larger client that has an internal audit department, someone from the internal audit department would be a good choice to hold the camera. The next best person would be a client employee who is not involved in the inventory accounting function and is not involved in the warehouse shipping and receiving function. So, if you can’t be there and a third party can’t be there, then you would be looking for someone within the client organization who would be objective or as far removed as possible from the accounting or the physical handling of the inventory as you could.

Nonetheless, if inventory is material and an auditor is not able to either roll forward or roll back the inventory or get comfortable with a video feed process, then the audit is likely to have a scope limitation, and if inventory is material, the audit opinion is likely to be qualified. We’re trying to work to help auditors think creatively about unnecessary qualified opinions for scope limitations, but we also bear in mind that there may be some of those situations in this environment.

**ADDITIONAL SUPPORTING EVIDENCE**

There are other audit procedures that are normally performed that might lend some audit evidence about the existence of inventory. For example, inventory price-testing is performed on almost every audit, and the primary objective of inventory price-testing is, of course, to address the valuation assertion. However, you’re always looking at the quantity in the inventory, the price at which it was purchased, and what the cost was.

When you’re price-testing inventory, while it’s not the primary purpose, you are getting some evidence around the quantity of inventory in stock. Obviously, when you look at testing sales prices, subsequent sales for obsolescence, and writedowns in value, you’re looking at subsequent sales transactions, or sales transactions subsequent to year end. Obviously, if the client is selling product after year end, they likely would have had to have that in inventory at year end, depending, of course, on inventory turns, especially the closer you are to year end.

With cutoff testing and price-testing, even in our traditional audits taking place before the pandemic, there have been other audit procedures that auditors perform that contribute to evidence about existence. The caveat there would be that you certainly couldn’t get sufficient, appropriate audit evidence about the existence assertion by only doing price-test and subsequent sales transactions. You would have to do some roll forward, roll back, and that type of thing. But it’s not as if the inventory observation is the only evidence that’s obtained with respect to existence.

The bottom line is that while these are challenging times with respect to observing inventory on-site, there are ways for auditors to get sufficient, appropriate evidence about inventory that will allow them to perform a successful, high-quality audit.
The U.S. Supreme Court struck down a long-standing common law rule by which federal courts had decided disputes between members of an affiliated group filing a consolidated return over which of them should be allocated any tax refund. Instead, according to the unanimous decision, state laws should be applied to resolve these disputes.

The case, Rodriguez v. Federal Deposit Insurance Corp., No. 18-1269 (U.S. 2/25/20), grew out of a Chapter 7 bankruptcy case involving United Western Bank and its parent corporation, United Western Bancorp Inc. (UWBI). After heavy losses, the Denver-based bank was closed in 2011 and the Federal Deposit Insurance Corp. (FDIC) named receiver. Soon after, UWBI entered bankruptcy, with Simon Rodriguez named as trustee.

Also in 2011, UWBI filed its 2010 consolidated federal income tax return on behalf of its affiliated group that included United Western Bank, claiming a $4.8 million refund based on a carryback of a 2010 net operating loss to offset taxes paid for 2008. The IRS in 2015 issued the refund, depositing it into the bankruptcy court’s registry, pending resolution of what had by now become an adversary proceeding between UWBI on the one hand and United Western Bank and the FDIC on the other.

The bankruptcy court, relying on a 2008 tax allocation agreement between UWBI and its affiliated subsidiaries including United Western Bank, held the refund to be part of UWBI’s bankruptcy estate. The FDIC then appealed to the district court, which reversed the bankruptcy court (Federal Deposit Ins. Corp. v. Rodriguez, 574 B.R. 876 (D. Colo. 2017)). UWBI appealed to the Tenth Circuit, which affirmed the district court’s decision (Rodriguez v. Federal Deposit Ins. Corp., 893 F.3d 716 (2018)), and then to the Supreme Court.

The Court’s opinion noted that such disputes between members of affiliated groups without a tax allocation agreement or with a contested one have been decided under a federal common law rule applied in some jurisdictions, known as the Bob Richards rule, after the case out of which it grew, In re Bob Richards Chrysler-Plymouth Corp., 473 F.2d 262 (9th Cir. 1973). Generally, the rule provides that, if an affiliated group does not have a tax allocation agreement, or unless the agreement unambiguously specifies a different result, a tax refund belongs to the group member responsible for the losses that led to it. The Tenth Circuit applied the Bob Richards rule in this case.

However, the Court held that the Bob Richards rule “is not a legitimate exercise of federal common lawmaking.” Federal courts can create common law only where “necessary to protect uniquely federal interests,” which the court found were not present in the determination of the allocation of a federal refund between affiliated group members (slip op. at 4, quoting Texas Industries, Inc. v. Radcliff Materials, Inc., 451 U.S. 630, 640 (1981)). Rather, “state law is well equipped to handle disputes involving corporate property rights,” even in cases that “happen to involve corporate property rights in the context of a federal bankruptcy and a tax dispute” (slip op. at 5).

