The Kentucky CPA Journal
The Journal of the Kentucky Society of CPAs
Issue 3 2018

# Guidance for the changing landscape of Kentucky businesses:

- Kentucky tax reform: Sales tax law (HB 487)
- Disruption in the energy market
- Economic outlook for 2018 and beyond
- Considerations for Kentucky accountants: EU GDPR and upcoming US privacy law

Also, check out the new kycpa.org
See page 54

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# What's inside






**Editorial Board Chair:** ***Mark Loyd*** of Bingham Greenebaum Doll, Louisville

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***Letters to the editor:*** If you have ideas to share, opinions to express or suggestions for future stories, please email Editor Kimberly Lindsey, KyCPA communications, marketing and creative director, at klindsey@kycpa.org.

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# Meet the president: Becky Phillips

Becky Phillips was recognized as president of KyCPA at the Leadership Luncheon and Annual Members Meeting at The Olmsted in Louisville on June 15. She officially began her duties July 1.

Phillips is a partner at MCM CPAs & Advisors LLP in Louisville, where she is director of the firm's not-for-profit service team. Her practice emphasis is providing audit services to not-for-profit organizations and local governments, as well as non-publicly traded businesses. Phillips provides management advisory services including fraud deterrence, internal control evaluations and not-for-profit organization management. In addition, Phillips oversees the firm’s women’s initiative, the Women’s Inspiration Network (WIN).

She graduated from the University of Louisville with a MB in administration and was certified as a CPA in 1979. Phillips is also a Certified Financial Forensic (CFF) and Certified Fraud Examiner (CFE).

In addition to her leadership on the KyCPA Executive Committee, Phillips has also served on KyCPA’s Practice Review Committee, Professional Ethics Committee, Members in Education Committee, Governmental Accounting Committee, Public Relations and Communications Committee, Non-profit Committee, Audit Committee, CPE Committee, Women's Initiative Task Force, Business and Industry Committee and Nominations and Awards Committee.

In addition to being a member of KyCPA, Phillips is a member of the American Institute of Certified Public Accountants, the Association of Certified Fraud Examiners, AICPA Examination Auditing and Attestation Subcommittee, Shively Area Ministries Finance Committee and treasurer for the Louisville Zoo Foundation.

She also serves as a board member for the Leadership Louisville Foundation, Women4Women, Metro Christian Legal Aid, Better Business Bureau, and is a former board member of the Nativity Academy at St. Boniface. She is a former president of the Kentucky State Board of Accountancy and Kentucky Chapter of the Association of Certified Fraud Examiners.

Phillips resides in Louisville with her husband Brad.

"He is the consummate encourager. I have high expectations and then just expect people to live up to them. He shows me you need to encourage folks to live up to those high expectations," said Phillips.

The KyCPA president is a volunteer position elected by the Society’s general membership. The president serves one year, offers leadership and guidance, enforces bylaws, presides over the executive committee and works with the board of directors to govern the Society.

**See page 51 for Phillips Q&A.**

Keynote Speaker

***Kimberly Ellison-Taylor, CPA***
Global Accounting Strategy Director, Oracle America and Immediate Past Chairman, AICPA Board of Directors

Becky Phillips presents Kevin Joynt with his past-presidents pin.

Jessica Ralston, an Educational Foundation Scholarship recipient shares the impact of receiving a scholarship.

2018 Leadership Luncheon and Annual Members Meeting held Friday, June 15 at the Olmsted in Louisville.

Darlene Zibart, CEO of KyCPA welcomes everyone to the luncheon.

Kevin Joynt thanks Skip Looney, left, and Bill Jessee, right, for their service to the Society and the profession. Their terms on the Board ended June 30.

# Across the Board

By Darlene Zibart, CPA

For me personally, the annual KyCPA Leadership Luncheon is a day filled with mixed emotions. It's the time when dedicated board members and committee chairs roll off their respective committees to make way for the next group of leaders to take their positions. It's hard to say goodbye to those members who have dedicated so much of their time and energy to the Society, but at the same time it's exciting to welcome the new leaders.

I'd like to take this opportunity to thank Kevin Joynt, Deloitte & Touche LLP, for his service as the Society's 2017-2018 president. This has been a year filled with transition. He has been there every step of the way to offer his support and guidance.

We are fortunate to have Becky Phillips, MCM CPAs & Advisors LLP, as the Society's president for the 2018-2019 fiscal year. Phillips has a long history of leadership with the Society. In addition to her service as president, on the Executive Committee and Society treasurer, she's also served on the following committees: chair of the Members in Education, chair of the Audit, Governmental Accounting, Public Relations, Professional Ethics, Nominations and Awards, Nonprofit, Women's Initiative and CPE.

The Society has been blessed to have leaders of such high caliber.

I'd like to say a special thanks to those Board members whose terms ended on June 30. Bill Jessee (past president) of Louisville, Wes Omohundro of Lexington, Skip Looney of Charlotte, North Carolina (previously Florence) and Elizabeth Rankin of Louisville.

On behalf of the entire Society membership, thank you for your time and dedication to supporting our mission. This organization depends on its volunteer members. We are only as strong and successful as the dedicated members who give back to this organization and to the profession.

Beginning their terms on the KyCPA Board of Directors are: Kayla Bonsutto, Creative Realties in Louisville; Scott Grosser, Scott E Grosser PSC CPAs in Ft. Thomas; Eric Scott, Ernst & Young LLP in Louisville; Melissa Mattox, Kinkead & Stilz PLLC in Lexington; and Ashley Williamson, Irving Material, Inc. in Louisville.

Elizabeth Woodward, Dean Dorton in Lexington, returns to our Board as president-elect. In addition to her term on the Board of Directors and Executive Committee, Woodward has served multiple terms as chair of the Professional Ethics Committee and as the Society treasurer. She currently serves as chair of the Audit Committee and on the Nominations and Awards Committee. As part of her volunteer role with the Society, she has developed and taught many of KyCPA's ethics courses. You may register to attend any of the Professional Issues Updates this fall where Woodward is teaching an ethics session at kycpa.org.

I want to thank everyone who took the time to participate in the KyCPA survey. The information you provided during the online and phone interviews will be a valuable resource to the Board as they make decisions regarding the future of KyCPA.

As part of our initiative to get more feedback from our members, the Society staff has had several meetings with CPAs in business and industry. We want to hear their perspective on how we can better serve them. Most are surprised to hear that half of our membership are members who work in business and industry. This segment of membership is crucial to the Society.

I would like to thank Carol Shelton, Mary Jean Riley and Sabine DiFilippo at North American Stainless; Chris Garret, Heather Metts and Esther Thompson-Long at LG&E and KU Services Company; Melissa Mattox, Carolyn Cunningham and Mike Reynolds at Kinkead and Stilz PLLC; Nancy Davis at Stock Yards Bank and Trust Company; Cindy Zipperle at Humana Inc.; and Dave Russell at YUM Brands Inc. I appreciate you taking the time to meet with me and my staff and sharing your insights and ideas on how the Society can serve our members in industry.

This is your organization and we want to hear from you. We will continue the meetings with our members in industry and will also be scheduling meetings with those in public practice. If you are interested in meeting with me or my staff, please contact the office at 502.266.5272.

*About the author: Darlene Zibart, CPA is the CEO of the Kentucky Society of CPAs. She can be reached at dzibart@kycpa.org or 502.736.1372.*

# Kentucky unitary and consolidated returns

By Mark A. Loyd, Esq., CPA

Is it true that there are no new ideas, only rediscoveries? The 2018 Kentucky General Assembly rediscovered both unitary combined reporting and elective consolidated reporting. As a notable aside, the General Assembly also effectively lowered the corporate rate to a flat 5 percent, updated the Internal Revenue Code reference date to conform to the 2017 Tax Cuts and Jobs Act (with the notable exceptions of depreciation and the qualified business income deduction), replaced the double-weighted sales three factor apportionment formula with a single sales factor (exceptions for communications, cable and internet access businesses) and adopted market based sourcing; these changes went into effect for tax years beginning on Jan. 1, 2018. Back to unitary and consolidated reporting, effective for tax years beginning on or after Jan. 1, 2019, a corporate taxpayer doing business in the Commonwealth that is a member of a unitary group must determine its corporation income tax using the unitary combined reporting method, unless the corporate group makes an election to file consolidated with its affiliated group under the Internal Revenue Code of 1986, as amended.

## "The Matrix…is the world that has been pulled over your eyes…." Morpheus in The Matrix (1999) - Unitary Ban Lifted

Going back to basics for a moment, what state consolidated reporting is would seem to be relatively straightforward, i.e., computing income on the same basis as the federal consolidated income tax return and apportioning and allocating the income thereof as though it were a single corporation. Unitary reporting is computing income by combining the income of the businesses that make up an economic business unit and then apportioning and allocating the income of the unitary group in accordance with the state's rules.

From a historical perspective, this new methodology is curious. From the mid-1990s until 2005, when the General Assembly put the mandatory nexus consolidated return provisions into place, corporations could elect to file a consolidated return. And prior to that, the Kentucky Department of Revenue could require, or corporations could attempt to compute, their income using unitary combined reporting. For a history of unitary combined reporting in Kentucky, read *GTE v. Revenue Cabinet*, 889 S.W.2d 788 (Ky. 1994). Notably, the General Assembly *outlawed unitary* combined reporting and refunds using that methodology, which was discussed in *Miller v. Johnson Controls, Inc.*, 296 S.W.3d 392 (Ky. 2009). While elective consolidated has been previously embraced and mandatory nexus consolidated reporting is somewhat unique to Kentucky, it is somewhat surprising that the 2018 General Assembly passed the unitary method given the history.

## "What are you waiting for?" Morpheus - No Guidance Yet

Obviously, the Kentucky Department of Revenue (DOR) has not had enough time to promulgate proposed regulations or issue other guidance. So, we do not know how the DOR will interpret the mechanics of these filing methods. The following are simply prognostications.

## "[T]here's a difference between knowing the path and walking the path." Morpheus - Unitary Combined Required, Unless Consolidated Elected

A corporate taxpayer doing business in Kentucky that is engaged in a unitary business with one or more other corporations is required to file a unitary combined report. *See* 2018 Ky. Acts c. 207, § 120(3)(a). However, such a corporation, which is included in an affiliated group for federal income tax purposes, that has elected to file a consolidated return for Kentucky income tax purposes does not have to report its income under the unitary method. *See* 2018 Ky. Acts c. 207, § 119(3). A consolidated return election is binding for 96 months, roughly eight years. *See* 2018 Ky. Acts c. 207, § 119(4). Other corporate taxpayers may file a separate company return. *See* 2018 Ky. Acts c. 207, § 119(3)(c).

As a logical consequence, the mandatory nexus consolidated reporting will no longer be a filing methodology. One could wonder whether or not a corporate taxpayer could make the argument that it could continue using the mandatory nexus consolidated reporting under the alternative apportionment rules?

## "You are the One…." Morpheus – Single Return, Whether Unitary or Consolidated

One commonality between unitary combined and elective consolidated methods is that in either case, only a single tax return is filed. *See* 2018 Ky. Acts c. 207, §§ 119 & 120. At least both methods cut down on the number of the returns.

## "There is no spoon." Spoon Boy - Composition of Unitary and Consolidated Groups

A unitary group, *i.e.*, a unitary business, may be comprised of parts of a single corporation or commonly controlled corporations that are sufficiently interdependent, integrated and interrelated through their activities providing a synergy and mutual benefit that produces a sharing or exchange of value among them and a significant flow of value to the separate parts. *See* 2018 Ky. Acts c. 207, § 120(2)(f)&(3). This is essentially the same definition of a unitary business found in Multistate Tax Commission ("MTC") Regulation IV.1.(b)(1).

A unitary group, in addition to U.S. domestic corporations, also includes: any member that earns more than 20 percent of its income, directly or indirectly, from intangible property or service related activities that are deductible against the apportionable income of other members of the combined group; any member doing business in a tax haven; income from a pass through entity. *See* 2018 Ky. Acts c. 207, § 120(8).

The classically unitary business is a vertically integrated business, such as a business in which a manufacturer produces an item that it sells (or transfers) to a distributor which in turn sells (or transfers) the item to a retailer. *See also, e.g., Container Corp. of America v. Franchise Tax Bd.*, 463 U.S. 159 (1983). However, a unitary business may also be a horizontally integrated business which could be, for example, a group of retail stores, although being in the same line of business does not necessarily mean that corporations are unitary. *See, e.g., F. W. Woolworth Co. v. Taxation & Revenue Dep't of State of N. M.*, 458 U.S. 354 (1982).

Obviously, determining the composition of a unitary group of corporations can be difficult, since it is a determination based on the particular facts and circumstances of corporations under common control. Different states may come to different conclusions. Doesn't it seem like unitary can be in the eye of the beholder? There may be multiple unitary groups within a federal consolidated return group, and a unitary group could conceivably include corporations outside of the group.

The composition of the consolidated group is the same as the federal affiliated group that files or would file a consolidated return for federal income tax purposes. *See* 2018 Ky. Acts c. 207, § 119(2)&(4). This is pretty straightforward by comparison to determining the composition of a unitary group.

**Continued on p. 10**

**Returns continued**

## "You take the blue pill [or] the red pill…." Morpheus - Consolidated versus Unitary Taxable Income

A consolidated group is treated for all purposes as a single corporation. *See* 2018 Ky. Acts c. 207, § 119(4)(a). So, the computation of the consolidated group's Kentucky taxable income is relatively straightforward: the consolidated group's federal taxable income adjusted for Kentucky differences less any allocable income is multiplied by the consolidated group's apportionment factor, and then any allocable income (or loss) is added (or subtracted) therefrom. *See* 2018 Ky. Acts c. 207, §§ 53, 56 & 60.

A unitary group is not treated like a single corporation; rather, the Kentucky taxable income of each corporation in a unitary group is computed on a by-taxpayer basis: the unitary group's federal taxable income adjusted for Kentucky differences less any allocable income is multiplied by the single sales factor apportionment factor, the number of which is each taxpayer's sales and the denominator of which is the unitary group's total sales. *See* 2018 Ky. Acts c. 207, § 120(6)&(7). Each taxpayer's income is comprised of: the income from each unitary group of which it is a member (which assumes that a corporation – or presumably a part thereof – may be a member of more than one unitary group); income from distinct business activities; income from a business wholly in Kentucky; income from the certain capital asset sales and involuntary conversions; nonapportionable income allocated to Kentucky and net operating loss carryovers. *See* 2018 Ky. Acts c. 207, § 120(5)(a). There is particular treatment prescribed for charitable expenses as well. *See* 2018 Ky. Acts c. 207, § 120(8)(f).

