Get in front of more than 43,000 CPAs and finance professionals who are the brain trust behind the world’s fifth-largest economy.

CalCPA can help you reach your target audience through print, digital and event advertising.

**Event Sponsorships**: Support a CalCPA conference, webcast or chapter event to position your brand and engage with highly qualified registrants—or create your own event using your targeted content.

**California CPA** (print and digital): Read regularly by 90% of our members, *California CPA* is the only professional news magazine published for financial professionals and CPAs in the state.

**CalCPA Website**: CalCPA.org is full of news, links and information CPAs need and want.

**Dedicated Emails** and **Sponsored Content**: Grab the attention of CPAs and distribute your content to California’s leading accounting and finance professionals and decision-makers.

**E-Newsletters**: Aimed at targeted interest groups you’ll want to reach.

**CalCPA Knowledge Hub**: Use your content to reach accounting professionals and build business leads.

**CalCPA Custom Media Solutions**: From video vignettes to virtual roundtables to executive interviews, we’ll help you build a custom media platform to generate quality leads, increase revenue and bring visibility to your brand.

**CPA Job Board**: The ultimate resource to find your next hire.

**For more information:**

Visit: calcpa.org/advertise  |  Email: advertising@calcpa.org

Content is copyright protected and provided for personal use only - not for reproduction or retransmission. For reprints please contact the Publisher.
CPCharge has made it easy and inexpensive to accept payments via credit card. I’m getting paid faster, and clients are able to pay their bills with no hassles.

— Cantor Forensic Accounting, PLLC

Trusted by accounting industry professionals nationwide, CPCharge is a simple, web-based solution that allows you to securely accept client credit and eCheck payments from anywhere.

- 22% increase in cash flow with online payments
- 65% of consumers prefer to pay electronically
- 62% of bills sent online are paid in 24 hours

Get started with CPCharge today
cpcharge.com/calcpa
866-206-0624

Client Invoice
#0123-A

Your Client
**** **** **** 9995

TOTAL: $3,000.00

PAY CPA

CPCharge is a registered agent of Wells Fargo Bank N.A., Concord, CA, Synovus Bank, Columbus, GA, and Fifth Third Bank, N.A., Cincinnati, OH.

Affinipay customers experienced 22% increase on average in revenue per firm using online billing solutions. For reprints please contact the Publisher.
**9 Spurring Clients to Action**
Your clients may recognize the importance of their finances, including filing taxes, but do they tend to procrastinate making financial decisions because they don’t feel any sense of urgency? Here are some ways you can expedite execution by framing financial plans around tax strategies.

**3 It’s Material: DE&I Insights**
Fostering a more diverse and inclusive environment in the profession is a shared responsibility, and CalCPA is committed to leading by example—in words and actions.
DENISE LEDUC FROEMMING, CPA, CAE, MBA

**13 Retirement Ready?**
Our personal financial planning expert provides steps CPAs and financial planners can take to help low-income, diverse and minority employees plan for a stable financial future.
LEONARD C. WRIGHT, CPA/PFS

**21 Driving Change**
A new report from CalCPA, IMA and IFAC uncovered a few hard truths about the profession related to diversity, equity and inclusion—and proposes more than 70 practices to help attract, retain and promote diverse talent.
LOREAL JILES & HEATHER COLLINS

**22 NFTs & You**
You probably first heard about non-fungible tokens during the pandemic, along with stories of insane prices NFTs were fetching, and wondered if your clients, or even yourself, will join the mania.
TREVOR J. GILMORE, CPA/ABV, MST

---

“Content is copyright protected and provided for personal use only - not for reproduction or retransmission. For reprints please contact the Publisher."
It’s Material

Denise LeDuc Froemming, CPA, CAE, MBA
President & CEO
CalCPA and CalCPA Education Foundation

Fostering a more diverse and inclusive environment in the profession is a shared responsibility, and CalCPA is committed to leading by example—in words and actions.

In words, we’ve adopted a new inclusion statement that reflects our mission: CalCPA is actively promoting a climate of inclusivity as we build a community of belonging. Join us as advocates of authenticity, acceptance, awareness and action.

In actions, we’ve made CalCPA Institute the new home for our diversity, equity & inclusion (DE&I) initiatives, with dedicated staff to work on these issues. Our efforts also include the CalCPA Diversity, Equity & Inclusion Commission and our internal DE&I working group, which are working toward ensuring CalCPA reflects the diversity of the accounting and finance profession.

And over the past two years, we’ve worked with the Institute of Management Accountants on two significant studies (this most recent one also involved the International Federation of Accountants) revolving around DE&I in the profession. You can find links to both reports at calcpa.org/diversity.

The most recent report, Diversifying Global Accounting Talent: Actionable Solutions for Progress, was released in April and includes more than 60 accountancy organizations as DE&I Advocates, representing one of the largest collective DE&I initiatives in the history of global accounting.

We are grateful for the opportunity to collaborate on this vital initiative to foster change and promote a nurturing and welcoming environment for all. You can read more about the report in this issue on Page 21, but a few highlights include:

• Fewer than 60 percent of respondents of all backgrounds view the profession as equitable or inclusive.
• Women report they have experienced inequitable treatment and exclusive behaviors that impacted career decisions and prompted some to leave the profession.
• A lack of DE&I negatively impacts the retention of diverse talent within organizations and the profession.

The report also presents various solutions organizations can take, including:

• Identifying and mitigating unconscious bias.
• Attracting, retaining and promoting diverse talent.
• Increasing accountability for progress.

In addition to these efforts, we launched a baseline DE&I assessment to CalCPA members last month to better understand them. Results will be used to inform potential revisions to policies, procedures or professional development opportunities for members and staff.

I encourage all of us to be curious, create opportunities for honest conversations and be courageous; remember it’s a journey, with multiple destinations—learn, listen and grow.
**Digital, Emerging Tech to Increase Workforce**

When asked about specific technologies that will drive radical transformation and growth, C suite execs and board members indicated:

- **88%** artificial intelligence and machine learning and system integration
- **70%** autonomous robots
- **7%** quantum computing

---

"While public company audit firms have made progress with regards to diversity, we can and must do more to diversify the talent pipeline. We need to better understand what is driving the fall-off between openness to accounting and ultimately not pursuing the degree, especially for Black community college students, who in our research showed the highest level of interest.”