The Court remanded the case to the Tenth Circuit for further proceedings consistent with the Court’s opinion, noting that the circuit court could reach the same result again under state law.

— By Paul Bonner, a JofA senior editor.
deducted his share of losses. Frost also had extensive previous experience as both an enrolled agent and a revenue agent with the IRS.

The IRS Office of Appeals issued notices of deficiency for Frost’s 2010, 2011, and 2012 tax years, reducing his deductions and disallowing the loss. Accuracy-related penalties under Sec. 6662(a) of $3,883, $4,181, and $1,219 were levied for the respective tax years.

**Issue:** The burden of production related to evidence supporting the imposition of such penalties is initially on the IRS. The court considered when the burden of production on the issue moves to the taxpayer.

**Holding:** The Tax Court held that if a taxpayer challenges the IRS’s penalty determinations, the IRS must come forward with sufficient evidence of the approval of each penalty imposed, as part of its initial burden of production under Sec. 7491(c). After the Service makes that showing, the burden shifts to the taxpayer, who must come forward with contrary evidence.

Under Sec. 6751(b)(1), accuracy-related penalties must be “personally approved (in writing) by the immediate supervisor of the individual making such determination” before the first formal communication of the penalties to the taxpayer (Graev, 149 T.C. 485 (2017)). The IRS failed to produce the required written supervisory approval forms for the Sec. 6662(a) penalties related to 2010 and 2011. Thus, for those years, the IRS had failed to meet its burden of production under Sec. 7491(c) to prove that it complied with Sec. 6751(b) and could not impose a Sec. 6662(a) penalty.

However, the IRS did produce a written supervisory approval form for the penalty for 2012, so the burden of production transferred to the taxpayer to show that this approval was untimely, i.e., the penalty was formally communicated before the written approval.
Pave the way to secure delivery of financial documents.

Bringing more control, efficiency and security to financial document exchange, RIVIO Clearinghouse provides an advanced, digital platform to collect and distribute information. Designed for three different types of users — CPA firms, private businesses and third parties — RIVIO protects shared documents from unauthorized alteration.

Learn more at RIVIO.com
Failure to file FBAR is not due to reasonable cause

A taxpayer is subject to civil penalties for nonwillful failure, a court holds.

A district court granted summary judgment against a taxpayer, enabling enforcement of civil penalties for nonwillful failure to timely report his financial interest in certain foreign bank accounts. It ruled that the taxpayer did not establish an issue of material fact as to whether the failure to file Treasury Forms TD F 90-22.1, Report of Foreign Bank and Financial Account, commonly called FBARs, was due to reasonable cause, concluding that he did not act with ordinary business care and prudence or make a reasonable effort to understand his FBAR reporting responsibilities.

**Facts:** Ram Agrawal, a U.S. citizen, worked as a geophysicist and then as a math teacher in the United States. He and his wife jointly opened an account at UBS, a Swiss investment bank, funding it from maturing certificates of deposit in India. He directed UBS to invest the money in nontaxable, “non-U.S. SEC” funds. In each year from 2006 to 2009, the value of the UBS account exceeded $10,000. Agrawal closed the account in 2010.

For tax years 2006–2009, Agrawal did not timely file an FBAR regarding the UBS account and did not report the certificates of deposit in India or the UBS account on his tax returns.

In 2011, his wife submitted FBARs to an IRS agent for tax years 2006 through 2009. In 2016, a civil penalty for nonwillful failure to file FBARs was assessed against Agrawal. In 2019, the government filed an action in district court to enforce the penalty and moved for summary judgment.

In a deposition, Agrawal testified that for 2006 and 2007, he prepared his own tax returns and did not disclose his foreign financial account as required on Schedule B, Interest and Ordinary Dividends. He testified that he used CPAs to prepare his 2008 and 2009 tax returns and he did not tell them about the UBS account, despite being asked during the 2008 return preparation whether he had any foreign accounts, or inquire why the Schedule B question about foreign accounts on his 2009 return had been left blank. Later, he unsuccessfully attempted to reverse some of his testimony.

**Issues:** Under 31 C.F.R. Section 103.24, at the time relevant to the case, persons subject to the jurisdiction of the United States with a financial interest in, or signature or other authority over, a bank, securities, or other financial account in a foreign country was required to file an FBAR by June 30 each calendar year with respect to foreign financial accounts with a value exceeding $10,000 at any point in the previous calendar year.