Several questions arise in the context of computing the taxable income of unitary groups. For example, there are statutory provisions for the deferral of intercompany expenses. 2018 Ky. Acts c. 207, § 120(8)(e). So, would it seem that intercompany expenses are eliminated? What about the exceptions to the disallowance provided for by KRS 141.205 of certain deductions for certain intangible expenses, management fees and certain other expenses paid to related parties? Another issue is how the protections of P.L. 86-272 will be applied.

Since a consolidated group is treated like a single taxpayer for all purposes, these same issues would not appear to similarly manifest themselves.

## "You all look the same to me." Morpheus - Net Operating Losses

Under mandatory nexus consolidated reporting, net operating losses and carryovers are computed on a pre-apportionment basis. *See generally* 2018 Ky. Acts c. 207, § 79 (KRS 141.200). In switching from mandatory nexus consolidated reporting to either consolidated reporting or unitary reporting, issues can be anticipated to arise with regard to net operating loss carryforwards. Does section 120(5)(a) require the computation of net operating losses under unitary reporting to be made on a post-apportionment basis? Does section 119 require the computation of net operating losses under consolidated reporting to be made on a post-apportionment basis? Will the DOR use the same logic as in the net operating loss regulation, 103 KAR 16:250, that applied to the prior iteration of elective consolidated returns?

## "Help!, need a little help!" Neo –Tax Credits

The tax credits of one unitary group member cannot offset the tax of another member. *See* 2018 Ky. Acts c. 207, § 120(5)(b). But since a consolidated group is treated for all purposes as a single corporation, tax credits from one corporation may offset the liability of the consolidated group. *See* 2018 Ky. Acts c. 207, § 119(4)(a). Corporate groups with tax credits residing in corporations different from the corporations generating Kentucky taxable income may be well incentivized to elect to file a consolidated return.

## "After this, there is no turning back." Morpheus – Criticisms of Unitary Reporting

A group of taxpayers and organizations representing business have criticized mandatory unitary combined reporting. They argue most of Kentucky's neighboring states do not have mandatory unitary reporting which puts Kentucky at a competitive disadvantage; the determination of what companies constitute a unitary group has been the subject of prolonged litigation in several states. Mandatory unitary reporting does not necessarily result in increased revenue. They seek to make unitary reporting elective.

That the approach to unitary reporting chosen by Kentucky has received criticism is not surprising. There was no study done, and the methodology was not vetted.

Assuming that Kentucky is going to continue down the path of becoming a unitary reporting state, should the General Assembly not consider some suggestions to ensure that Kentucky is not an outlier? If kept, shouldn't Kentucky's unitary reporting scheme be tweaked to make it more mainstream? What about making unitary reporting elective? What about allowing a phase-out of mandatory nexus consolidated reporting? Maybe as a 96-month election?

## "A déjà vu is usually a glitch in the Matrix. It happens when they change something." Trinity in The Matrix (1999).

Unitary combined reporting? Elective consolidated reporting? They are coming back, unless the General Assembly changes its mind and repeals them or tweaks them. Shouldn't we start evaluating the options and start planning?

Do you have questions? Loyd will be part of a tax update panel during the Business and Industry Conference on Sept. 27-28.

See more information regarding the conference on page 30 and register at kycpa.org.

*About the author: Mark A. Loyd, Esq., CPA, is a partner of Bingham Greenebaum Doll in Louisville and chairs its Tax and Employee Benefits Department. He chairs the Society's Editorial Board and Tax Committee. He can be reached at MLoyd@bgdlegal.com; 502.587.3552.*

# Kentucky tax reform:
## Sales tax law (HB 487)

Effective July 1, 2018

Additional admissions, including swimming pools, golf courses, bowling centers, etc. are now taxable.


## Prior to the passage of HB 487, the following services were taxable and remain taxable:

- **The rental of lodging facilities for a period of less than 30 days**
- **Sewer services;**
- **The sale of admissions**, except to race tracks, certain historical sites and a portion of county fair admissions
- **Prepaid calling services and prepaid wireless calling services**
- **Certain intrastate, interstate and international communications services**
- **Distribution, transmission or transportation services for natural gas** except for natural gas that is used for residential use or to the seller or reseller of natural gas.

## Added by HB 487, the following services are taxable effective July 1, 2018:

- **Extended warranty services**
- **Additional admissions,** including swimming pools, golf courses, bowling centers, etc.
- **Indoor skin tanning services,** including but not limited to tanning booth or tanning bed services and spray tanning services
- **Janitorial services,** including but not limited to residential and commercial cleaning services, and carpet upholstery and window cleaning service
- **Landscaping services,** including but not limited to:
  - Lawn care and maintenance services
  - Tree trimming, pruning or removal services
  - Landscape design and installation services
  - Landscape care and maintenance services
  - Snow plowing or removal services
- **Limousine services,** if a driver is provided
- **Industrial laundry services,** including but not limited to industrial uniform supply services, protective apparel supply services and industrial mat and rug supply services
- **Non-medical diet and weight reducing services**
- **Non-coin-operated laundry and dry-cleaning services**
- **Linen supply services,** including but not limited to table and bed linen supply services and nonindustrial uniform supply services
- **Campsites, campgrounds and recreational vehicle (RV) parks** are now taxable as a lodging facility
- **Pet care services,** including but not limited to grooming and boarding services, pet sitting services and pet obedience training services
- **Small animal veterinary services,** excluding veterinary services for equine, cattle, swine, sheep, goats, llamas, alpacas, ratite birds, buffalo and cervids

In addition to these services, sales tax is now imposed on labor associated with installing or applying taxable tangible personal property or digital property.

**Continued on p. 14**

# The old, the new and pets?

Pet care services includes pet boarding, grooming, pet sitting and pet obedience training.

Growing up I understood a *little* about taxes but not much. A tax that is widely familiar to citizens in America is the sales or "consumption" tax; all other tax laws are Greek to most. My mom taught me, starting at a young age, a great deal about money, taxes and how to budget for spending. She showed me how to calculate discounts while shopping and how to add sales tax to the total purchase so I would know exactly how much to pay at the cash register. I remember being confused when I purchased an item at the grocery and the total was less than I calculated. That is when I learned that most grocery store items were exempt from sales tax, with the exception of "junk" food, or so I thought. *I* would categorize things like candy, soft drinks, donuts, cakes, etc. as junk food. However, according to Kentucky sales tax laws, products like pastries, cakes and donuts are not subject to sales tax, because they are made with *flour*.

Not everything in the tax laws makes sense to everyone, including some of the recent changes to the sales tax laws with the passage of HB 487 on April 27, 2018. The changes require certain service businesses to charge and collect 6 percent sales tax from their customers.

Generally, the legislature targeted services that are mostly purchased by consumers (as opposed to businesses) and taxed by other states, and not as susceptible to cross-border purchases.

Let us dissect each of the businesses that are affected and delve into more detail about the requirements.

## Installation and repairs

This category seems fairly straight forward and simple. You take your car to the mechanic or body shop and instead of being charged sales tax on only the parts, as in the past, you will now be charged sales tax on the service/labor as well.

The Kentucky Department of Revenue has clarified that installation or repairs of real property, such as to HVACs, water heaters and plumbing fixtures, are not subject to sales tax under the new law. Contractors and construction businesses will continue to pay and charge sales tax as has been their custom under the existing law.

It's important to note that labor charges for repair or installation are only taxable if there is a transfer of taxable tangible personal or digital property as part of a retail sale.

## Extended warranties

Regardless of whether you praise warranties or think they are a waste of money, starting in July they will be subject to, you guessed it, sales tax. Consumers of extended warranties for servicing, repairing and maintaining personal tangible property and digital property will have to cough up an extra 6 cents on the dollar. Examples of subject extended warranties include vehicles, computers, cell phones, certain appliances and any other non-real property items. However, Guaranteed Auto Protection (GAP) and credit life insurance sales are excluded from sale taxes. Further, parts used to make repairs under a warranty contract are not subject to sales tax when purchased by the repairer or when used. Since the warranty was subject to sales tax when sold, the subsequent repairs would have been included in the value and thus sales tax already paid.

## Facilities/event admission fees

About 10 years ago, my dad called me out of the blue to let me know he was rebelling against Gov. Steve Beshear's additional tax on cigarettes by QUITTING his smoking habit. He was so adamant, and I remember thinking, "this is what they want, to encourage Kentuckians to be healthier." Lawmakers in Frankfort did not seem to have this in mind when passing this piece of tax reform (though they did increase the cigarette tax by 60 cents per pack).

Gym memberships, bowling centers, skating rinks, golf courses, tennis courts, swimming pools, sports league fees, rentals of facilities and lockers, entry fees, gun clubs and shooting ranges, bingo, go-carts, batting cages and zip lines are all examples of the many businesses that must now charge sales tax to their customers. Admission fees, initiation fees, monthly fees and membership fees are all included as charges subject to sales tax.

*Nontaxable* admission charges include team membership fees, professional and fraternal order membership fees, instructor led recreational classes, educational classes, day care and summer camp facilities, licenses and general facility rentals such as conference rooms, ballrooms and temporary storage.

Most organizations, including nonprofit organizations and other governmental agencies, will be required to collect and remit sales tax on the above mentioned fees. The entities excluded from this obligation include horse racetracks, historical sites, county fairs, elementary and secondary schools and school-sponsored clubs and organizations.

## Indoor skin tanning services

Tanning services including tanning beds, booths and spray tanning are now subject to sales tax. Federal excise tax and now Kentucky sales tax – talk about doubling up on taxes.

## Janitorial and laundry services

They are taxing us to be clean now too! Subject services include but are not limited to, residential and commercial cleaning, carpet, upholstery, window cleaning, industrial uniform supply, protective apparel supply and industrial mat and rug supply, table and bed linen supply and non-industrial uniform supply services. Non-coin operated laundry and dry-cleaning services are also now subject to sales tax.

## Landscaping services

Landscaping services that are now subject to sale tax include but are not limited to, lawn care and maintenance, tree trimming, pruning or removal, landscape design and installation, landscape care and maintenance and snow plowing and removal.

## Limousine services

Sales tax must be collected if a driver is provided. Does anyone drive their own limousine?

## Diet and weight reducing centers (non-medical)

Sales and use tax must be collected when providing non-medical diet and weight reducing services. Jenny Craig, Weight Watchers and the like are examples of the types of services that must begin charging sales tax.

**Continued on p. 16**

**Kentucky tax reform continued**

## Rentals of campsites

Taxable accommodations will now include campsites, campgrounds and recreational vehicle (RV) parks. Rentals for a continuous period of 30 days or more to a person are excluded from sales tax. These new accommodations subject to sales tax will not be subject to the state-wide or local transient room taxes.

## Pet care services

Pet care services includes pet boarding, grooming, pet sitting and pet obedience training.

## Veterinarian services

This takes the cake (flourless cake I suppose). ***All services*** provided by veterinarians are subject to sales tax. No surprise to anyone who lives in Kentucky, veterinarian services subject to sales tax ***exclude*** the following types of animals: Equine, cattle, swine, sheep, goats, llamas, alpacas, ratite birds, buffalo and cervids.

Moreover, questions have arisen regarding the liability of veterinarian offices for sales tax on certain purchase made in the course of their business. For example, outside laboratory testing is subject to sales tax when paid by the veterinarian and again when these charges are passed along to the veterinarian's customer. Additionally, items the veterinarian office uses in the course of providing services (such as supplies) are subject to sales tax when purchased. A resale certificate can be provided to vendors for such items that are truly product sales such as medicines (not administered by the veterinarian), pet toys, food, collars and other products customers take with them.

## Compliance issues and conclusion

My greatest concern regarding the above changes is the compliance burden that has been placed on mostly small businesses. Certain businesses are already set up to handle collecting and remitting sales tax but a vast majority of these taxpayers are not. Sales tax is a "trust" tax, meaning the owner is personally liable for the collection of the tax. If sales tax is not collected and remitted properly to the Kentucky Department of Revenue, then the owner of the business is on the hook to pay the tax, even if he or she closes their business. These changes were rolled out very swiftly and did not provide a significant amount of time for taxpayers to make changes to their systems before the effective date of July 1, 2018.

We anticipate more information to continue to be released by the Kentucky Department of Revenue about these changes as there are still many unanswered questions. Taxpayers are anxious about their responsibility and want to fully understand the transactions that are included in the law change. As accountants, business owners, taxpayers and consumers, we want to help our clients, our businesses and our personal checking accounts prepare for these additional taxes. More information and details can be found at taxanswers.ky.gov and kycpa.org.

*About the author:*
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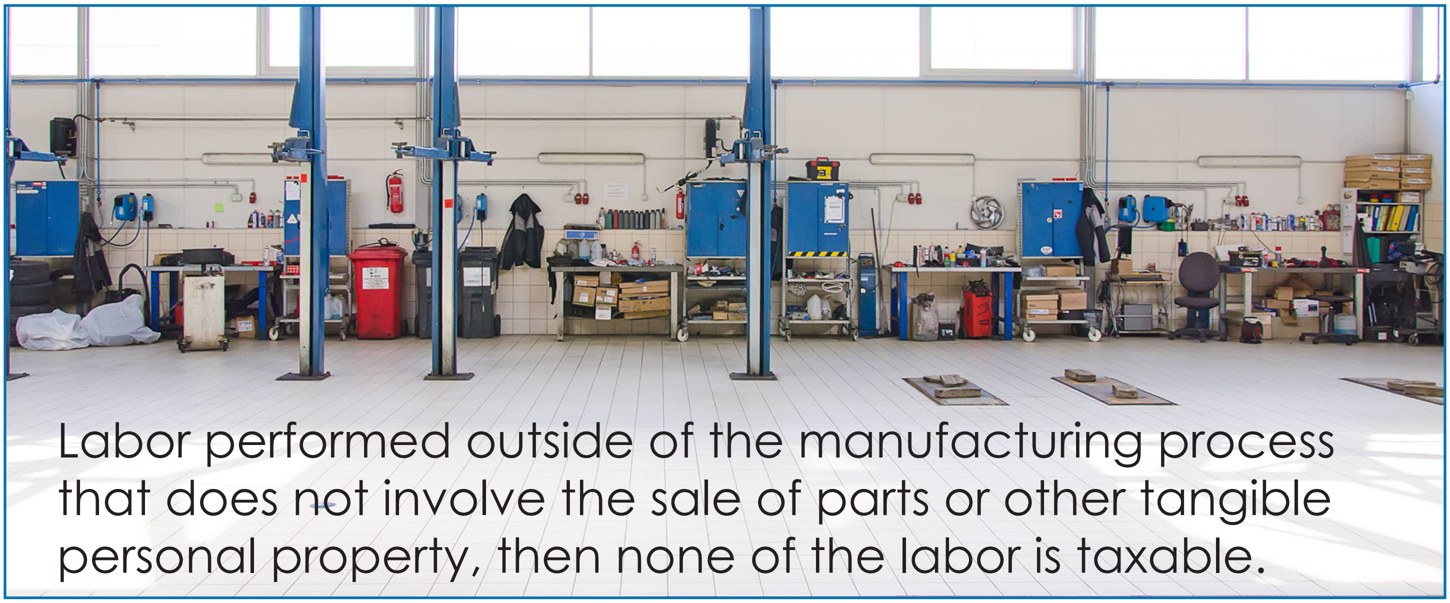
# Impact of the new sales tax law on manufacturing



Labor performed outside of the manufacturing process that does not involve the sale of parts or other tangible personal property, then none of the labor is taxable.