—Center for Audit Quality CEO Julie Bell Linds

---

**The Numbers**

- **132M** The number of people who think their credit card rates are too high.
  —WalletHub

- **91,052** The number of distributed denial-of-service attacks in Q1, four-and-a-half times higher than in the same quarter a year ago.
  —Kaspersky

- **$103,880** The amount college students expect to earn in their first post-graduation job, nearly double the average starting salary of $55,260.
  —Real Estate Watch

- **73%** The number of managers who said productivity has either remained stable or increased during remote working.
  —GoodHire

- **$1.14T** The amount of cryptocurrencies traded last year on the largest U.S. crypto exchange, Coinbase Global Inc., a ninefold increase from 2020.
  —Bloomberg
S Corp Pass-through Entity Elective Tax

S corps and LLCs classified as S corps whose total tax liability, including any pass-through entity (PTE) elective tax, exceeds $80,000 are required to make all future payments electronically [CA RTC Sec. 19011(a)(2)]. The mandatory e-pay requirement also applies to any single estimated tax payment or extension payment of more than $20,000. The triggering payment does not need to be made electronically.

If an S corp had a mandatory e-pay requirement and received a penalty for paying their PTE elective tax by check, they may qualify for penalty relief.

The FTB will offer penalty relief on a case-by-case basis for the electronic funds transfer (EFT) penalties assessed due to the PTE elective tax that was paid by check.


---

Lower your shipping costs. Not your expectations.

CalCPA Members save up to 50%* on UPS® small package shipping services that include enhanced protection through UPS Capital® Insurance Agency, Inc.

To learn more and start saving:

Call: 1-800-MEMBERS (636-2377)
Visit: www.savewithups.com/calcpa

*Terms Apply.

Content is copyright protected and provided for personal use only - not for reproduction or retransmission.
For reprints please contact the Publisher.
GASB Issues Statement Addressing Wide Range of Practice Issues

New guidance from the Governmental Accounting Standards Board (GASB) addresses various accounting and financial reporting issues identified during the implementation and application of certain GASB pronouncements or during the due process on other pronouncements, including:

- Accounting and financial reporting for exchange or exchange-like financial guarantees;
- Certain derivative instruments that are neither hedging derivative instruments nor investment derivative instruments;
- Clarification of certain provisions of:
  - Statement No. 34, Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments
  - Statement No. 87, Leases
  - Statement No. 94, Public-Private and Public-Public Partnership and Availability Payment Arrangements
  - Statement No. 96, Subscription-Based Information Technology Arrangements;
- Replacing the original deadline for using the London Interbank Offered Rate as a benchmark interest rate for hedges of interest rate risk of taxable debt, with a deadline of when LIBOR ceases to be determined by the ICE Benchmark Administration using the methodology in place as of Dec. 31, 2021;
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program;
- Disclosures related to nonmonetary transactions;
- Pledges of future revenues when resources are not received by the pledging government; and
- Updating certain terminology for consistency with existing authoritative standards.

The Office of the Governor noted Nancy Corrigan, Kristian Latta and Joseph Rosenbaum were named to the California Board of Accountancy.

For its annual Windes Gives Back Day, the firm supported the Aquarium of the Pacific and employees helped remove 1,000 pounds of non-native clover and planted 130 Coastal Sage Scrub seedlings and bushes … MGO has combined with Bay Area-based Eckhoff & Company CPAs and Advisors.

AARP quoted John Schultz in an April 15 article on steps to make next year’s tax filing go more smoothly … AccountingToday quoted David Cieslak and Geni Whitehouse in a May 2 article on firms going paperless. The website also quoted Cieslak in a May 2 article on protecting your data online.

In the May issue, our listing of Women to Watch Award nominees should have indicated Britany Wells is a principal with HCVT.
Life insurance made simple

Introducing a new life insurance option for you and your family

We are proud to introduce a special life insurance program created for CalCPA members.

Now, you can protect your loved ones’ financial futures should anything happen to you. It’s easy to compare quotes or apply for coverage (up to $10,000,000) for you or a family member.

Enjoy this special program for CalCPA members at:
www.sagemarkInsurance.com
While our clients may recognize the importance of their finances, including filing taxes, most tend to procrastinate making financial decisions as they don’t feel any sense of urgency. The complexities around the breakeven analysis and net present value in helping our business clients determine what may be in their best interest are second nature to our profession. Similar concepts are applied in the discipline of financial planning as financial planners.

Issues around the time value of money and compound returns are easy. What’s not easy is providing clients with a framework to help them through their behavioral finance biases. It’s frustrating when we examine what seems like a simple solution, yet estate documents don’t get signed or strategies sit on the shelf for years because what’s in the client’s best interest may be difficult for them to perceive.

1. Paint A Picture
Use imagery at the end of a fact-finding session to let your client know you hear them, and you have plans to help them. Figure 1 is a tool to use with your clients after an initial fact-finding meeting. You can tie what your client reveals to be important to them to your ability to provide services not linked to a product sale.

Looking at Figure 1, many advisers tend to focus on the left, which creates an investment portfolio and product placement. CPAs live on the right side: comprehensive financial plan. The first step to helping clients move forward and take action is to summarize what they feel they need, the impact you can create through planning and the long-term tax mitigation.

Financial planning is a natural extension of what many of us do to some degree with our clients as we serve them in a fiduciary capacity. When we examine the financial planning opportunities and related benefits for your clients, there’s one field in which most CPAs have a strategic competitive advantage: taxation, which impacts each component of the financial plan.

Another characteristic is the CPA’s service to the business community. The CPA is a thread woven through roughly 6.1 million small-business owners with employees. CPAs are uniquely qualified as a profession due to the clients’ best interest being front and center to many client relationships and the notion that financial plans should be built around what’s important to each client based on their personal, professional and financial goals.

2. Use Your Strength in Taxation to Convey Benefits
It’s difficult to turn something complex into something that clients understand. Lack of understanding coupled with a lack of urgency results in procrastination. While conversations around finance and tax may seem like an entirely different language to the average American, everyone understands what it means to either owe taxes or receive a refund.

Clients may feel a sense of urgency to make decisions if they realize how their actions impact taxes. By framing financial planning around what’s important to the client and tying strategies to taxes, we may be able to shift personal finance from important and not urgent to important and urgent (Figure 2). The trick is to use the top two quadrants to your client’s advantage where planning results in action.