Section 5321(a)(5) of Title 31 authorizes a civil penalty for violations of the requirement to file an FBAR. However, the penalty is not imposed if the “violation was due to reasonable cause and ... the amount of the transaction or the balance in the account at the time of the transaction was properly reported.”

Regs. Sec. 301.6651-1(c)(1) defines reasonable cause as exercising “ordinary business care and prudence.” Regs. Sec. 1.6664-4(b)(1) provides that reasonable cause is based on all the pertinent facts and circumstances but particularly the taxpayer’s effort to determine his or her proper liability.

**Holding:** The court granted the IRS summary judgment, finding that Agrawal did not establish an issue of material fact as to whether his failure to file his FBARs was due to reasonable cause.

Relying on Agrawal’s original testimony, the court ruled that he clearly violated the law when he failed to timely file the FBARs and had not told his CPA about his UBS account or questioned why the CPA did not disclose the existence of his foreign financial account on Schedule B. Thus, Agrawal did not act with ordinary business care and prudence or make a reasonable effort to understand his FBAR reporting responsibilities. The court reasoned that a taxpayer doing so would have sought informed advice regarding the reporting requirements alluded to in Schedule B, which would involve the taxpayer’s telling the adviser about the foreign account.

The court rejected Agrawal’s arguments that his conduct was excused because he is elderly, English is his second language, and he has an inexpert understanding of tax reporting requirements, noting that he uses English to work, represented himself in the litigation, and had the financial savvy to direct UBS to invest in nontaxable, “non-U.S. SEC funds.”

**Agrawal,** No. 18-C-0504 (E.D.Wis. 12/9/19)

— By Mark Aquilio, CPA, J.D., LL.M., professor of accounting and taxation, St. John’s University, Queens, N.Y.

Tax Matters editor Paul Bonner can be reached at Paul.Bonner@aicpa-cima.com or 919-402-4434.
WHERE TO TURN

Member Service Center
1-888-777-7077
9 a.m.–6 p.m. ET, Monday–Friday
220 Leigh Farm Road, Durham, NC 27707
Fax: 1-800-362-5066
service@aicpa.org
www.aicpa.org

Accounting Technical Information Hotline
1-877-242-7212
9 a.m.–8 p.m. ET, Monday–Friday
The hotline is available for questions about accounting, auditing, and attest implications of the pandemic. A live chat feature is also available on the Auditing and Accounting Technical Hotline page to help you with questions.

AICPA Coronavirus (COVID-19) Resource Center
The AICPA is continually monitoring the virus’s impact on members, staff, exam candidates, students, and the profession. For news, tools, learning opportunities, and resources, visit the AICPA Coronavirus (COVID-19) Resource Center, which has links to topical resource centers in areas such as:
- Personal financial planning;
- Forensic and valuation services;
- Technology;
- Financial Reporting Center for accounting and reporting; audit and assurance; government; employee benefit plan audit quality; peer review; and other information;
- Small firms; and
- Management accounting.

Coronavirus tax resources
Stay current on recently enacted tax provisions and communicate the changes to your clients with new specialized resources from the AICPA Tax Section:
- Coronavirus and Tax Impacts FAQs;
- State Due Dates Chart Updated for COVID-19 Relief;
- Coronavirus Individual Client Letter; and
- Coronavirus Tax Snapshot for Clients.

Visit aicpa.org/covid19tax for more updates and tools, as well as a chat feature that is available 9 a.m.–5 p.m. ET, Monday–Friday, to help you find the resources and guidance you need.

SBA Paycheck Protection Program resources for CPAs
The Paycheck Protection Program (PPP), which Congress created as part of the $2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act, P.L. 116-136, provides access to cash so that small businesses affected by the coronavirus can keep paying their employees and other expenses, such as health insurance premiums, rent or mortgage payments, and utilities. In this resource center designed for CPA firms, you’ll find tools to help you educate and advise your clients on the program.

Benevolent Fund
If you are impacted by COVID-19, whether medically or by direct loss of income, there are AICPA member benefits available to help you. Learn more about the AICPA Benevolent Fund, including how to apply and how to donate, here.
Take charge. Your practice demands it.

For too long, accountants had given control of their core services - accounting and payroll - to companies whose software was created specifically to diminish the role of accountants.

But what if there was a better way?

What if there were revolutionary solutions to help accountants take back control from larger organizations and subpar software? What if those solutions came from a brand whose sole mission was a relentless commitment to accountants?

AccountantsWorld is that brand. For over 20 years, industry professionals have turned to us because we are known for providing a unique combination of advanced cloud accounting and payroll solutions alongside business insights that empower accountants and CPAs to take back control.

The time has never been better to do what’s best for you and your clients - now that you have the support you need.

Visit AccountantsWorld.com/JOA to learn more.