Kentucky imposes a tax at the rate of 6 percent on the sale or use of tangible personal property, digital property and the furnishing of certain services. KRS 139.200. There is a presumption in the law that all tangible personal property, digital property and services sold by any person for delivery or access in Kentucky is subject to tax until the contrary is established. The burden of proving the contrary is upon the person who makes the sale. This burden is met for the sale of tangible personal property and digital property if the seller receives one of the following:

1. A resale certificate;
2. An exemption certificate; or
3. A direct pay certificate.

The burden is met for the sale of services only through the receipt of an exemption certificate. If there are taxable services, a resale certificate or direct pay certificate cannot be used to avoid the payment of tax. Exemption certificates can only be given by non-taxable entities, such as a nonprofit or governmental agency or for an exempt transaction, such as, an exemption certificate for Machinery for New and Expanded Industry. KRS 139.260.

## Repair and installation labor

The definition of gross receipts or sales price was changed by HB 487 to include the amount charged for labor or services rendered in installing or applying tangible personal property, digital property or service sold. KRS 139(15)6. This means that when any tangible personal property is sold, the labor cost to install that tangible personal property is also taxable. This change includes both repair parts and the purchase of new property.

The change making installation and repair labor taxable does not apply to labor to install, repair or maintain tangible personal property directly used in manufacturing if the charges for labor or services are separately stated on the invoice, bill of sale or similar document given to purchaser. KRS 139.470(23). Directly used in manufacturing means the process within a plant facility that commences with the movement of raw materials from storage into a continuous, unbroken, integrated process and ends when the finished product is packaged and ready for sale. KRS 139.010(12).

**Continued on p. 18**

## Kentucky tax reform continued

If the labor performed outside of the manufacturing process does not involve the sale of parts or other tangible personal property, then none of the labor is taxable. An invoice can (and should) have a break-out of labor to install tangible personal property and labor that does not install tangible personal property. If tangible personal property is installed and there is both labor to install the tangible personal property and labor that does not install tangible personal property and the two types of labor are not separately identified on the invoice, then all of the labor is taxable, including the labor not used in installing the tangible personal property.

### Extended warranty service

Extended warranty services are now considered a taxable service. Extended warranty services means services provided through a service contract agreement between the contract provider and purchaser where the purchaser agrees to pay compensation for the contract and the provider agrees to repair, replace, support or maintain the tangible personal or digital property according to the terms of the contract if:

1. The service contract agreement is sold or purchased on or after July 1, 2018; and
2. The tangible personal property or digital property for which the service contract agreement is provided is subject to sales tax or motor vehicle usage tax. KRS 139.010(13).

If the extended warranty is for a piece of machinery or equipment that was not subject to tax when purchased, for example it was purchased under the Machinery for New and Expanded Industry Exemption or it was real property (e.g., heating and air conditioning equipment and plumbing), then the extended warranty would not be subject to tax.

### Energy tolling companies

Many manufacturers with high inventory costs took advantage of a structure allowed by the Department of Revenue where they formed a related company to take ownership of a manufacturer's inventory. There are also other companies that manufacture inventory owned by independent third parties. In both cases the manufacturing company receives a fee for performing the manufacturing function. The net result of this structure is the removal of inventory costs from the cost of production calculation (basically, cost of goods sold minus the cost of energy) thereby reducing tax on the cost of energy used in manufacturing. HB 487 has eliminated the use of this structure, which is the same as a loss of a significant exemption to high energy cost, high inventory cost manufacturers. KRS 139.480(3)(c) requires the toll manufacturer to include the cost of all inventory in its cost of production calculation.

In closing, the new sales tax rules appear simple on the surface but are extremely complicated when looking at the application. The Department of Revenue is currently busy interpreting this new law and it will be quite some time before they will be able to advise us on the taxability of the myriad of transactions that need to be interpreted. Remember that most of the transactions that are unclear are sales tax transactions where the burden of tax falls upon the seller. If we advise the seller to take aggressive positions and not charge tax and it turns out we are wrong then the seller in most cases has lost the opportunity to bill their customers and will have to absorb the payment of the tax. So my fellow practitioners, be careful out there.

*About the author:*
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*He can be reached at slenarz@kytaxfirm.com.*

# Summary of the new flow through deduction

By Bob Jennings CPA, EA, CFP

The new "flow-through" deduction, also known as the 20 percent deduction, the pass-through deduction, the qualified business income (QBI) deduction and many other short names is one of the more confusing changes coming out of 2017's Tax Cuts and Jobs Act (TCJA). As an educator, explaining the deduction has proven to be a challenging exercise, particularly since we are awaiting explanatory IRS regulations, forms and official guidance. Let's call it the "QBI deduction" from this point forward and try to break the deduction into shorter explanatory pieces.

The income that qualifies for the deduction is trade or business income, which is poorly defined anywhere in the Internal Revenue Code. Pending new guidance, when the TCJA refers to the QBI deduction, most analysts agree that qualified trade or business income includes the following major categories:

- Schedule C income (active or passive),
- Schedule E rental income (active or passive),
- Schedule F farm income (active or passive),
- Form 1120S, K-1 lines 1, 2, 3 and possibly 6 and 10 income (active or passive),
- Form 1065, K-1 lines 1,2, 3 and possible 7 and 11 income (active or passive),
- Form 1041, K-1 lines 6,7 and 8 (active or passive),
- REIT ordinary income (active or passive), and
- Publicly traded partnership K-1 lines 1,2, 3 and possibly 6 and 10 (active or passive),

## The tax return summary:

- The deduction is taken only on Form 1040; it is not available to "C" corporations
- The QBI income "flows-through" to the individual tax return Form 1040 as noted above, via K-1 disclosures
- The deduction is 20 percent of taxable or QBI income, whichever is less
- The deduction is taken after taxable income on the 1040, apparently after subtotaling as illustrated by the newly designed Form 1040:

| | |
|---|---|
| 7 | Adjusted gross income. Combine lines 1 through 6 . . . . . . . |
| 8 | Enter the standard deduction; otherwise, attach Schedule A . . . . |
| 9 | Qualified business income deduction (see instructions) . . . . . . |
| 10 | Taxable income. Subtract lines 8 and 9 from line 7. If zero or less, enter -0- |

- In 2018 it appears that the deduction will be calculated on an accompanying schedule rather than a special form
- The deduction does not reduce self-employment tax, or the medical itemized deduction amounts
- The deduction does reduce alternative minimum taxable income

At this point, most professionals have heard that there are all kinds of additional tests regarding W-2 wages, asset investments and types of business. That is only partially true, because the TCJA added a small business carve-out exemption, based solely on the taxable income of the return filer. The small business exemption looks at taxable income (taxable income less net capital gains) and allows a complete exemption from additional tests to those below the taxable income threshold. The taxable income threshold is $315,000 for married, joint returns and $157,500 for all other filing types.

One of our favorite slides in the discussion about the QBI deduction is the color-coded summary on p. 20 that is green for go, yellow for potential deduction limits and red for complete limits on the deduction based on the test results.

When the taxpayer has taxable income less than the threshold, there are no additional tests, phase-outs, limitations or adjustments, the deduction is simply 20 percent of the lesser of QBI or taxable income. Yes, there are many planning opportunities and discussion areas available, which we leave for seminar discussion and other articles since this article is just about making the deduction understandable.

Once taxable income exceeds the small business carve out threshold above, there is an income range where the two additional tests "phase-in" and *may* limit the 20 percent deduction. These two additional

Continued on p. 20

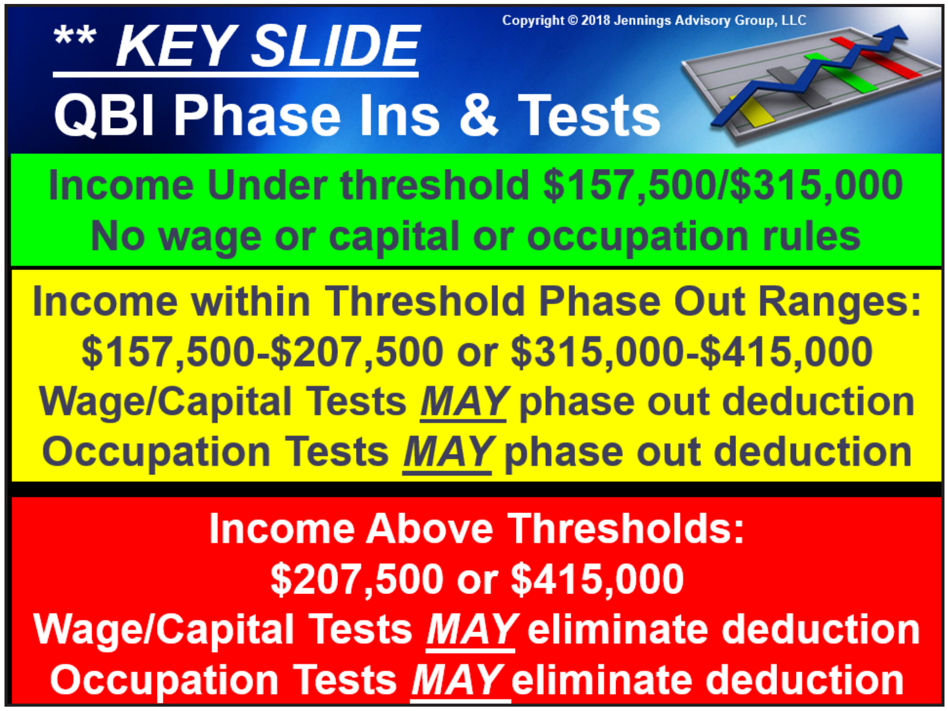
QBI continued

tests do not eliminate any deduction, they merely apply additional tests. If the tests are passed, there is no additional limit on the 20 percent QBI deduction. If the tests are failed, the 20 percent QBI deduction will be reduced as income increases. The income range for the "phase-in" is $315,000-$415,000 for married, joint returns and $157,500-$207,500 for all other returns.

The two additional tests are the wage/capital test, and the specified service (or occupation) test. The taxpayer must first determine QBI income as well as taxable income, and then apply additional tests that may limit the deduction.

The wage/capital test is the greater of 50 percent of total wages paid by the business (Form W-3, Box 5) in qualified activities or 25 percent of the same wages plus 2.5 percent of the unadjusted basis of qualified property. To qualify, the wages must be reported on a timely basis to Social Security within sixty days of the reporting due date, and wages paid by non-qualifying service businesses are not included (awaiting IRS clarification). Because the deduction is designed to aid small businesses (via the small-business carve-out) and larger businesses that pay wages or invest in assets, this test applies the wage and capital test to those larger businesses only.

Practitioners should note that they will now need a copy of all client Forms W-3 and will

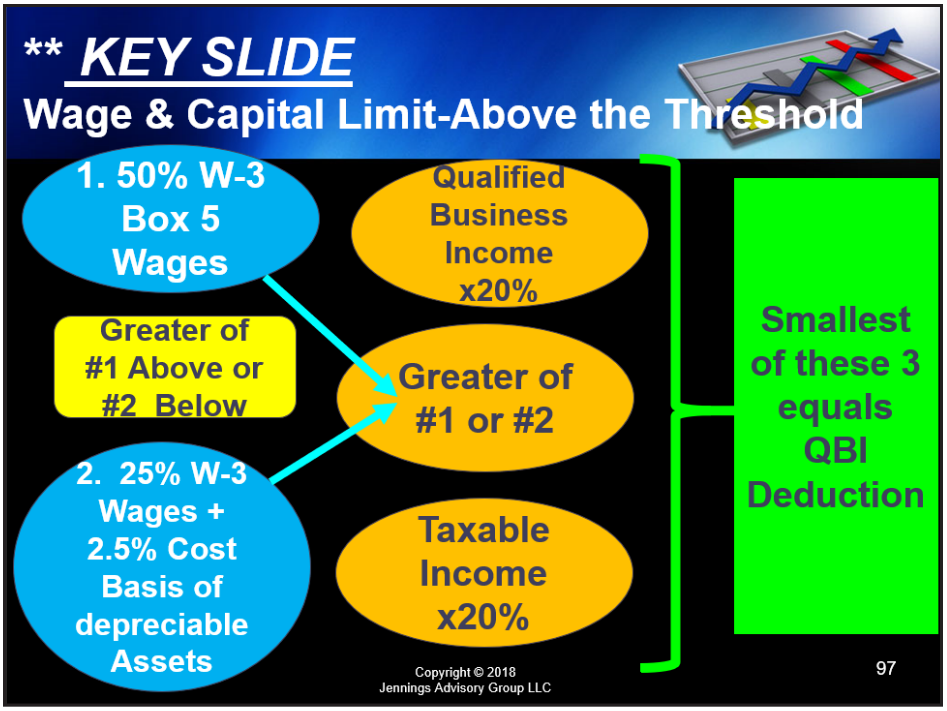


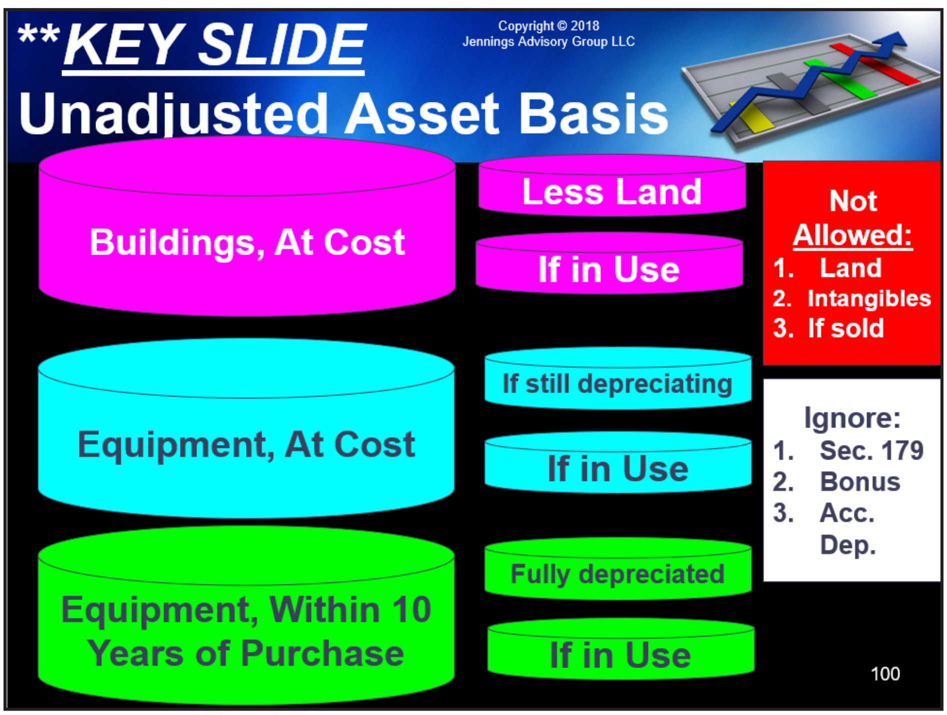

also need to disclose incredible amounts of information on Schedules K-1. See on p. 21 the visual slide we are using in our seminars to visualize the wage/capital test.