No one enjoys paying taxes; however, sometimes it may make sense to pay taxes now rather than deduct and pay them later. Some strategies to be thoughtful about are:

- Consider the impact of making Roth 401(k) salary deferrals. Between husband and wife, that could amount to $54,000 per year for those over age 49. Many 401(k) plans allow participants to roll over Roth assets to a Roth IRA at age 59.5. There could be amazing planning opportunities that tie into what the client is attempting to achieve. Some make Roth contributions not because they understand the benefits of tax-free growth, but because it’s what they hear they should be doing in the news and media. At the same time, many individuals look forward to

---

**Figure 1**

**Figure 2**
receiving a tax refund or want to pay as little in taxes as possible, so they choose to contribute to their retirement account on a pre-tax basis instead of Roth. These individuals often are not considering the long-term tax impact through the financial planning lens.

- Model the impact of the 10-year distribution rule for beneficiaries. Your client may discover layers of benefits when considering the type of IRA and the long-term implications.

**FIGURE 3**

**CURRENT STRATEGY**

**FIGURE 4**

**RECOMMENDED STRATEGY**
• Consider a cash balance plan for business owners with less than 100 employees per shareholder, partner or member. Small businesses tend to think in the same way concerning tax planning: short term. They are always looking for and needing a tax deduction, rather than considering how tax-deferred savings may impact their financial plan long-term. Cash balance plans can result in significant opportunities.

• The impact of a 529 plan may mean a free year of college due to the tax savings. The effect will be different for most clients, but there’s a great benefit to discuss.

• Consider Net Unrealized Appreciation for clients with company stock to convert gains from ordinary income to capital gain income.

• Consider life insurance planning. Robert Keebler, CPA/PFS has highlighted the benefit of integration into the planning process and noted, “People already at $6 million [for example in retirement savings] might decide not to put more money into their IRAs, but into life insurance.” Some benefits to properly structured policies are tax-free 1035 exchanges for long-term care, tax-free payment at maturity and the flexibility to transition policies to an irrevocable life insurance trust. Some states offer creditor protection (very little in California).

• Concerning Roth strategies, most are familiar with the impact of whether there’s a required minimum distribution (RMD). However, one planning issue often ignored is the potential impact on Medicare payments triggered by RMDs. Inadequate planning may increase Medicare premiums resulting in higher expenses in retirement.

3. Integrate Risk Management Planning
While it’s common for friends to brag to each other about their investments, bragging about insurance rarely occurs. While risk management is not an enjoyable conversation, it’s critical to the planning process. The downside to ignoring risk management can lead to a failure of the entire financial plan. People lament that their biggest regret was not having disability income insurance. Never have we heard someone complain that their life insurance check was too much income for their family. There can be serious consequences for inadequate insurance planning.

In addition to life insurance planning, many financial professionals have mixed feelings about annuities. It’s understandable why professionals dislike annuities as many are “sold” rather than a component of a financial plan. There’s also a perception that revenues will drop as assets under management necessarily decrease initially (a conflict). Through due diligence, many are surprised to find solutions in the marketplace that may be in the client’s best interest.

Ernst & Young conducted a study (ey.com/en_us/insurance/how-life-insurers-can-provide-differentiated-retirement-benefits) around integrated retirement plans and concluded, “investment-only approaches do not deliver as promising returns as those that are combined with Permanent Life Insurance and Deferred Income Annuities with increasing income potential.” A similar study by Michael Finke, professor of wealth management at The American College, reached a comparable conclusion more than 10 years ago.

4. Compare Different Planning Strategies
Helping a client understand how different strategies impact both their present and future is important to sharing how your recommendations are in the client’s best interest. Figures 3, 4 and 5 highlight a hypothetical client outcome of planning related to various applied strategies discussed in this article. After years of accumulating wealth, many clients tend to be particularly concerned about how and when the money is distributed in retirement.

5. Conduct Consistent Planning Reviews
Many view the financial plan as a task to check off and then file forever. To be effective, financial plans should be revisited as frequently as you meet with clients. Tying clients’ financial plan to meetings demonstrates your value as their trusted adviser, helps deliver peace of mind around assets earmarked for retirement and revisits open opportunities from the last review.

The bond between you and your client and peace of mind provided through planning becomes more valuable and essential in times of high market volatility. Almost everyone, investment advisers included, is subject to the emotions of the capital markets. By implementing a family values and goals plan, you can help your client through volatile times. Even if you do not give investment advice, proper planning allows you to raise questions about investment allocations. If you feel the client is on track for their goals and the portfolio potentially subjects them to outsized risk, there may be an opportunity to rebalance the portfolio.

Amie Agamata, CFP, AIF, RICP, ChFC, CLU, is the director of investments and planning with Leonard C. Wright, CPA/PFS, CFP. You can reach her at amie_agamata@yahoo.com.
Join CalCPA for a series of hour-long webcasts featuring short demos from technology leaders for the profession who will share how their solutions can innovate your work. Each event includes a Q&A with the presenters via chat. Grab your lunch and join us from Noon–1 p.m. PDT on the below dates:

- **July 21**: Document Management and Workflow Tools
- **Sept 22**: Security (Digital and Cloud)
Growing up, I often visited my father’s childhood home in South Bend, Indiana. When I was 5 years old, I would hear my grandparents discuss how much contempt they had for Studebaker because their friends lost their retirement pensions soon after the plant closed in December 1963, when the company terminated retirement plan for hourly workers.

The company’s collapse was the catalyst for the Employee Retirement Income Security Act (ERISA), signed into law by President Gerald Ford. In 1981, 401(k) was added, and defined contributions plans were off and running.

As a 28-year-old CFO for one of America’s top jewelry companies in 1988, the first act I implemented was a 401(k) plan. Back then, employees would question if 401(k) plans were legal, and why the IRS would permit such a deduction. Hard to imagine today. Upon learning that I changed the life of an employee through the company’s 401(k) plan and turning around a couple of other companies, I dedicated my life’s work to many companies rather than just one.

Flash forward to today, and there’s so much on the table for your clients—and those who will share the opportunity will attract new clients.

At one plan provider, our office is the top implementer of cash balance plans in the country. Clients get excited when they understand the opportunity around what a cash balance plan is, and how they can create significant tax deductions and savings that are creditor protected.