Remember, if this test is flunked but the taxpayer is in the "phase-in" range, a partial deduction is still allowed. But wait you say, what is this 2.5 percent cost basis of depreciable assets test that is part of the wage/capital limit? We think this test is best explained with yet another visual slide we are using in our classes on p. 21.

So now we understand that these additional wage/capital tests ***only*** apply to taxpayers whose taxable income is above the threshold. The 20 percent deduction is not limited at all if below the threshold and may not be limited if income is above the threshold, if the taxpayer pays adequate wages and passes the test.

For taxpayers whose income is above the threshold, there is also another test: the specified service or occupation test. Congress provided a small business carve out to everyone. But once taxable income rises to an amount above the small business threshold, Congress also decided that most service-type businesses should not qualify for the special deduction just like under the old manufacturer and producer deduction rules. Two service types of business were specifically exempted from applying this second test (architects and engineers), but all other service-type business listed will have their deduction phased out as taxable income of the owners increases above the thresholds.




The service businesses where the deduction phases out once income is above the small business carve out threshold are:

- Health
- Law
- Consulting
- Accounting
- Performing arts
- Actuarial
- Athletics
- Financial services and brokerage
- Any other trade or business where owner or employee reputations or skill is the principal asset

## Summary

The 20 percent QBI deduction is available to any individual who has both taxable income and qualified trade or business income calculated on the lesser of the two amounts. The small business carve-out allows an exemption from additional limits for taxpayers whose taxable income is below the $157,500/$315,000 small business carve-out threshold. For taxpayers whose taxable income is above the threshold, additional tests apply which, if flunked, may reduce or eliminate the deduction.

*About the author:*
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# Economic outlook for 2018 and beyond


## By Chris Kuehl

When looking ahead to 2019 there are really three sets of questions to ponder. The first is how well the goals of the new administration were met in 2018. The second is how well the economy really did in 2018,  and third how well the economy of 2019 will do. As an ancillary question, how much of that success (or failure) will be rooted in what happened this year?

There were at least five major goals outlined in the campaign that became policy initiatives when the Trump team took power. There was going to be:

1. A total rewrite of the Affordable Care Act
2. A complete rewrite of the tax system
3. Most of the major trade pacts were going to be abandoned or significantly changed
4. Wholesale movement away from regulation and bureaucracy that had been deemed anti-business
5. $1 trillion spend on infrastructure

Only one of these have come to fruition in close to the form anticipated as there were major changes in the tax system. The fight over trade and tariffs has dominated the last few months.

In the beginning there was the usual enthusiasm that comes with a new team. It was called the "Trump bump" and there was response in the stock market as well as in the overall economy. In truth much of the improvement in the job market and the overall growth rates had started during the previous year as the economic drivers rarely mesh with the political calendar.

The excitement had mostly worn off by the middle of summer. As the tax bill started its climb, there was a great deal of friction and the result was not quite what had been advocated by most in the GOP a year or so earlier. Against all odds the economy started to boom. The second quarter numbers for 2018 are expected to be quite robust and perhaps as high as 4.5 percent. There were two prime reasons for that growth and they continue to be the motivators going forward. The first, and probably the most important, was the recovery of the U.S. export market. The second factor was the emergence of the "old" U.S. consumer – the one that used their credit card loosely, the one with the confidence to make long term purchases and the one willing to do some less than frugal spending. That didn't really help much in the first quarter of this year and growth fell to just 2 percent.

The expectation has been that the tax changes will stimulate growth dramatically. But few economists are really expecting it to be that dramatic, because the economy is pretty healthy now with four percent joblessness and growth over three of the last

4 quarters. This would have been an effective piece of legislation two or three years ago when the economy still needed stimulus. Today the fear is that a big surge will stimulate too much and create an overheating situation.

If the economy does start to heat up, there will be additional pressure on the Fed to hike rates. They have already indicated that there will be three raises (and possibly four) in the coming year but right now each of these hikes are slated to be a quarter point, which leaves the rates at around 3 percent by the end of 2018. If the economy overheats, those quarter point hikes become half or three-quarter point hikes and the end of the year could see a rate of 4 percent or more.

Unemployment is not expected to change appreciably next year. It is at 4 percent now and that is very close to the low levels set prior to the recession. There is nothing to suggest this will change much. Wages have not gone up and they usually do when there is less labor available. This time the employers are not finding the people they want to hire, and they are not paying them extra.

The issues of trade will likely reach a head this year. NAFTA negotiations have been acrimonious and are expected to remain so. The Mexican elections brought a left-leaning regime to power led by Andres Manuel Lopez Obrador and the talks could play a role. The U.S. will also try to push China harder but as long as the U.S. needs the Chinese to keep North Korea from starting World War III, there is a limit to how hard they can be pushed. The trade war has started in earnest, but it remains unclear just what the U.S. wants from its trade partners.

By and large the expectation for 2019 is positive but there is more confidence in that assessment for the start of this year than for the end.

*About the author: Chris Kuehl is the managing director at Armada Corporate Intelligence. He can be reached at Chris.Kuehl@armadaci.com.*

Want to hear more from KyCPA's favorite economist? Kuehl decodes the data to bring the numbers to life at the Financial Institutions Conference on Sept. 26 and CPAs in Business and Industry Conference on Sept. 27-28.

See more information regarding the conferences on pages 29-31and register at kycpa.org.

# Disruption in the energy market

By David S. Sinclair

Today's news headlines are filled with stories about solar panels, climate change, the war on coal, natural gas fracking, pipeline development, electric vehicles and energy efficiency. Many of these stories leave the reader with the impression that, indeed, disruption is everywhere in the energy industry or soon will be. For most Kentuckians, their experience with energy and electricity remains rather uneventful and unchanging. They plug in devices; they flip the switch and they get a bill from their utility. Where's the disruption? How does one reconcile their own daily energy experience with what they read and hear about the radical changes supposedly going on all around them? The answer to this question is best summed up by our sixteenth president Abraham Lincoln, "Don't believe everything you read on the internet." (Google it!)

Changes in the energy industry are indeed occurring, in fact they have always occurred and will never stop. We live in a dynamic world where new technologies are constantly being developed and consumer tastes are ever changing. However, not all changes are disruptive or revolutionary, despite what the popular media would have us believe. Slow, evolutionary change simply does not generate excitement or sell advertising.

Focusing for a moment on the electricity industry, when evaluating the potential for disruptive change it is important to keep in mind the following:

- The underlying physics of electricity and the 60-cycle per second alternating current system that we utilize in this country are not changing.
- Customers demand around-the-clock reliability and affordability for their homes and businesses.
- The demand for electricity is what we economists call "derived," meaning consumers only want it as it relates to their demand for something else such as lighting, space heating and cooling, television/entertainment, computing, machine operation, etc.
- Since the first rock tool was invented, technologies that perform better and/or cost less than competing technologies are what tend to be adopted.
- Networks have value because they lower transaction costs and improve reliability.

The U.S. electric grid (there are really three: east of the Rockies and Texas, west of the Rockies and Texas) has developed and evolved for almost a century. The grid is really a highly complex "machine" that operates 24/7 in all types of weather to connect tens of thousands of generators with billions of electrical devices in homes, businesses and factories. This machine must always instantly balance demand and supply within very tight parameters or the lights will go out. In fact, one can argue that the electric grid provides the ultimate just-in-time product—electricity doesn't get produced until the consumer demands it—and delivers it at close to the speed of light. It is hard to get faster than that! Utilities are constantly evaluating and installing new technologies that enhance the operation and reliability of the grid – most of which the average person has never heard of and frankly, probably doesn't care that much about as long as the power comes on when they flip the switch. Industry insiders would likely label these new grid operation technologies as "enhancements" rather than "disruptive" as they certainly do not change the underlying physics of the grid.

Virtually every aspect of modern life depends on access to reliable, affordable electricity. Unfortunately, while technologies like solar panels and wind mills tend to dominate the news and are often cited as a source of disruption, they remain challenged when it comes to both reliability and economics which limits their potential. Their cost and intermittency (due to the lack of consistent wind and sun) is a key reason they continue to require tax and rate design subsidies and utilization mandates to drive their growth rather than a reliance on market forces. While it is certainly true that the cost of renewables has declined over time, it is also true that areas that have high adoption of these technologies also have high electricity rates. For example, according to the U.S. Energy Information Administration, residential electricity rates in California, which gets approximately 20 percent of its generation from solar and wind, are about

80 to 90 percent greater than in Kentucky which generates less than one percent of its power from solar and wind. The issue of energy affordability is especially important in Kentucky where, according to the U.S. Census, almost 20 percent of people live below the poverty level and we have many energy intensive manufacturing facilities.

Many people who are predicting rapid disruption in the electricity industry like to draw parallels to changes we've experienced in information technology. Many of us are old enough to remember when the first PCs were introduced into the office to free us from the mainframe. Since that time, we've evolved from the standalone PC where data was exchanged via floppy disks (remember those!) to joining our PCs with network connections, to the development of the internet and today's use of the cloud for both applications and data storage. A challenge for those advocating for disruptive change in the electricity industry along the lines of what we've experienced with information technology is that the electricity grid has, in many ways, already achieved cloud status and did so many decades ago. Just like we really don't know (or perhaps even care) where the data centers are that house our software and information, we also don't really know (and may or may not care) where the electrons come from that power our homes and businesses when we flip the switch. Attempting to replace the grid by going off-grid with solar panels and batteries or creating a micro-grid is a bit like going back to a PC of the mid-1980s or a standalone PC network pre-internet. In general, being connected to a large network brings tremendous value in terms of reliability, performance and cost.

As the famous philosopher Yogi Berra once said, "Some things are difficult to predict, especially the future." We know from the past that new technologies will come and go with some having a more lasting impact than others. We also know that changes are occurring in the energy industry in general and in the electricity industry that will create both opportunities and challenges for companies, consumers, and policy makers. It is important to understand these changes and distinguish between those that are likely to be impactful and long-lasting and those that may never really develop. Otherwise, we risk wasting a tremendous amount of time and resources chasing a future that never arrives much like the cat chasing the laser pointer. If history is any guide, the scale and economics of the energy industry typically results in changes that are more likely to be evolutionary than revolutionary in nature.

*About the author:*
*David S. Sinclair is vice president of energy supply and analysis for LG&E and KU Energy. He can be reached at David.Sinclair@lge-ku.com.*

Want to hear more about disruption in the energy market? Sinclair will be speaking at the 2018 CPAs in Business and Industry Conference on Sept. 27-28.

See more information regarding the conference on page 30 and register at kycpa.org.

# CPE calendar

| Date | Title | AM/ PM | City | CPE Credit | CPE Type | Member Early Fee |
|---|---|---|---|---|---|---|
| 9/20 | Fraud Update: Detecting and Preventing the Top Ten Fraud Schemes | | Louisville | 8 | A&A | 289 |
| 9/20 | Tax Cuts and Jobs Act: Guide to Tax Reform | AM | Louisville | 4 | TX | 159 |
| 9/20 | Section 199A: Understand the 20 Percent Deduction for Pass-throughs and Real Estate Investors | PM | Louisville | 4 | TX | 159 |
| 9/21 | Buying and Selling a Business | | Louisville | 8 | TX | 289 |
| 9/21 | Frauds and Internal Controls for Revenue, Purchasing & Cash Receipts | | Louisville | 8 | A&A | 289 |
| 9/24-25 | Audit Skills Training Level 2 -- Staff Accountant | | Louisville | 16 + | A&A | 499 |
| 9/26 | Financial Institutions Conference | | Louisville | 8 | CPE | 324 |
| 9/27-28 | CPAs in Business and Industry Conference | | Louisville | 16 | CPE | 424 |
| 9/28 | Professional Issues Update | PM | Paducah | 4 | Ethics | 79 |
| 10/18-19 | Audit Skills Training Level 4 -- In-Charge | | Louisville | 16 + | A&A | 499 |
| 10/18 | Partnership & LLC Core Tax Issues: Formation Through Liquidation | | Louisville | 8 | TX | 289 |
| 10/19 | S Corp Core Tax Issues: Formation Through Liquidation | | Louisville | 8 | TX | 289 |
| 10/22 | Annual Update for Preparations, Compilations and Reviews | | Louisville | 8 | A&A | 289 |
| 10/22 | Hottest Tax Planning Developments Under the Current Tax Law | AM | Louisville | 4 | TX | 159 |
| 10/22 | IRS Disputes: Identifying Options for Your Client | PM | Louisville | 4 | TX | 159 |
| 10/22 | Best Federal Tax Update | | Paducah | 8 | TX | 274 |
| 10/23 | Best Federal Tax Update | | Owensboro | 8 | TX | 274 |
| 10/23 | Annual Update for Accountants and Auditors | | Louisville | 8 | A&A | 289 |
| 10/23 | Reviewing Individual Tax Returns: What Are You Missing? | AM | Louisville | 4 | TX | 159 |
| 10/23 | Reviewing Partnership Tax Returns: What are you Missing? | PM | Louisville | 4 | TX | 159 |
| 10/24 | Best Federal Tax Update | | Somerset | 8 | TX | 274 |
| 10/24 | Capitalized Costs and Depreciation: Key Issues and Answers | AM | Louisville | 4 | TX | 159 |
| 10/24 | Taxation of Property Transactions | PM | Louisville | 4 | TX | 159 |
| 10/25 | Best Federal Tax Update | | East KY | 8 | TX | 274 |
| 10/25 | Controller's Update: Today's Latest Trends | AM | Louisville | 4 | FIN | 159 |
| 10/25 | Lean Accounting and Management: Save Money by Streamlining Operations | PM | Louisville | 4 | FIN | 159 |
| 10/26 | Best Federal Tax Update | | Florence | 8 | TX | 274 |
| 10/26 | The Changing Role of the Controller: Advancing from Tactical to Strategic | AM | Louisville | 4 | Man-age | 159 |
| 10/26 | Analyzing a Company's Financial Statement | PM | Louisville | 4 | FIN | 159 |
| 10/29 | Professional Issues Update | PM | Louisville | 4 | Ethics | 79 |

Live Webcast option

| Date | Title | AM/ PM | City | CPE Credit | CPE Type | Member Early Fee |
|---|---|---|---|---|---|---|
| 10/30 | Accounting and Auditing Update | AM | Lexington | 4 | A&A | 159 |
| 10/30 | Preparation, Compilation, and Review Engagements: Update and Review | PM | Lexington | 4 | A&A | 159 |
| 10/31 | Integrating Audit Data Analytics into the Audit Process | | Louisville | 8 | A&A | 289 |
| 10/31 | National Social Security Advisor Course | | Louisville | 8 | TX | 350 |
| 11/1 | Select Estate and Life Planning Issues for Middle-Income Clients | AM | Louisville | 4 | TX | 159 |
| 11/1 | A+ College Savings Planning: Maximizing Resources and Tax Benefits | PM | Louisville | 4 | TX | 159 |
| 11/2 | How Much Money Do You Need to Retire: Practical Planning Strategies | | Louisville | 8 | TX | 289 |
| 11/2 | Professional Issues Update | PM | Owensboro | 4 | Ethics | 79 |
| 11/5 | Construction Contractors: Accounting, Auditing and Tax | | Louisville | 8 | A&A | 289 |
| 11/6 | A&A Update for Small Business | | Louisville | 8 | A&A | 289 |
| 11/7 | Latest Developments in Government & Nonprofit Accounting | | Lexington | 8 | YB | 274 |
| 11/8 | Fraud & Abuse in NFPs & Governments: Stealing from Everyone | | Louisville | 8 | YB | 289 |
| 11/09 | Commercial Real Estate Conference | | Louisville | 8 | CPE | 324 |
| 11/9 | Professional Issues Update | PM | Erlanger | 4 | Ethics | 79 |
| 11/12 | Federal Tax Update for Individuals | | Louisville | 8 | TX | 289 |
| 11/13 | Federal Tax Update for Business | | Louisville | 8 | TX | 289 |
| 11/12-13 | Federal Tax Update for Individuals and Business (combo) | | Louisville | 16 | TX | 529 |
| 11/16 | Professional Issues Update | PM | Corbin | 4 | Ethics | 79 |
| 11/26 | Governmental and Not-for-Profit Annual Update | | Louisville | 8 | YB | 289 |
| 11/27 | Accounting and Reporting for Not-for-Profit Organizations | | Louisville | 8 | YB | 289 |
| 11/27 | Kentucky State Tax Conference | | Louisville | 8 | CPE | 324 |
| 11/28 | Revenue Recognition: Mastering the New FASB Requirements | | Louisville | 8 | A&A | 289 |
| 11/29 | Leases: Mastering the New FASB Requirements | | Louisville | 8 | A&A | 289 |
| 11/29 | Fiduciary Returns – Form 1041 Workshop with Forms | | Louisville | 8 | TX | 289 |
| 11/30 | Accounting of Estates and Trusts: Fiduciary Accounting and Tax Issues | | Louisville | 8 | A&A | 289 |
| 11/30 | Professional Issues Update | PM | Lexington | 4 | Ethics | 79 |
| 12/3-4 | Federal Tax Update for Individuals and Business | | Louisville | 16 | TX | 529 |
| 12/6-7 | Audit Skills Training Level 3 -- Experienced Staff | | Louisville | 16 | A&A | 499 |
| 12/10 | Forensic Accounting Investigative Practices | | Louisville | 8 | A&A | 289 |
| 12/10 | 5 Critical A&A Issues for Public Accountants in 2018 | AM | Louisville | 4 | A&A | 159 |

Continued on p. 28

## CPE Calendar continued

| Date | Title | AM/ PM | City | CPE Credit | CPE Type | Member Early Fee |
|---|---|---|---|---|---|---|
| 12/10 | Mastering Accounting for Income Taxes | PM | Louisville | 4 | A&A | 159 |
| 12/11 | Identity Theft: Preventing, Detecting & Investigating | | Louisville | 8 | A&A | 289 |
| 12/11 | Annual FASB Update and Review | AM | Louisville | 4 | A&A | 159 |
| 12/11 | Financial Statement Disclosures: Guide for Small and Mid-size Businesses | PM | Louisville | 4 | A&A | 159 |
| 12/12 | Real Estate Tax Boot Camp | | Louisville | 8 | TX | 289 |
| 12/13 | Reviewing Pass-Through Tax Returns: What Are You Missing? | | Lexington | 8 | TX | 274 |
| 12/13 | Annual Accounting and Auditing Update | | Louisville | 8 | A&A | 289 |
| 12/13 | Mastering Basis Issues for S Corps, Partnerships and LLCs | AM | Louisville | 4 | TX | 159 |
| 12/13 | Essential Depreciation and Expensing Update | PM | Louisville | 4 | TX | 159 |
| 12/14 | Compilations, Review and Preparations: Annual Update | | Louisville | 8 | A&A | 289 |
| 12/14 | Protecting Your Client and Your Firm From Tax Return Identity Theft | AM | Louisville | 4 | TX | 159 |
| 12/14 | Mergers and Acquisitions: Tax and Due Diligence Considerations | PM | Louisville | 4 | TX | 159 |
| 12/17-18 | Kentucky Technology Conference | | Louisville | 16 | IT | 449 |
| 12/19 | Applying the Uniform Guidance in Your Single Audits | | Louisville | 8 | YB | 289 |
| 12/19 | Social Security, Medicare and Prescription Drug Benefits | | Louisville | 8 | TX | 289 |
| 12/20 | Practical Planning Bootcamp for S Corps and LLCs | | Louisville | 8 | TX | 289 |
| 12/20 | Best Practices for Payroll Taxes and 1099 Issues | | Louisville | 8 | TX | 289 |
| 1/4/19 | 1-day Federal Tax Update | | Louisville | 8 | TX | 349 |
| 1/10/19 | Get Ready for Busy Season: New Forms, Filing Issues and Critical Developments | | Louisville | 8 | TX | 289 |
| 1/10/19 | Tax Prep Boot Camp-Individual | | Louisville | 8 | TX | 289 |
| 1/11/19 | Tax Forms Boot Camp: LLCs, Partnerships and S Corporations | | Louisville | 8 | TX | 289 |
| 1/10-11/19 | Tax Forms Boot Camp: Indivudual, LLCs, Partnerships and S Corps | | Louisville | 16 | TX | 478 |
| 1/14-15/19 | Federal Tax Update for Individuals and Business | | Lexington | 16 | TX | 529 |

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# Conferences

## Financial Institutions Conference

Sept. 26 8 CPE hours

Holiday Inn Hurstbourne, Louisville

### Who should attend

CPAs and other financial professionals working in or with banks, bank regulating authorities and/or other financial institutions.


### Topics

**Cybersecurity**

***David Mills, CISA,*** Carr Riggs & Ingram LLC, Enterprise, Alabama

**Mergers and acquisition**

***Dan Weber,*** Raymond James & Associates Inc., Chicago, Illinois

Morning breakouts:

- **Big data**
  ***David Carlson***, Haberfeld Associates, Lincoln, Nebraska
- **Best and worst Asset-Liability Committee (ALCO) practices: Regulatory appeasement or profit improvement**
  ***J Todd Taylor, CPA,*** Taylor Advisors, Louisville

Afternoon breakouts:

- **You bought it, so why don’t they use it?**
  ***David Carlson***, Haberfeld Associates, Lincoln, Nebraska
- **Current Expected Credit Loss (CECL)**
  ***Kristin McDonner, CPA,*** Crowe LLP, Louisville

**Regulatory roundtable**

***Panel: Lisa Ennis,*** FDIC, Lexington; ***Marni Gibson,*** FDIC, Frankfort; ***Joseph Lorbeske,*** Office of the Comptroller of the Currency (OCC), Louisville; ***Scott Smith,*** Federal Reserve Bank, St. Louis, Missouri

**Economic update**

***Chris Kuehl***, Armada Corporate Intelligence, Kansas City, Missouri

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# Conferences

## CPAs in Business and Industry Conference

Sept. 27-28 16 CPE hours

Holiday Inn Hurstbourne, Louisville


### Thursday, Sept. 27

**Disruption in the energy market**
(Read article by Sinclair on p. 24.)
***David Sinclair,*** LG&E and KU Energy LLC, Louisville

**Tax update panel**
(Read article by Loyd on p. 8.)
***Mark A. Loyd Jr., CPA, JD,*** Bingham Greenebaum Doll LLP, Louisville
***Hank Robinson, CPA,*** Humana Inc, Louisville
***Kim Stawski, CPA,*** Brown-Forman Corporation, Louisville
***Rick Woods Jr., CPA***, MCM CPAs & Advisors LLP, Louisville

**Embezzlement: Considerations for the CPA**
***Jeff W. Laber, CPA,*** IRS Criminal Investigations, Cincinnati, Ohio

**Economic update**
(Read article by Kuehl on p. 22.)
***Chris Kuehl***, Armada Corporate Intelligence, Kansas City, Missouri

**The changing face of health care reform: Post-Obamacare**
***Doug L. McSwain, JD,*** Wyatt Tarrant & Combs LLC, Lexington

Breakouts:

**1. Cash flow forecasting**
***Drew Chambers, CPA,*** MCM CPAs & Advisors LLP, Louisville

**2. Legislative update**
***Charles George, JD,*** Kentucky Society of CPAs, Louisville

**3. Mergers and acquisition**
***Dean Durbin,*** CFA Kentucky, Lexington

Repeat breakouts 1, 2 and 3

**Thank you to our sponsors:**

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OASIS SOLUTIONS

> This was my seventeenth time to attend the conference. It is a great source of CPE for industry folks.

## Friday, Sept. 28

**Future of artificial intelligence (AI)**
***Roman V. Yampolskiy, Ph.D.,*** Speed School of Engineering, University of Louisville, Louisville

**Ethics**
(Read article by Nett on p. 39.)
***Kourtney K. Nett, CPA*** and ***Brad Smith, CPA,*** MCM CPAs & Advisors LLP, Louisville

Breakouts:
**4. How to prepare for a life-changing event at your company**
***Annette Manias*** and ***Aaron Rosenberg***, Oasis Solutions Group, Louisville

**5. The captive insurance universe: Simplifying the complex idea into a risk management framework**
***Brandon White,*** Ambassador Captive Solutions, Louisville

**6. Lean CFO framework**
***JC Wilkinson, CPA,*** Katz Sapper & Miller, Indianapolis, Indiana

Repeat breakouts 4, 5 and 6

**Crypto-economy**
***Roman V. Yampolskiy, Ph.D.,*** Speed School of Engineering, University of Louisville, Louisville

> Very good variety of topics and speakers. I will be back.

Breakouts:
**7. Excel**
***Shane T. Sparks, CPA,*** KCC International Inc, Louisville

**8. Top 10 issues for implementing a growth through acquisition strategy**
***Matt Saltzman***, Strothman & Company, Louisville

**9. Accounting and auditing update**
***Scott A. Olinger, CPA,*** Harding Shymanski & Company PSC, Louisville

Repeat breakouts 7, 8 and 9

> Speakers and topics were very knowledgeable and interesting.

**Early Bird Fee:** *Register by Sept. 13*
**KyCPA member: $424** Nonmember: $624

**Regular Fee:** *After Sept. 13*
**KyCPA member: $474** Nonmember: $674

KyCPA NEXT 2018

Register at kycpa.org

# Conferences

## Commercial Real Estate Conference

Nov. 9 8 CPE hours

Gratzer Education Center, Louisville

### Who should attend

CPAs who work in the commercial real estate profession or advise clients in this area. If you service commercial real estate developers regarding tax structure, compliance or planning techniques, you will appreciate the technical insight from respected professionals in your field.

### Topics

- Commercial real estate KPI's
- Trends
- Tax reform: State and federal
- How to finance a project
- 1031
- Interest rate risk
- And much more...

**Early Bird Fee:** *Register by Oct. 24*
**KyCPA member: $324** Nonmember: $424

**Regular Fee:** *After Oct. 24*
**KyCPA member: $374** Nonmember: $474

For a list of all upcoming conferences refer to the CPE calendar on p. 26 or go to kycpa.org.

Live Webcast option

# CPE Spotlight

## New Audit Skills Training seminars

Our Audit Skills Training is **all new** for 2018. Take your audit staff from the beginning of their careers to fully in-charge of the audit process with levels 2, 3 and 4.

Each seminar offers 16 hours of in-person, hands-on training using case studies and group activities. *An additional 8 hours of on-demand training and CPE credits are available after each course* – reinforcing the lessons learned and allowing participants to apply their new skills.

**Sept. 24-25**
Audit Skills Training: Level 2 – Staff Accountant

**Dec. 6-7**
Audit Skills Training: Level 3 – Experienced Staff

**Oct. 18-19**
Audit Skills Training: Level 4 -- In-Charge

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Get the jump on what you need to know for the 2018 tax preparation season with these early Federal Tax updates.

## Best Federal Tax Update Kentucky Road Show with Ed Harter

Harter has been teaching tax seminars in Kentucky for more than 20 years. He is one of our highest-rated instructors and frequently receives perfect scores for this class. Get full coverage of all tax changes and implications for individuals and businesses with a view toward planning. This will be in a town near you – do not miss it!

- **Oct. 22** - Paducah
- **Oct. 23** - Owensboro
- **Oct. 24** - Somerset
- **Oct. 25** - Eastern Kent.
- **Oct. 26** - Florence

## Live simulcast or in-person Federal Tax seminars with Pat Garverick

Garverick brings his dynamic federal tax updates back to Louisville. He uses multiple screens to move between the course materials and various websites, tailoring the presentation to the audience, both in-person and online.