The fact that cash balance plans help so many low-income, diverse and minority employees get on track for retirement with very little out-of-pocket costs from the owner of the business is also very exciting.

Here are five steps CPAs and financial planners can take to help the aforementioned demographic plan for a stable financial future.

1. **Determine if a Cash Balance Plan is a Possibility for Your Client**
   Last summer, it became apparent that what was obvious to me was not in the least bit obvious to an entire industry. Instinctively, as CPAs, we’re aware of what bottom-line costs are to a program or activity that our client may engage in, ERISA plans tend to be different. Many tend to focus on top-line cost rather than out-of-pocket.
   Because most focus on top-line cost, the industry believes that cash balance plans are appropriate for businesses that have less than eight to 15 employees.
   When you shift to what we as CPAs have instinct for—bottom-line cost—you’ll find that range significantly widens.

   A good measure of profitability is required when considering a cash balance plan. But once an appropriate level of profitability has been established, cash balance plans should be looked at as an option for companies with 100 employees per partner, shareholder or member. This greatly extends the possibilities.
   While not all companies will be eligible, you will be surprised at the opportunity.

Figure 1 shows a company with nearly 100 employees, yet only 65 are considered eligible employees with a high turnover rate in the company. There are three scenarios that reflect the conditions today, and how simple changes over the years can impact owner contributions and the net out-of-pocket costs.

In this example, the increased funding for the owners of the business and reduced contributions to the employees reflect the teamwork between the owner of the business and those who recognized how to integrate the plans. The outcome of teamwork is the additional out-of-pocket costs are a small percentage of the total cost.
deduction, and most importantly, the amount funded becomes creditor protected.

2. KNOW THE LAYERS OF OUT-OF-POCKET COST REDUCTIONS: REGULATORY

There are layers of tax and regulatory incentives. Figure 2 is noteworthy in explaining the regulatory layers regarding retroactive plans. The different layers of the retirement plan cake are given different vesting attributes. The bottom line: Employee turnover reduces the cost to the employer.

When constructing a plan document to minimize cost, maximize benefits and reward non-highly compensated key employees, consideration should be given to set up the plan as a 3 percent, non-elective safe harbor (NESH), which is considered a profit-sharing contribution.

This contribution can be subject to a two-year cliff vesting. NESH is preferable because these plan contributions count toward the requirement for the profit-sharing contribution to the cash balance plan. It’s important to note that different companies with different age groups and compensation need to be coordinated with a third-party administrator.

In my experience, the requirement is typically about a 7 percent contribution to the profit-sharing plan. The 4 percent difference can be subject to a six-year vesting schedule. The cash balance plan generally has a three-year cliff vesting schedule.

Many small-business owners experience turnover rates of 20 percent to 40 percent per year. Depending on the turnover rate, it may be likely that the out-of-pocket costs made to the employees can be reduced by up to 50 percent. The turnover aspect is a win-win for the business owner. If turnover is reduced by implementing this type of plan, the training and development costs will usually drop more than what must be paid to the employee.

One of my clients said that his new employees usually damage equipment in the range of $5,000 to $15,000. Not to mention the time it takes to train and be trained.

3. APPLY THE LAYERS OF TAX SAVINGS AND THE ELIMINATION OF SOME TAXES

At a basic level, there are federal and state income tax deductions for contributions made to a profit-sharing plan and a cash balance plan. In California, or any other high tax state, if the participant moves to a low, or no, income tax state, when distributions are taken from the plan, there’s a permanent elimination of the state income tax. This is correct for both the employer for contributions to business owners and the employees.

Another layer of tax savings is the permanent elimination of Social Security and Medicare taxes on contributions to the plans (see Figure 3). When we combine regulatory and tax incentives for contributions, the following happens:

- The actual out-of-pocket may be about 25 percent of the top line contribution.
- The employees—many of whom are low-income, diverse and minority—have an opportunity to be on track for retirement.
- Participation rates may increase to 90 percent to 100 percent.
- The participants on track for retirement measurement is usually between 75 percent and 92 percent.

An extra bonus, for those who may qualify, is a 199A deduction. Many small businesses with only a few employees could potentially enjoy a negative cost by implementing a plan. How? If the business owner’s profitability is too high, pushing beyond the deduction threshold, this plan and the related deductible contributions could allow for a full 199A deduction. Under the right circumstances, the business owner receives the incentive through more tax savings.

Outcome: Your business-owner client receives a significant tax deduction and low-income, minority and diverse communities are transformed to retirement ready communities.

4. WORK WITH A THIRD-PARTY ADMINISTRATOR (TPA)

Working with a TPA is important. Figure 4 illustrates the summary of three different scenarios with the same client. By planning with your client and working with the TPA, beneficial results in the first year can improve.

As you can see by the different tax rates, it doesn’t make much of a difference if the business owner is in California or Nevada for the net out-of-pocket costs. Figure 4 assumes a 50 percent reduction of out-of-pocket cost due to turnover. The $500K+ bars in the graph represent the funding to your client’s retirement account. The smaller bars represent the net out-of-
5. TIE THE PLAN TO CORPORATE CULTURE & PLANNING WITH THE BUSINESS OWNER

Since the deductions can be significant for the business owner when implementing a cash balance plan, business owners often wonder, “What else is there?” The answer is there’s much more.

By going through the planning process, it may be determined that tax diversification through Roth 401(k) contributions can create significant opportunity over time. It’s amazing how many business owners believe they are ineligible for any kind of Roth contribution because of their high income.

With respect to the retirement plan cake, the planning opportunities with business owners are best suited while addressing and fitting the plan to corporate culture. Every company is different. Who are the key employees? Who are the most important among the key employees? Are there any employees you feel you need to benefit due to long-term service? Is there a key employee who contributed disproportionately during the last few years and there was no cash flow to reward that employee?

Don’t stop at the first layer of questions. You may follow up an answer with, “Why do you feel so strongly about X?”

The more the plan is structured around corporate culture, the stronger your relationship will be with your client.

Leonard C. Wright, CPA/PFS, CGMA, AIF, CFP, CLU, ChFC is the past chair of CalCPA’s Personal Financial Planning Committee. You can reach him at wrightplanners@hotmail.com.
TAKING CARE OF SHOW BUSINESS.