These are comprehensive reviews of the Federal income tax provisions and tax forms/schedules that will affect the **2018 tax returns and 2019 tax projections** with an emphasis on newly enacted tax legislation, court cases, and IRS guidance. Each participant will receive a comprehensive reference manual (Individual course is over 350 pages and Business course is over 650 pages) that includes numerous practice aids, real world examples, new Federal income tax forms and schedules, as well as the Phoenix Beach Quick Reference Chart. Take one seminar or register for both days and save $49.

- **Nov. 11** Federal Tax Update - Individuals
- **Nov. 12** Federal Tax Update - C and S Corps, Partnerships and LLCs

### Fall classes for industry

- **Oct. 23** Annual Update for Accountants and Auditors
- **Oct. 25** Controller's Update: Today's Latest Trends (AM)
- **Oct. 25** Lean Accounting & Management: Save Money by Streamlining Operations (PM)
- **Oct. 26** The Changing Role of the Controller: Advancing from Tactical to Strategic (AM)
- **Oct. 26** Analyzing a Company's Financial Statement (PM)

# Considerations for Kentucky accountants:

## EU General Data Protection Regulation and upcoming US privacy law


By Kyle Miller

The European Union's General Data Protection Regulation (GDPR) is fully enforceable by EU data privacy regulators as of May 25, 2018. Unlike previous regulations governing legal entities located within the EU, this regulation has a much broader reach, so broad that many Kentucky accounting firms may need to change their data practices in order to comply. The GDPR regulates the processing of personal data of EU "data subjects" *i.e.* persons physically located in the European Union when that data was generated or acquired. If your firm has personal data of an EU data subject, your organization may potentially fall within the scope of the GDPR. Similar provisions will come into effect in the US via the recently passed California Consumer Privacy Act.

### GDPR requirements

The GDPR, including recitals, comprises 260 pages of rights, requirements and analysis around the data of EU data subjects.[1] The full details are necessarily outside the scope of this article. It is important, however, to know several key aspects. The GDPR has different requirements for data controllers and data processors. The GDPR defines "controller" as "the natural or legal person, public authority, agency or other body which, alone or jointly with others, determines the purposes and means of the processing of personal data."[2] "Processor" is more simply defined as "a natural or legal person, public authority, agency or other body which processes personal data on behalf of the controller."[3]

Under the GDPR, controllers may have to designate a representative physically located in the EU if they are monitoring behavior of EU data subjects. Controllers must notify authorities of data breaches within 72 hours of discovery, where feasible. Processors must notify their respective controllers. Data processing is only permitted for lawful use, which may be demonstrated through data subject consent, performing a contract entered into by the data subject, or several other limited uses.

Data subjects have significant rights including the right to access their data held by a controller, right to alter inaccurate data held by a controller and the right to demand their data be deleted in certain circumstances. Controllers must enforce these rights against processors which hold the relevant data,

1 Available in English and 23 additional languages at https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1490122059134&uri=CELEX:32016R0679.

2 GDPR Art. 4(7).

3 GDPR Art. 4(8).

and processors may not provide data to other processors without written permission from the controller.

Failure to abide by the GDPR can result in fines up to €20 million or 4 percent of annual revenue whichever is *higher*. The severe penalties for noncompliance have many US organizations either implementing the data privacy requirements of the GDPR or removing themselves from the European market entirely.

## Are accountants controllers or processors?

The temptation for American firms is to apply an analysis similar to that found in our most comprehensive data privacy regime, the Health Insurance Portability and Accountability Act (HIPAA). In determining the data responsibilities of covered entities and business associates under HIPAA, a covered entity is the provider, health insurer, or health care clearinghouse that originates personal patient data, and the business associate is a downstream organization which receives data from the covered entity. The GDPR, however, is more nuanced.

The GDPR replaced The Data Protection Act of 1998 (DPA) which used substantially similar definitions for controllers and processors. At the time, representatives from the data protection authorities of the EU's member states formed the "Article 29 Working Party" which published guidance on how the DPA, and later the GDPR, might be enforced. In one such publication, it specifically addressed whether accountants are controllers or processors.

The qualification of accountants can vary depending on the context. Where accountants provide services to the general public and small traders on the basis of very general instructions ("Prepare my tax returns"), then - as with solicitors acting in similar circumstances and for similar reasons - the accountant will be a data controller. However, where an accountant is employed by a firm and subject to detailed instructions from the in-house accountant, if not a regular employee, he will be a processor because of the clarity of the instructions and the consequent limited scope for discretion. However, this is subject to one major caveat, namely that where they consider that they have detected malpractice which they are obliged to report, then, because of the professional obligations they owe they are acting independently as a controller.[4]

4 *Opinion 1/2010 on the concepts of "controller" and "processor"*, ARTICLE 29 DATA PROTECTION WORKING PARTY, at http://ec.europa.eu/justice/article-29/documentation/opinion-recommendation/files/2010/wp169_en.pdf.

The United Kingdom's Information Commissioner's Office further distinguished accountants as controllers or processors under the DPA:

A firm uses an accountant to do its books. When acting for his client, the accountant is a data controller in relation to the personal data in the accounts. This is because accountants and similar providers of professional services work under a range of professional obligations which oblige them to take responsibility for the personal data they process. For example if the accountant detects malpractice whilst doing the firm's accounts, he may be required under his monitoring obligations to report the malpractice to the police or other authorities. In doing so an accountant would not be acting on the client's instructions but in accordance with its own professional obligations and therefore as a data controller.

Where specialist service providers are processing data in accordance with their own professional obligations, they will always be acting as the data controller and cannot agree to hand over or share data controller obligations with the client in this context.[5]

5 *Data Controllers and Data Processors: what the difference is and what the governance implications are,* Information Commissioner's Office, at https://ico.org.uk/media/for-organisations/documents/1546/data-controllers-and-data-processors-dp-guidance.pdf (emphasis added).

Continued on p. 36

GDPR continued

This guidance makes the analysis more complicated for accountants, especially those without offices in the EU. Your European clients may ask your firms to sign contracts stating you are mere *processors* of data, however the GDPR can be interpreted to say that your firms are *controllers* of data due to your independent professional obligations. These contracts should be carefully negotiated so that CPAs follow both the GDPR and relevant professional codes.

## California Consumer Privacy Act

Even if your firm determines it is not subject to the GDPR, similar requirements may be right around the corner. On June 28, 2018, the California Legislature passed a new Consumer Privacy Act which has many provisions similar to the GDPR. In order to give organizations time to comply, the law will go into effect Jan. 1, 2020.[6] Under this law, consumers may request access to personal data held by a business[7] and request that personal data be deleted.[8] Consumers will also have a private right of action,[9] with statutory damages set between $100-$750 per affected consumer, or actual damages, whichever is *higher*.[10]

## Conclusion

Whether operating under the GDPR or California's new Consumer Privacy Act, US firms must know what data it holds and where that data is located. A lawful request under either may force the firm to disclose what data it has or even delete the data from its systems. Both laws have strenuous data breach requirements, and both include penalty requirements previously unseen in the data privacy realm. Moreover, US-based accountants in particular have to determine whether they are data controllers or processors under the GDPR, and negotiate their contracts with clients and vendors accordingly.

6 **CALIFORNIA CONSUMER PRIVACY ACT, 2018 Cal. Legis. Serv. Ch. 55 (A.B.** 375) (WEST).
7 CA CIVIL § 1798.100(a)
8 CA CIVIL § 1798.105(a)
9 CA CIVIL § 1798.150.
10 CA CIVIL § 1798.150(a)(1)(A).

*About the author:*
*Kyle Miller is an associate in the Bingham Greenebaum Doll LLP Louisville office, representing clients in general business litigation and advising businesses on issues of law and technology. He can be reached at kmiller@bgdlegal.com.*

# Mergers and acquisitions: Overlooked issues in accounting practice

By John F. Raspante, CPA

CPA firms involved in mergers and acquisitions (M&A), need to be mindful of many issues while a merger is being facilitated. If the author feels in the haste and rushes to complete the merger, many professional liability exposures may be overlooked. While the term M&A is used throughout the article, sales and purchases of a practice apply equally. In addition, the considerations pointed out are applicable to both the acquirer and the acquiree. These considerations are not intended to be all inclusive considerations.

## Knowledge of error in a previous tax filing

Both the IRS and the AICPA provide guidance regarding the tax preparer's responsibility when they become aware of errors in prior tax filings. The guidance is provided in US Treasury Circular 230 and the AICPA guidance rests in SSTS # 6. A merger typically requires review of the other firm's tax filings or, at a minimum, a sample of the filings. During this review, errors may be detected and the professional standards will apply. Once errors are detected, the CPA is required to disclose the error(s) with the preparer and this will in turn trigger a professional responsibility to the client. The above can also arise subsequent to the due diligence process and after the merger is complete. Professional standards require disclosure of the error to the client and delineating the consequences if the return is not corrected. Failure to follow the Circular 230 guidance and or the SSTS #6 guidance may subject the CPA to ethical violations and or professional liability exposure.

## Tax software

It may be that the two parties to a merger use different software for tax preparation.

The consideration here would be: if the two softwares don't have a bridge feature and the clients refuse to pay to pro forma the prior year's return, certain tax carryforwards and other attributes may not be recorded properly. An engagement letter or a stand-alone alert should be used to identify the client's choice not to pay to properly pro forma the return. This scenario will cause immense liability exposure to the successor preparer if material carryforward items are not properly recorded. Suspended losses, deferred gains and AMT credits are some of the potential areas ripe for error.

The following wording is recommended for an engagement letter or stand-alone communication:

**Dear <Client>:**

You accept responsibility for the fact that we are not relying on the electronic version of your tax return and your prior tax preparer's income tax program is not compatible with our version.

You recognize that by manually entering data, as opposed to pro formating the return, could produce different results in the current year's application.

We are not responsible for the accuracy of the program used to process the prior years' income tax returns, extract data or process the current year's income tax return.

You have the obligation to satisfy yourself that all the data on the client's file copy of the return agrees with our entries for the tax carryforwards and other attributes.

In short, use of this data to process a <year> income tax return is done entirely at your risk.

Sincerely,

______________________________

<Accountant Name>
<Firm Name>

Continued on p. 38

Mergers continued

## Independence

The last consideration that must be made is determination of the firm's independence or lack thereof after the merger. While both firms may have no independence issues with respect to their clients prior to the merge, the post-merger period may be quite different.

Firm A may have a customer of firm B, firm B may have a tenant and firm A may be the accountant for the landlord. Many other scenarios may apply and if the services require independence the assessment of the firm's independence must be made. Many of the professional liability claims faced by CPAs contain an element of independence violations. In addition, the author strongly suggests a review of ethics interpretation 101-3 governing the performance of attest and nonattest services for clients.

A merger is one of the more important transactions for firms and while the success of the merger is on the minds of both parties, all considerations must be focused upon.

*About the author:*

*John F. Raspante, CPA is director of risk management at CPA Protector Plan. He can be reached at jraspante@bbprograms.com.*

# Foster an ethical culture: Incorporate fraud considerations in your system of internal controls


By Kourtney Nett, CPA

We begin building the foundation for appropriate behavior at a very early age as our parents and others around us teach us right from wrong. That lesson can be as simple as punishment for not telling the truth. Or perhaps you were one of those children that "shoplifted" a toy or a piece of candy while mom or dad were shopping and learned a painful lesson as you were marched back into the store to return it.

We encounter different pressures in our lives as we grow older. "Right" and "wrong" turn into words like honesty and integrity. During my college years, one of my accounting professors would spend the first 10 to 15 minutes of each class preaching the importance of these character traits to us as the pillars of the profession. During the semester, he often gave us take home tests, with the expectation that no one would dare utilize their book or other resources to aid them. If students had a conflict with a scheduled in-class test, he would give it to them early because, again, they wouldn't dare compromise their integrity by sharing information about that test with those who had yet to take it. After all, if we couldn't exhibit these characteristics in an academic setting how could we practice them in the real world?

When we choose accounting as a career and enter the workforce, we quickly learn that we are tasked with the tremendous responsibility of protecting our company's assets. This takes the forms of adequately budgeting and forecasting, managing spending and providing accurate financial reporting.

Over time, companies may come to place trust in their employees. What if those same companies don't have an appropriate system of checks and balances in place throughout their organization? That scenario creates opportunity, one of the three components of the fraud triangle. The other two components are pressure and rationalization. Pressures are typically specific to individuals and can take many forms, such as divorce, loss of a spouse's job, significant debt or medical bills. When opportunities are present and employees feel these forms of pressure, they are often able to rationalize their actions. They are just borrowing the money – they will pay it back, or they haven't had a raise in

Continued on p. 40

## Ethical culture continued

five years – the company owes this to them. When these three components align, it can be a recipe for disaster for a business. We are all familiar with the high-profile scandals such as Enron, HealthSouth and Worldcom that served as the basis for Sarbanes-Oxley legislation for public companies and increased emphasis on internal controls in other companies. Somehow, businesses still lull themselves into a false sense of security regarding their exposure. In my nearly 20 years in public practice, I have worked with companies who have found themselves in this exact spot, with either an absence of adequate internal controls or a breakdown in the design or operation of existing controls. These schemes have taken the form of falsified invoices and credit card statements, fictitious employees placed on payroll, purchasing kickbacks, company assets sold by employees for profit and billing fraud. The impacts financially and on reputations have varied, and fortunately, these businesses have been able to recover.

It is interesting to look at the general characteristics of most fraud. Fraud is frequently committed by long-tenured, trusted employees. These individuals are often first-time perpetrators with no prior offenses. The scenarios listed above are tangible and are relatively black and white. We know that our companies often deal in the gray space where knowing right from wrong is a little more difficult, and if given the opportunity, it may be easier to justify a questionable position. For example, many companies have reserves recorded for a variety of matters including bad debts, warranties, insurance and legal and regulatory matters. These models can be extremely complex, just one change in an input factor can result in a significant change in outcome. Take that one step further – many companies tie bonuses to financial results. With so much potentially at stake, proper oversight is paramount.

No system of internal controls can completely eliminate the risk of fraud. However, companies should be proactive in identifying vulnerabilities unique to their business and in implementing effective prevention and detection controls specific to the risk of fraud. This effort will go a long way in establishing an ethical culture within an organization.

*About the author:* *Kourtney Nett, CPA is a partner at MCM CPAs & Advisors LLP in Louisville . She can be reached at Kourtney.Nett@mcmcpa.com.*

Kourtney Nett will be presenting a 2-hour ethics session at the 2018 CPAs in Business and Industry Conference on Sept. 27-28.

See more information regarding the conference on page 30.

KyCPA offers many other opportunities to attend an ethics course:

- In-person at any of the Professional Issues Updates
- Live webcasts
- On-demand that can be completed on your schedule
- Contact KyCPA about our on-site options to bring ethics CPE to your work group

Register at kycpa.org.

# Golfing for the greater good


## Summer Golf Scramble raises funds for Foundation

The KyCPA Educational Foundation Golf Scramble was held June 18 at the UofL Golf Club. Thanks so much to the golfers and sponsors who supported the event and helped raise **over $9,000** for KyCPA Educational Foundation scholarships. We hope you can join us again next year!

### Event sponsors

- Accounting Principals
- The Allen Company
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- Jones Nale & Mattingly
- Louis T. Roth & Co.
- MCM CPAs & Advisors
- National Insurance Agency
- PwC
- Schwartz Insurance Group

### Scramble and contest winners

- **Flight 1 winners (-18):** PwC – Todd Klimek, Justin Alexander, John Wurtenberger, Jantzen O'Neal
- **Flight 2 winners (-10):** Dean Dorton – Lee Livingood, David Angelucci, Lance Turpin, Brandon Young
- **Flight 3 winners (-6):** Blue & Co. – Lance Williams, Pat Brown, Nick Ficklin, Dan Rice
- **Closest-to-the-Pin #8 –** Chris Garrett (LG&E and KU Energy)
- **Closest-to-the-Pin #16 –** Jantzen O'Neal (PwC)
- **Longest Drive (Men) –** Glen Bertram (Jones, Nale & Mattingly)
- **Longest Drive (Women) –** Melissa Marvel (Zoom Group)
- **Longest Putt –** Nick Ficklin (Blue & Co.)
- **Straightest Drive –** Mike Mills (Addington & Mills)
- **Split the Pot winners** – Eric Johnson (Louis T. Roth), John Wurtenberger (PwC)

Thank you to Belterra Casino Golf Club, David Morgan (21st Century Parks), Woody Long (National Insurance Agency) and Samantha Soutar (KyCPA) for their generous prize donations. Also thanks to Blue Grass Motorsport for bringing two Alfa Romeo cars to display on the course.

# Create a Legacy

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- DMLO CPAs
- Kelley Galloway Smith Goolsby PSC
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- Fister, Williams & Oberlander PLLC
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- Henderman Family Foundation
- Henderman Jessee & Co. PLLC
- Jones Nale & Mattingly PLC
- Stephen Lukinovich, CPA
- Allen Norvell, CPA
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- Stock Yards Bank & Trust Co.
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## New contributions *(does not include pledge payments or gifts below $100.)*

June-July 2018

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- **Steve King, CPA**
- **Erin Bukowski, CPA**
- **Molly Sutherland, CPA**

**Thank you for supporting the KyCPA Educational Foundation.**

If you would like see a complete list or to give to the Foundation, go to kycpa.org. *If you see an error or need more information, please contact Lindsay Fouts at lfouts@kycpa.org.*

# Students complete BASE Camp

Thirty eight high school students from around the state and region recently completed KyCPA's Business and Accounting Summer Education (BASE) Camp in Louisville.

BASE Camp is KyCPA's fully-supervised, summer business camp program for high school juniors and seniors. BASE Camp was held from June 10-14; students stayed in dorms at Bellarmine University's campus. During the week, students learned the basics of business and accounting in a hands-on, interactive format that included trips to Sullivan University, Spalding University, the University of Louisville, several companies and accounting firms. Students participated in team building, group presentations, panel discussions with professionals, a business etiquette luncheon, mock interviews and other skill-building activities along with social activities.

BASE Camp is sponsored by KyCPA and is funded mostly through its Educational Foundation, sponsorships and dozens of KyCPA member volunteers who plan for the camp year-round. There is a small tuition fee charged to participants.

Participating students were selected based on criteria that included grade point average and a teacher recommendation.

## Thank you BASE Camp sponsors

### Gold level

- Deloitte & Touche LLP
- Ernst & Young LLP

### Silver level

- Harding Shymanski & Co. PSC
- MCM CPAs and Advisors
- Strothman & Company

### Bronze level

- Baldwin CPAs
- DMLO
- Henderman Jessee
- Institute of Internal Auditors-Louisville
- KPMG
- Louis T. Roth
- George & Marilyn Owens

### Additional sponsors:

ANEW 401k TPA, LLC, William Jessee, Dr. William Stout, Irma Miller, Jennifer Hughes, Kathy Herbig, Kevin Joynt, Dr. Elizabeth Payne, William G. Meyer, III, Becky Phillips and Dr. David Collins.

## The 2018 BASE Camp participants included:

- **Elizabeth Abreu,** Mayfield
- **Casie Adams,** Bullitt East
- **Kaitlyn Barnes,** Bullitt East
- **Brandon Blackwell,** Eastern
- **Connor Burke,** Saint Xavier
- **Mackenzie Burns,** Notre Dame Academy
- **Campbell Chandler,** DuPont Manual
- **Jonathon Coffing,** John Hardin
- **Danielle Evans,** DuPont Manual
- **Mayce Freidner,** Murray
- **Andrew Gazzaroli,** Tates Creek
- **Andrew George,** Cathedral
- **Jared Gilreath,** Bishop Brossart
- **Jacob Gilreath,** Bishop Brossart
- **Jazlin Guerrero,** Mayfield
- **Jared Hatton,** Montgomery County
- **Mary Hemingway,** Owensboro
- **Christopher Hill,** Home School
- **Matthew Johnson,** Oldham County
- **Kennedy Kitchen,** Simon Kenton
- **Brandon Leicht,** Bishop Brossart
- **Alec Luckett,** Saint Xavier
- **Destinee Matthews,** Holmes
- **Nicolas Meneses,** Larry A. Ryle
- **Katelyn Nichols,** Larry A. Ryle
- **Jacqueline Oliphant,** Whitley County
- **Cameron Payne,** Bullitt East
- **Elizabeth Piper,** Henry Clay
- **Elizabeth Proffitt,** Larry A. Ryle
- **McEwan Robinson,** Meade County
- **Alexis Shaffer,** Shelby County
- **Jaycee Simpson,** Henderson County
- **Emily Slaven,** DuPont Manual
- **Ethan Tate,** DuPont Manual
- **Joseph Thomson,** Simon Kenton
- **Russell Toney,** Covington Latin
- **Kayla Vinson,** Mayfield
- **Riley Warren,** Assumption

## New student member benefit

KyCPA is proud to partner with CPA Crossings and offer free technology and educational webinars for student members. Go to http://bit.ly/CrossingWebinars to view the full catalog of courses available; multiple dates and times available for each webinar. Online registration is not available; to register please contact Samantha Soutar at ssoutar@kycpa.org or 502.736.1377.

### Courses offered:

- Excel – Designing Your Spreadsheets for Maximum Efficiency
- Office 365 SharePoint – What it is and How to Use it
- Ethics: Amy Wilson: How and Why I stole $350,000
- Bitcoin – What you Should Know About This Digital Currency
- Excel – Using PivotTables or Data Analysis
- And more!

## KyCPA campus visits

Look for KyCPA leadership on campus this fall as they discuss career opportunities, steps to success and KyCPA/AICPA student membership. We will be visiting:

- Bellarmine University
- Berea College
- Brescia University
- Eastern Kentucky University
- Transylvania University
- University of Louisville
- Western Kentucky University

Refreshments and raffle prizes will be available! Dates still to be determined, watch your email or visit kycpa.org for more information.

# KyCPA College Leadership Institute

"This was a phenomenal opportunity to grow as an individual and gain a better understanding of where I fit in as an accountant." -2018 participant

The annual KyCPA College Leadership Institute took place June 1-2 at the Gratzer Education Center, Louisville. Thirty-eight students from 14 colleges and universities across the region completed the program. Each of the participants was recommended by an accounting educator.

This free, two-day event for college accounting majors helps students develop professional skills and identifies future leaders in the CPA profession. Sessions were designed to provide tools needed to cultivate effective communication and networking skills, and help students perform well during job interviews.

The program concluded with a "Meet the Firms" reception. The participating firms included:

- DMLO CPAs
- KPMG
- IMI
- Baldwin CPAs
- Dean Dorton
- BKD
- Louis T. Roth & Co.
- Summit Strategic Advisors
- Ernst & Young

Congratulations to the following student participants for completing the KyCPA College Leadership Institute:

- Jack Boarman, University of Kentucky
- Rebecca Brock, Sullivan University-Lexington
- Jay Camp, Western Kentucky University
- Jovondra Coffey, Murray State University
- Alyssa Coon, Berea College
- Fred Dupree, University of Kentucky
- Klayton Grimes, University of Kentucky
- Brookelyn Hattabaugh, Brescia University
- Nichole Hensley, Sullivan University-Lexington
- Whitley Horning, University of Kentucky
- Liane Ikome, University of Kentucky
- Jackson Jeffries, Transylvania University
- Mason Kraps, University of the Cumberlands
- Alexander Lewis-Vega, University of Kentucky
- Lincoln McBride, University of Louisville
- Jeremy Meade, Eastern Kentucky University
- Whitney Miles, Western Kentucky University
- Logan Mohon, Western Kentucky University
- Ellie Otte, Northern Kentucky University
- Devon Page, University of Kentucky
- Daman Patel, Western Kentucky University
- Jessica Ralston, Eastern Kentucky University
- Chase Rogers, Sullivan University-Lexington
- Alex Rosal, University of Kentucky

"I have decided to pursue my CPA, but was not convinced in doing so before this weekend." -2018 participant

- Samuel Rose, Northern Kentucky University
- Sarah Schroll, Bellarmine University
- Hunter Shields, Sullivan University-Lexington
- Chandler Shores, Salem State University
- Rama Thapa, Indiana University Southeast
- Timothy Tracey, Eastern Kentucky University
- Hannah Tucker, Murray State University
- CJ Voorhees, University of Kentucky
- Jonie Wallace, Sullivan University-Lexington
- Ryan Ward, Eastern Kentucky University
- Gwendolyn Watson, Sullivan University-Lexington
- Anthony Wilder, Sullivan University-Lexington
- Mary Wright, Sullivan University-Lexington
- Frank Zheng, Western Kentucky University

Thank you to the volunteers and presenters who shared their expertise with the group including:

- Sam Asamoah, CPA, JCTCS
- Wes Becker, CPA, Crowe LLP
- Brent Brady, CPA, Metal Sales Manufacturing Corp.
- Krystal Bronson, BKD
- Bryan Bulkley, CPA, Dean Dorton
- Dave Calzi, CPA, Ernst & Young
- Dick Carroll, KY State Board of Accountancy
- Patricia Carver, CPA, Bellarmine University
- Heather Cochran, CPA, RFH PLLC
- Bill Eversole, CPA, Summit Strategic Adivsors
- Louis Fister, CPA, Fister Williams & Oberlander
- Zach Fletcher, CPA, Ernst & Young
- Scott Grant, CPA, SGSCO
- Tesa Hamilton, CPA, Patterson & Co.
- Russel Harris, CPA, Republic Bank & Trust
- Anne-Marie Hogan, CPA, Sole Practitioner
- Nicole Jarboe, Bellarmine University
- Rob Kester, CPA, Blue & Co.
- Ralph Kimbrough, CPA, University of Kentucky
- Lori Klumpp, CPA, L&N Federal Credit Union
- Bonnie Laughlin, CPA, Crowe LLP
- Caroline Link, CPA, Strothman & Co.
- Harold Little, CPA, Western Kentucky University
- Nate Littles, CPA, DMLO CPAs
- Shara Lucio, CPA, Strothman & Co.
- Dr. Regina Martin, CPA, Spalding University
- Ryan McLaughlin, Bellarmine University
- Aaron Miller, Leadership Louisville
- Karen Milliner, Professional Networking Services
- Shelley Mitchell, CPA, Fort Knox Federal Credit Union
- Dana Nurge, CPA, Crowe LLP
- Bob Patterson, CPA, Patterson & Co.
- Betty Pendergrass, CPA, Governmental Management Advisory Services
- Jodi Renn, CPA, KHEAA/KHESLC
- Meaghan Reynolds, CPA, Strothman & Co.
- Karen Sensenbrenner, CPA, AJAE-Equity
- Christi Smith, Dean Dorton
- Nathan Thieneman, CPA, Baldwin CPAs
- Wes Vance, CPA, MCM CPAs & Advisors
- Emily Whatley, CPA, DMLO CPAs
- Ashley Williamson, CPA, IMI
- Josh Winfrey, CPA, Auditor of Public Accounts
- Beth Wiseman, CPA, Whayne Supply Company

Thank you to the sponsors and exhibitors, including:

- Baldwin CPAs
- Becker Professional Education
- BKD
- Dean Dorton
- DMLO CPAs
- Harding Shymanski
- IMI
- KPMG
- Louis T. Roth & Co.
- MCM CPAs & Advisors
- Summit Strategic Advisors
- WileyCPA Excel

For more information about the 2019 College Leadership Institute, contact Samantha Soutar at ssoutar@kycpa.org.

# KyCPA honors 100% Champions

The following firms and businesses ensure all eligible CPA employees are members of KyCPA. This demonstrates their commitment to the profession, to the Society's high ethical standards and a commitment to life-long learning. We appreciate their support of KyCPA and its mission.

The information below is verified annually at the time of membership renewals. Inclusion on this list is an opt-in basis. If your organization would like to join the list of 100% Champions, or you have questions about the program, please contact Heather Hibbs at hhibbs@kycpa.org or 502.736.1368.