Go with the bank with deep roots in the entertainment industry.

With custom financing and accounting solutions, a powerful fintech ecosystem, and proven entertainment expertise, we’re uniquely positioned to help you and the clients you serve shine brighter.

Talk to a dedicated Relationship Manager and a team of experts at City National® today.

We make it our business to be personal.

City National Bank
AN RBC COMPANY

Discover The way up® at cnb.com/business
Embrace the Future

The future of all industries in the services sector will be shaped by technology. At different places and at different times, we have seen record labels, movie studios, grocery shopping, hotel booking and several other services revolutionized by new types of competition that have harnessed the power of technology.

Investment firms have not been immune to these forces, as we have seen with the rapid growth of passive investing tools, roboadvisers and mobile stock-trading platforms that allow investors to trade from a smartphone. It’s only natural to ask how new technologies will change the financial planning business.

Where We Are Today
According to the Bureau of Labor Statistics, in 2020, there were 275,200 personal financial advisers in the United States. We’ve read about the reduction in the number of advisers, and there are probably many outside the industry who believe advisers will meet the same fate as bank tellers, travel agents or secretaries.

However, people still want counseling when it comes to investing, and more broadly, to financial planning. Clients, especially affluent ones, will not rely solely on an algorithm to make some of the most critical decisions about their future.

A few weeks ago, I was rereading “Breaking Through,” an excellent guide to the industry published by CEG Worldwide’s partners in 2013. One number caught my eye: research showed that more than 90 percent of affluent individuals—those with more than $1 million in investible assets—want to work with a top financial adviser. My experience tells me that likely has not changed. When it comes to essential matters, people still want to see a doctor or confer with a lawyer. Or a financial adviser. Technology can facilitate these interactions, but it will not replace them.

The challenge for advisers is how to grow their business through engaging and, crucially, retaining profitable clients. Only one approach will work: spending more time devoted to them and attending to their needs and concerns. Even in a new, more tech-enabled world, a more client-centric practice is what advisers will still need. This almost sounds like a cliché, but technology presents an opportunity to move in that direction decisively.

Tech-driven, but Much More ...
Many advisers spend a lot of time in non-client-facing activities, which do not add much value. They need to build costly infrastructures, which then impact the fees they charge to run a profitable business. This is where I envision the first significant change in the financial advisory industry.

Thanks to new tech-driven financial services innovations, advisers will have access to platforms built by third parties that provide almost all the infrastructure they need to run their businesses by themselves. For example, they will be able to have detailed, real-time information about investments, insurance policies, wills and other products of each client.

To market their services, they will be able to reach out to current and prospective clients, and monitor marketing ROI by keeping registries of all of these interactions. To increase both speed and ease of service, they will send relevant documents to be signed electronically and provide additional information, including timely market insights at the most helpful time for clients and prospects. Finally, by leveraging various social media and private network channels, they will be able to build their investment communities to address needs, also crossing geographic and socio-economic boundaries to expand their clientele.

Technology will have three direct impacts on the practice of financial advisers.

The first is, as already mentioned, cost reductions. More specifically, advisers will need to work with fewer vendors (I’m thinking of a substantial reduction, from a hypothetical 12 to three). Cost reductions could very well reach 80 percent. By itself, however, this won’t necessarily immediately improve margins for advisers, as we can expect these lower costs to be passed to the client in the form of more competitive fees. But longer term, many advisers could see their business from existing clients grow significantly thanks to this cost advantage.

Second, technology will allow advisers to spend more of their time serving clients, which is what adds value and builds trust—probably the essential element to sustaining long-term relationships. This offers the potential for higher margins, given that more in-depth and more effective service with higher standards will be worth more to clients.

Financial Planners Need Not Fear Technology
And third, it will enable advisers to scale their businesses significantly. If a sole practitioner can serve perhaps up to 100 clients today with the help of a team, a well-built and comprehensive platform could empower an individual adviser to serve up to 200 clients. A small team would then be able to assist 1,000 clients without sacrificing service quality—and even improving it. It may be hard to fathom, but productivity could shoot up by five times, with revenues and profitability increasing accordingly.

Technology’s potential benefit is there, and advisers ready to hop on this train will reap the rewards. There will be a reshuffling of opportunities and clients. Technology will commoditize many aspects of the financial services industry so that the key differentiator will come from personal client service. Attending and anticipating their needs and serving them and their families will be crucial to sustaining the business as it becomes more relational. Moreover, advisers will have the time and resources to serve clients with more complex needs and provide those necessary services with added value. This leads to higher margin services.

The technological platforms that will revolutionize the business will allow advisers to work with different custodian banks, invest in the strategies of a broader range of skilled asset managers, shop between more accounting services, hire from a larger pool of lawyers and much more. These professional interactions will happen within online marketplaces, the same concept most of us are already familiar with when shopping for cars, homes, clothing, and even some medical treatments. Online marketplaces offer frictionless environments, where it’s easy to compare and evaluate competing, and increasing alternatives (see Figure 1).

Regulatory Landscape: Better Service, More Access

These changes also will result in more demanding clients. Just like the adviser, they will be empowered by technology. What’s more, regulation will move toward stricter standards for all professionals within the financial industry. Technological

For more information about products and services catered to the CPA community, visit calcpa.org/members-exclusive/benefits.
developments will only make the need for change more obvious and urgent in the eyes of lawmakers. The good news is that most of us have already adopted the most important feature required from all professionals in the future: the fiduciary standard.

The financial planning industry was in no small part developed because clients were not adequately protected from abusive practices, which encouraged them to buy expensive products that were not necessarily the best for them.

Many actors in the industry will be required to modify their businesses dramatically when stricter regulations become law (and with time, they will). But most planners will be ready from day one to take advantage of a more transparent and technology-enabled investing environment.

The other fundamental change that the government will push is that of access. Importantly, advisers will be in sole focus on investments that many clients found harmful, and engaging, while moving away from the goals and risk tolerance more straightforward making the conversation about financial financial planner to know the client better, each client's specific needs.

Technology will make it easier for the financial planner to know the client better, making the conversation about financial goals and risk tolerance more straightforward and engaging, while moving away from the sole focus on investments that many clients arrive with. Importantly, advisers will be in control: technological improvements will not tell clients where to go. Artificial intelligence and other tools will help them know clients better and predict their needs more precisely. Technology will drive advisers to serve clients better, but will not replace their role as financial planners.

Better technology deployment does not need to be a synonym with doing things on the cheap. In fact, it’s quite the contrary: the service will become better and at a lower cost. Furthermore, as more clients understand that seemingly more affordable services result in higher overall costs, they will become more willing to embrace advisory services from fiduciary financial planners. Both regulation and the transparency brought by technology will contribute to pushing these changes faster.

As more aspects of the business become commoditized, including investments themselves, true value to clients will come from informed financial planning advice. We need to be ready to embrace these changes and make them work in our favor. ✨

Glenn Freed, Ph.D., CPA (Florida), PFS is a founder and executive vice president at Altafid. You can reach him at glenn@altafid.com.
Elevate Your Client Advisory Services

The role of a trusted advisor has become critical in helping businesses who are seeking greater strategic insight from their accounting partner by delivering high-value client advisory services (CAS).

Paychex has partnered with a cloud-based financial planning and reporting solution, Jirav. Both Paychex and Jirav are preferred solutions of CPA.com.

Firms can manage financial planning and analysis (FP&A) for all clients on one platform and provide the right information to elevate their business with confidence and speed.

Learn more payx.me/ca-jirav | CalCPA@paychex.com

Paychex is proud to be the preferred provider of payroll, retirement, and HR services for the California Society of CPAs members.
Driving Change

Less talk, more action. These four words rang loudly in the ears of participants in a video call in the summer of 2020. A handful of CalCPA and Institute of Management Accountants (IMA) staff members, including both CEOs, shared observations about the lack of diversity among senior leadership in the accounting and finance profession and embarked on a journey to do something about it.

Being accountants, we knew we needed data. And we knew we’d have to bring others on board to effect the change we wanted. Now, after more than 8,000 survey respondents, 100 interviews, hundreds of emails and dozens of discussions, we stand at the culmination of a five-series research project examining diversity, equity, and inclusion (DE&I) in the global accounting profession. We have assembled dozens of organizations, including nearly three dozen U.S. state CPA societies, and are moving toward collective action.

What We Learned

The first study, Diversifying U.S. Accounting Talent: A Critical Imperative to Achieve Transformational Outcomes, revealed a diversity gap in the U.S. accounting profession—greater diversity broadly across the profession than in senior leadership roles. It also highlighted a diversity gap across the profession for specific racial and ethnic groups—Black and Hispanic or Latinx, in particular.

When the International Federation of Accountants (IFAC) joined IMA to replicate the U.S. study in Asia-Pacific, Europe and the Mediterranean, and the Middle East and North Africa, data exposed a similar lack of diversity among senior leadership and confirmed that, globally, diverse talent isn’t advancing because of inequity and exclusion.

The capstone research report, Diversifying Global Accounting Talent: Actionable Solutions for Progress, released April 2022, uncovered a few hard truths about the profession (see chart):

- Fewer than 60 percent of respondents view the accounting and finance profession as equitable or inclusive. Respondents in the U.S. are least likely than any other regions explored to share this view (see Table 1).
- More than 40 percent of female respondents in each region, and as many as 73 percent of women in the U.S., cite bias affecting recruitment, assignments, peer-to-peer interactions, promotions, compensation, mentoring and sponsorship, and retention.
- On average, 42 percent of female respondents left a company due to a perceived lack of equitable treatment or inclusion; 12 percent of women reported a lack of DE&I contributed to them leaving the profession altogether.

When we explored various demographic groups—women, different racial and ethnic groups, nationalities and sexual orientation—across each region, we learned that a subset of diverse talent from all focus demographic groups have either left an employer or the profession due to a lack of DE&I.

Our Responsibility

Along with the state of DE&I within the profession, we identified other catalysts for action: an ethical obligation and increased demand for sustainable business information around DE&I.

Accountants must protect the public interest and have an ethical imperative to maintain honesty and integrity, committing to fair decisions free from bias. An extension of accountants’ ethical obligation is their evolving role in reporting sustainable business information, commonly known as environmental, social and governance (ESG) reporting.

The acceleration of accounting for ESG includes focusing on DE&I as a component of the “S” in ESG. This inclusion recognizes that the contributions and value of people who compose a workforce require due attention and care—including the elimination of unfounded bias.

Taking Action Now

To enable DE&I progress, our report (available at myima.org/DEIsolutions) proposes more than 70 actionable practices that individuals and organizations can implement. All practices are classified in one of two categories: attract diverse talent, and retain and promote diverse talent.

<table>
<thead>
<tr>
<th>Respondents Who View The Professions As Equitable or Inclusive (all genders)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 1</td>
</tr>
<tr>
<td>I believe the profession is equitable.</td>
</tr>
<tr>
<td>I believe the profession is inclusive.</td>
</tr>
</tbody>
</table>

The inventory of practices includes approaches to mitigating the risk of bias in recruitment, such as ensuring language in job postings does not discourage persons of specific backgrounds from applying, or anonymizing candidates’ résumés before review. It also recommends regularly surveying staff to understand their perceptions of inclusion within the organization and auditing the demographic composition of staff at all levels.

Some actions are for individual organizations, and others, such as programs to better prepare persons in disadvantaged groups for the profession or marketing campaigns to heighten awareness of the profession as a desirable career path for all, would be best implemented with multiple organizations.

We stand more than 60 organizations strong, committing to collective DE&I action. We’re united in what we’re asking for and prepared to achieve it. Are you?

Loreal Jiles is VP, research and thought leadership, at IMA. Heather Collins is senior director—DE&I pipeline and engagement, for CalCPA. You can reach them at Loreal.Jiles@imanet.org and heather.collins@calcpa.org.

www.calcpa.org

Content is copyright protected and provided for personal use only - not for reproduction or retransmission.

For reprints please contact the Publisher.
NFT’s Future?

From Beeple to the First Tweet to Mortgages

What the what? What is an NFT? You probably first heard this acronym during the COVID-19 pandemic, replete with stories of insane prices NFTs were fetching at auction, and wondered if your clients, or even yourself, will join the mania. If you were like me, you got some popcorn and saw NFT digital artwork fetch insane values while watching safely on the side lines.

NFTs, or non-fungible tokens, are, at their essence, smart contracts. Part of the decentralized finance, or DeFi, movement, they are typically developed on Ethereum, the digital currency built on blockchain. Ethereum is the second largest blockchain cryptocurrency after Bitcoin.

As the NFT name implies, no two are alike, therefore they are non-fungible. On the other hand, fungible goods are identical, and therefore replaceable, with each other; for example, dollar bills are identical and can be replaced with each. By their nature, an NFT’s most practical use may be a smart contract, and not digital art, as we saw with its first incarnation. More on that later.

The $69 Million NFT

Before the NFT craze of the COVID-19 pandemic era, minting and trading NFTs was a pastime of a subset of the blockchain community. Then, in March 2021, we saw two extraordinary NFT transactions (the artist Mike Winkelmann, known online as Beeple, sold an NFT for $69 million and the NFT version of Jack Dorsey’s first tweet on Twitter fetched $2.9 million), which catapulted the acronym into the mainstream.

Since then, NFT valuations have largely deflated. For example, the owner of the original tweet is now selling that NFT on OpenSea.io, the largest online NFT marketplace, with plans to donate proceeds to charity. At time of writing, the highest bid is $26,000.

Valuation

As CPAs, we’re concerned with valuation. In this example, the first tweet NFT investor would probably carry the $2.9 million purchase price on their balance sheet as an intangible asset. Since they are an individual, I’m assuming they do not have to adjust for fair value each year for financial reporting purposes. If it transacts at $26,000, there is a realized loss of $2.874 million.

Now, if the owner was an entity with fair value reporting, how would the value be determined each year? As a valuation professional, I’m a big fan of the cash flow approach to value. Assigning projected cash flows to an artwork NFT would require cash flows something like a licensing arrangement. The market approach is the next logical step, and there are active marketplaces such as OpenSea to scour; however, finding a recent, comparable transaction may be difficult.

Volatility

The crypto market has followed the public stock market’s recent trends and has similar concentration of institutional investors. Which is interesting, since cryptocurrencies were once seen as a hedge against inflation and macro factors. At the time of this writing, Ethereum was down nearly 14 percent, at USD $2,325 and Bitcoin down 12 percent, at USD $31,650. What will their prices be when you are reading this? Volatility in the underlying cryptocurrency can destabilize the value of the NFT.

NFT Mortgage Example

An example of the next incarnation of NFT technology is perhaps exemplified by mortgage lender LoanSnap of Costa Mesa. Last year, LoanSnap announced they created the first NFT real estate mortgages in existence. They developed a cryptocurrency, called bHome, that allows investors to trade in their mortgages. They categorize bHome as a Stable Coin® backed by U.S. homes. According to BaconCoin.com, bHome has interests in 35 properties with an aggregate value of $44 million, with total lending of nearly $7.1 million.

How it all works: investors (or liquidity providers, according to their site), in essence, purchase bHome coins, whose underlying value is backed by mortgages in exchange for a lien position. The relevant borrower information—credit score, debt to income ratio, home equity, maximum loan amount, and so on—is encapsulated in the NFT, creating a smart contract between the lender and the borrower. Liquidity providers can view the smart contract and gauge risk before investing.

The benefits, according to LoanSnap, are quicker loan approvals and lower interest rates. Middlemen are eliminated, creating a more efficient market.

I didn’t see investor disclosures on their site, and am wondering, is this crowdsourced lending? A publicly traded real estate investment, like a REIT? A mortgage bond? How does this play out in a down market?

See For Yourself

The simplest way to dabble in cryptocurrency is to create an account with Coinbase, Binance or any of the other exchanges, buy an immaterial amount of Bitcoin, and see what happens. Or better yet, don’t invest any of your own money, and take the tutorials offered and earn some crypto, which is what I did. Watch those transaction fees though—the trading platforms and miners charge their own fees, and during times of higher transaction activity, variable fees can rise significantly.

What is your prediction on the future of NFTs? 

Trevor Gilmore, CPA/ABV, MST is the Chief Finance and Operating Officer of The Menke Group. He can be reached at tgilmore@menke.com.
June Primary
Legislature Expected to See Big Shake-up

While the end of the 2022 legislative session is in sight, the focus for most political insiders will be the June primaries and the implications it has for the elections in the fall. As a result of redistricting, term limits and resignations, the California Legislature will see one of the biggest shake-ups in several years.

Nearly one-third of the legislators sworn into office in 2023 will be brand new to their position. For those who do return, many will be representing significantly different constituencies, thanks to a once-in-a-decade redistricting process. Outside of the Legislature, every constitutional office will be up for election, including the governor, lieutenant governor, treasurer, controller, secretary of state and attorney general.

While incumbents are likely to garner strong support in the primary and party control is unlikely to change significantly, each election cycle brings some surprises. These can start to emerge after the June primary narrows down the choice to the top two vote getters—regardless of party affiliation.

One thing is certain, the primary outcomes and the months leading up to the general election will hang over the final months of the legislative session. Incumbents seeking to stay in office will be sensitive to how their votes will be read by constituents and those on the way out may be bolder in their decisions.

Financial Education Legislation Moves Forward
The impact of the pandemic on the personal finances of Californians has exposed a glaring need for improved financial literacy education resources so all Californians can effectively manage their personal financial well-being—especially through economic challenges.

CalCPA is supporting two key pieces of legislation that will help advance financial literacy education and provide successful, high-quality financial literacy programs that will help communities lead financially healthy and secure lives.

Assembly Bill 2051 (Cunningham) would establish a state grant program to assist local educational agencies with the costs associated with implementing a financial literacy education program. Assembly Bill 2215 (B. Rubio) would outline a public-private coordination to further the development and organization of curriculum, instructional materials and other professional development resources related to personal finance topics.

Both of these bills have gained bipartisan support in the legislative committee process and include strong support from a number of stakeholder organizations focused on the advancement of financial education in schools.

Too many young adults entering the workforce are not prepared to manage their finances effectively through economic challenges. Often it can be the difference between who remains financially secure and who will have a long road to financial recovery.

AB 2051 and AB 2215 both seek to tackle this critical issue at its root cause—the lack of early access to financial education in schools.

Students who are introduced to financial education early and more often have higher rates of savings and are equipped with essential skills for managing their personal finances through a crisis. Together, these bills will help develop, disseminate and expand access to model curricula and financial education programs to students, teachers and school districts throughout our state.

CalCPA members devote hundreds of hours annually to offer resources and opportunities to thousands of Californians. Additionally, CalCPA members have long advocated for policies that advance financial education in California. We believe that having the tools necessary to understand the complexities of today’s financial decisions is imperative for California citizens to lead financially healthy and secure lives.

New Board of Accountancy Members Appointed
Gov. Newsom has appointed three new members of the California Board of Accountancy (CBA) to fulfill open vacancies:

Kristian Latta, CPA of Eastvale is the owner and CEO of The Chic CPA and had worked previously as an audit supervisor and in industry as a financial analyst.

Joseph Rosenbaum, CPA of Sausalito is president at Rosenbaum & Co., a forensics accounting firm, and previously was a partner at EY, PwC and Arthur Andersen.

Latta and Rosenbaum are CalCPA members.

Evangeline Ward of Concord is a dental hygiene instructor at the Contra Costa Community College District and has worked as a registered dental hygienist since 2017. Ward fills a public member position on the CBA.

Additionally, CalCPA member Nancy Corrigan, CPA of Glendora has been reappointed to the CBA. Corrigan has served on the CBA since 2018, including two years as President. She is a sole practitioner and was previously a partner at SingerLewak.

Jason Fox is CalCPA’s vice president of government relations. You can reach him at jason.fox@calcpa.org.
Penalty Relief
IRS Guidance for Employers Claiming Employee Retention Credit

IR-2022-89, released April 18, states that the Treasury Department and the IRS received requests from taxpayers and their advisers for relief from penalties arising when additional income tax is owed because an eligible employer’s deduction for qualified wages is reduced by a retroactively claimed employer retention credit (ERC), but the taxpayer can’t pay the additional tax because the ERC refund has not yet been received.

Based on applicable law, IRS guidance requires an employer to reduce its income tax deduction for the ERC qualified wages by the ERC for the tax year in which such wages were paid or incurred.

Taxpayers that claimed the ERC retroactively and filed an amended income tax return, reducing their deduction for the ERC qualified wages paid or incurred in the tax year for which the ERC is retroactively claimed, have an increased income tax liability—but may not yet have received their ERC refund.

IR-2022-89 reminds taxpayers that, consistent with the relief from penalties for failure to timely pay noted in IRS Notice 2021-49, they may be eligible for relief from penalties for failing to pay their taxes—if they can show reasonable cause and not willful neglect for the failure to pay.

In general, taxpayers also may qualify for administrative relief from penalties for failing to pay on time under the IRS’ First Time Penalty Abatement program—if they:
1. Did not previously have to file a return or had no penalties for the three prior tax years;
2. Filed all currently required returns or filed an extension of time to file; and
3. Paid, or arranged to pay, any tax due.

Qualified Wages Deduction Disallowance
Generally, pursuant to IRC Sec. 3134(c), an employer’s deduction for qualified wages, including qualified health plan expenses, must be reduced by the ERC.

The Treasury Department and the IRS have been asked about the timing of this reduction, specifically when a taxpayer files an adjusted employment tax return to claim the ERC for prior calendar quarters, but has already filed an income tax return for the tax year for which the ERC is claimed on the adjusted employment tax return.

Under IRS Notice 2021-20 (Section III.L.), a reduction of the deduction for qualified wages, including qualified health plan expenses, that is caused by receiving the ERC occurs for the tax year in which the qualified wages were paid or incurred.

When a taxpayer claims the ERC because of retroactive legislation or otherwise files an adjusted employment tax return to claim the ERC, the taxpayer also should file an amended income tax return or an administrative adjustment request (AAR) for partnerships) for the tax year in which the qualified wages were paid or incurred to correct any overstated deduction taken for those same wages on the original income tax return.

Sec. 3134(c) relevantly provides that rules similar to those of Sec. 280C(a) shall apply. Sec. 280C(a) requires tracing to the specific wages generating the applicable credit. (See, generally Regs. Sec. 1.280C-1.) To satisfy this tracing requirement, the taxpayer must file an amended return or AAR (as applicable).

Eligible Employer
Under Sec. 3134(c)(2), an “eligible employer” is any employer carrying on a business during the calendar quarter for which the ERC is determined:
1. Whose operation is fully or partially suspended under orders from an appropriate governmental authority limiting commerce, travel or group meetings due to COVID-19;
2. The employer’s gross receipts [within the meaning of Sec. 448(c)] for that calendar quarter are less than 80 percent of its gross receipts for the same quarter in 2019, or 2020—if the employer did not exist at the beginning of that quarter in 2019; or
3. The employer is a recovery startup business [defined in Sec. 3134(c)(5)].

Qualified Wages
Sec. 3134(c)(3) generally defines “qualified wages” as follows:
• In the case of an eligible employer whose average number of full-time employees (under Sec. 4980H) during 2019 exceeded 500, wages paid to an employee not providing services due to:
  • The employer’s business being fully or partially suspended as described at “1” immediately above; or
  • The employer’s reduced gross receipts as described in “2” immediately above.

For an eligible employer whose average number of full-time employees (under Sec. 4980H) during 2019 did not exceed 500, qualified wages are:
• Wages paid to an employee during any period described in “1” above; or
• Wages paid to an employee during the quarter described in “2” above.

If an employer did not exist in 2019, 2020 is substituted for 2019.

Stuart R. Josephs, CPA
has a San Diego-based Tax Assistance Practice that specializes in assisting practitioners in resolving their clients’ tax questions and problems. Josephs, immediate past chair of the Federal Subcommittee of CalCPA’s Committee on Taxation, can be reached at (619) 469-6999 or stuartjosephs@yahoo.com.
The CalCPA Career Center connects employers with premier CPAs and financial professionals.

Post your job where the industry’s most qualified CPAs and financial professionals go to advance their careers.

Have your open positions emailed directly to CalCPA job seekers via our exclusive Job Flash™ email.

Find your next great hire. Search our Resume Bank using robust filters to narrow your candidate search.

For pricing and packages visit www.calcpa.org/cpa-career-center
With so many voices in the world, make sure yours is heard.

Along with our members, CalCPA is THE VOICE of the public policy and self-regulatory interests of the CPA in California. Learn about different ways we’re speaking up on your behalf.

[calcpa.org/advocacy]