*We make every effort to ensure the accuracy of this list. If you have voluntarily notified us of your 100% Champion status and we have left your name off this list, please let us know immediately, by contacting Heather Hibbs at hhibbs@kycpa.org.*

## 100% Champions as of June 15

- Addington & Mills, PSC, Lexington
- Alexander & Company, PSC, Owensboro
- Alexander Toney & Knight, PLLC, Madisonville
- Alford Nance Jones & Oakley, LLP, Madisonville
- allen CPAs & Advisors, PLLC, Lexington
- Allston Advisory Group, LLC, Louisville
- Anderson Jones CPAs, PSC, Maysville
- Andrews Tackett & Associates, PSC, Flatwoods
- ANEW 401K TPA, LLC, Louisville
- Anneken Huey & Moser, PLLC, Ft Thomas
- Anneken Huey & Moser, PLLC, Ft Wright
- Baldwin CPAs, PLLC, Lexington
- Baldwin CPAs, PLLC, Maysville
- Baldwin CPAs, PLLC, Flemingsburg
- Baldwin CPAs, PLLC, Louisville
- Baldwin CPAs, PLLC, Richmond
- Bennett & Company, CPAs, Louisville
- Berry Kington & Utley, PSC, Madisonville
- BKD, LLP, Louisville
- BKD, LLP, Bowling Green
- BLD, PLLC, Louisville
- Blue & Co., LLC, Lexington
- Blue & Co., LLC - Commercial, Louisville
- Bowden & Wood, PLLC, Louisville
- Bramel & Ackley, PSC, Ft Wright
- Buckles Travis & Hart, PLLC, Leitchfield
- Buschermohle & Company, PSC, Louisville
- Calhoun & Company, PLLC, Hopkinsville
- Campbell Myers & Rutledge, Glasgow
- Carr Riggs & Ingram, LLC, Bowling Green
- Carr Riggs & Ingram, LLC, Russellville
- Charles T. Mitchell Company, PLLC, Frankfort
- Charles T. Mitchell Company, PLLC, Versailles
- Christian Sturgeon & Associates, PSC, London
- Compton Kottke & Associates, PSC, Louisville
- Craft Noble & Company, PLLC, Richmond
- Crowe Healthcare Risk Consulting, Louisville
- Crowe Healthcare Risk Consulting, Lexington
- Crowe, LLP, Louisville
- Crowe, LLP, Lexington
- Dean Dorton, PLLC, Lexington
- Dean Dorton, PLLC, Louisville
- Delta Natural Gas Co., Inc., Winchester
- DMLO CPAs, Louisville
- Drane & Company, PLLC, Hardinsburg
- Duncan Smith & Stilz, PSC, Lexington
- Ebelhar Whitehead, PLLC, Owensboro
- Embry & Watts, PLLC, Morgantown
- Embry & Watts, PLLC, Beaver Dam
- Evans Harville Atwell & Co., CPAs, PLLC, Somerset
- Faulkner King & Wenz, PSC, Mt Sterling
- Fister Williams & Oberlander, PLLC, Lexington
- Flynn Accounting, LLC, Jeffersonville, Ind.
- Fowler Durham CPAs and Advisors, PLLC, Munfordville
- Franklin Financial Group, Madisonville
- Freibert CPA Group, PLLC, Louisville
- Garstka Gander & Crabb, PSC, Lexington
- Shirley E. Gifford, CPA, Ferguson
- Grover Greweling & Company, PSC, Louisville
- Hamilton Thomas & Co., PLLC, Louisville
- Harding Shymanski & Company, PSC, Louisville
- Harris & Associates, PSC, Somerset

- Harrod & Associates, PSC, Frankfort
- Hibbs and Associates, PLLC, Bardstown
- Hoover and Morris, PLLC, Livermore
- Jaynes and Jaynes, PSC, Richmond
- John T. Lane and Associates, LLC, Mt Sterling
- Jones Nale & Mattingly, PLC, Louisville
- Kauffmann & Associates, CPAs, Louisville
- Kelley Galloway Smith Goolsby, PSC, Pikeville
- Kelley Galloway Smith Goolsby, PSC, Ashland
- Kelley Galloway Smith Goolsby, PSC, Cold Spring
- Kemper CPA Group, LLP, Henderson
- King + Company, CPAs, Louisville
- Kinkead & Stilz, PLLC, Lexington
- Kirby & Moore, LLP, Bowling Green
- Louis T. Roth & Co., PLLC, Louisville
- Lutz & Associates, Inc., Madisonville
- Marr Miller & Myers, PSC, Corbin
- Mather & Company, CPAs, LLC, Louisville
- McKinney & Associates, LLC, Scottsville
- MCM CPAs and Advisors, LLP, Jeffersonville, Ind.
- MCM CPAs and Advisors, LLP, Louisville
- MCM CPAs and Advisors, LLP, Cincinnati, Ohio
- MCM CPAs and Advisors, LLP, Lexington
- Miller Mayer Sullivan & Stevens, LLP, Lexington
- Monroe Shine & Company, Inc., Louisville
- Morgan & Associates, LLC, West Liberty
- Munninghoff Lange & Co., CPAs, Covington
- Neikirk Mahoney & Company, PLLC, Louisville
- Owensboro Municipal Utilities, Owensboro
- Padgett & Mastronardo, PLLC, Walton
- Tony Page CPA, PLLC, Murray
- Patterson & Company, PLLC, Louisville
- Peck & Milford, LLP, Paducah
- Radwan Brown & Co., PSC, Lexington
- Reed & Co. of Mayfield, PSC, Mayfield
- Retirement Management Services, LLC, Louisville
- RFH PLLC, Lexington
- Vickie C. Richardson CPA, PSC, Mt Sterling
- Robinson Hughes & Christopher, PSC, Danville
- Rueff and Associates, PLC, Louisville
- SKW CPAs & Advisors, PLLC, Lexington
- Smith & Company CPAs, PLLC, Bardstown
- Southern Star Central Gas Pipeline, Owensboro
- Stephens & Lawson, PSC, Louisville
- Stiles Carter & Associates, PSC, Bardstown
- Stiles Carter & Associates, PSC, Elizabethtown
- Strothman & Company, Louisville
- Steudle Spears & Company, PSC, Louisville
- Sullivan & Curry, LLP, Greenville
- Sullivan Morris Sullivan & Hart, PSC, Lexington
- Summit Strategic Advisors, LLC, Louisville
- Tallent & Associates, CPA, Louisville
- The Allen Company, Inc., Lexington
- Thurman Campbell Group, LLC, Princeton
- Thurman Campbell Group, LLC, Hopkinsville
- Van Gorder Walker & Company, Inc., Erlanger
- Verbeck & Kaleher CPAs, Inc., Taylorsville
- Welenken CPAs, Louisville
- Williams Williams & Lentz, LLP, Paducah
- Wise Buckner Sprowles & Associates, Campbellsville
- Young & Wadlington, PLLC, Lexington

## 2018-2019 KyCPA membership renewal invoice

First and second notices were emailed; you may pay your dues online at kycpa.org or call 502.266.5272.

Members with an outstanding dues balance will be charged nonmember rates for CPE registration beginning Sept. 1, 2018.

# KyCPA member profile: Laura Grayson

Meet member Laura Grayson, accounting manager at Univance, Inc. Grayson has an MBA from Sullivan University and is working towards becoming a CPA. She has passed three of the required exams and is preparing for the fourth exam. She lives with her husband, Jim, and four kids Keaton, Rhianna, John and Ellie in Mt. Sterling.

Grayson currently serves on KyCPA's Business and Industry Committee and previously on the Manufacturing and Members in Industry Committees.

## Q: What inspired you to work towards becoming a CPA?

A: I wanted to be part of the company decisions and not just affected by them. So often in accounting, unless you are at a management level, you are relegated to seeing the results of corporate decisions. Working in industry, you are part of the management team (normally) and can help shape those decisions.

## Q: What's the best aspect of your job?

A: Being able to make improvements and seeing the ROI from those improvements. It's about seeing how the company functions by looking at the financials and drilling down until you can see where an improvement can be made. Then you can begin the planning process for improvement.

## Q: What do you like to do for fun?

A: Movies, board games and home improvement projects. I'd love to be able to get out more and go hiking but right now we are home a lot with the little kids.

## Q: Why do you like working in industry?

A: It's a very tangible environment. I can see the advances in the process and see the corresponding results in the financials. It's really fascinating to analyze that relationship and find innovative ways to expand on it. At the end of the day, all activity funnels down to land in the financials, and the industry CPAs are the caretakers of those financials.

## Q: Any advice to potential future CPAs?

A: Don't discount industry as a place to work as a CPA. I would suggest, to those making the decision to be a CPA, to spend a day or some time shadowing someone in both public and industry accounting to see which one is best for you. It doesn't mean you must stay in that field, but it will give you some perspective as to the kinds of work you can look forward to in each area.

## Q: What opportunities did this career path open for you?

A: The biggest path that being a CPA opens is management. As an industry controller you can really create a niche for yourself in the market and be an indispensable part of the management team.

## Save the date: Women's networking event on Oct. 9

4:30 - 6 p.m. at the Gratzer Education Center in Louisville
Guest speaker: Olivia Kirtley, CPA
Go to kycpa.org for more information.

# A Q&A with President Becky Phillips

*Editor's note: We asked 2018-2019 President Becky Phillips to share her thoughts on some of the issues facing the profession.*

### Q: What inspired you to become a CPA?

A: I am so fortunate to have fallen into the career that is a perfect fit for me. I started college with the desire to become an attorney. While I did not give it much time, after my freshman year I became disenchanted with law as a possible career choice. Being a bit of an obsessive planner, I needed direction. My father's college degree was in accounting; although, he spent most of his career as a systems analyst. So, my sophomore year in college, I decided to take an accounting class. I fell in love with accounting. It was so logical! As I took additional accounting courses, I learned about the CPA profession and the possible avenues the profession could take you. Whether your interests are in public accounting, industry or education (and I have tried all three) it is a rewarding career.

### Q: What is a significant issue facing the CPA profession?

A: Change, change, change. Graeme Wood said, "Change has never happened this fast before, and it will never be this slow again." While he was referring to social media, this is also applicable to our world of accounting. Our profession is facing the innovations of artificial intelligence, data analytics, blockchain and cryptocurrencies and their impact on accounting, financial reporting and auditing. These technologies are coming at us quickly and we are working rapidly to keep steady with the change they bring. All the while we are dealing with issues surrounding cybersecurity and IT risks and controls. Then one cannot forget to add the changes in the federal and state tax laws and some of the sweeping changes in the accounting standards like revenue recognition and lease accounting.

In addition, the profession is struggling to keep the pipeline of CPAs full. We may have students "fall in love with accounting" as I did while they are in college, but somehow we lose them after graduation. The number of folks taking and passing the CPA exam is dwindling. We need to ensure accounting graduates understand the opportunities the CPA credential can provide them.

### Q: What are your goals for the coming year?

A: The Kentucky Society of CPAs recently contracted with McKinley Advisors to perform an external market analysis. Hopefully you responded to the survey your received during June. We anticipate the results in August and will use this information to guide the Society in the direction most beneficial to Kentucky CPAs. We want to remain in the forefront of member needs and ensure members perceive value in their membership.

Additionally, this will be a year of building and strengthening relationships between the Society and Kentucky CPAs. We have increased the number of face-to-face visits and regional outreach to our membership. The insights obtained from this initiative will also be used to focus our efforts on better serving our membership.

### Q: What advise do you have for college students considering becoming a CPA?

A: The CPA credential is a door opener and one of the most beneficial steps you can take in your career. Whether you desire to work in public accounting or industry, the credential will position you for success. A recent survey identifies about 20 percent of company CEOs are CPAs.

Plan to sit for the CPA exam as soon as you qualify. While one needs 150 hours of education to become a CPA, in Kentucky one can qualify for the exam as a graduate from an accredited college or university with a bachelor or master's degree that includes a concentration in accounting. This allows many candidates to sit for the exam as they are finishing their 150 hours.

# Welcome new members

## Student

**Derek Brock**, Indiana University Southeast
**Brennan J. Dodds**, University of Kentucky
**Adam C. Duff**, University of Kentucky
**Lauren E. Faulkner**, University of Kentucky
**Jonathan D. Garner**, University of Kentucky
**Elizabeth Nichole Hensley**, Sullivan University-Lexington
**Liane E. Ikome**, University of Kentucky
**Marc J. P. McCormick**, Bellarmine University
**Devon R. Page**, University of Kentucky
**Patrick Worland**, Eastern Kentucky University
**Chris T. Youn**, Campbellsville University

## Firm Administrator

**Reagan James**, Louis T. Roth & Co., PLLC, Louisville
**Emma Louise Murphy**, Kelly King & Company, CPAs, Crestwood
**Suzanne Sturgeon**, Louis T. Roth & Co., PLLC, Louisville

## Non-CPA Associate

**Audrey L. Asher**, Berry Kington & Utley, PSC, Madisonville
**Megan Ann Berberich**, VonLehman & Company, Inc., Ft. Wright
**Christopher Russell Buchanan**, Deloitte & Touche, LLP, Cincinnati, Ohio
**Jessica Nicole Doremus**, Barnes Dennig & Co., Ltd., Cincinnati, Ohio
**Jack Scott Gatlin**, Gatlin Voelker, PLLC, Ft. Mitchell
**Sophia Head**, RFH, PLLC, Lexington
**Harrell Thomas Riley, II**, Bruce & Company, PSC, Madisonville

## Part-time CPA

**Judith Brown**, Judith Brown, CPA, Owensboro
**Jane L. Colbert**, Lexington

## Regular

**Travis Batchelor**, MCM CPAs & Advisors, LLP, Louisville
**Jeffrey A. Byrne**, Indiana University Southeast, New Albany, Ind.
**Jeffrey Barber Creech**, Baker Tilly Virchow Krause, LLP, Tysons, Va.
**Hailey Dawes**, KPMG, LLP, Louisville
**Sharon L. Fraley**, Morehead State University Foundation, Morehead
**George Andrew Glanz**, Louis T. Roth & Company, PLLC, Louisville
**Jessica M. Harbeson**, Strothman & Company, Louisville
**Eric R. Johns**, Tempur Sealy International, Inc., Lexington
**Paul C. Johnson, III**, Murrells Inlet, S.C.
**Sarah Marie Kubala**, VonLehman & Company, Inc., Ft. Wright
**April Leigh Lax**, Murray State University, Murray
**Michael Joseph Little, Jr.**, RFH, PLLC, Lexington
**Timothy J. Lowry**, Harding Shymanski & Company, PSC, Evansville, Ind.
**Tracy B. Martin**, Hutson's AG Equipment, Inc., Murray
**Austin Meek**, Dean Dorton, PLLC, Lexington
**Zachary Mark Meikle**, Dean Dorton, PLLC, Lexington
**Shaun Patrick Meyer**, BKD, LLP, Louisville
**Thomas J. Nimrick**, FirstGroup America, Cincinnati, Ohio
**Paul W. Pogue**, Piper's Saw Shop, Central City
**Brittany M. Rebalsky**, Dean Dorton, PLLC, Louisville
**Karen L. Roby**, Southern Star Central Gas Pipeline, Owensboro
**Marcus Blake Scroggins**, PricewaterhouseCoopers, LLP, Louisville
**Jennifer B. Sturgill**, Quantum Spatial, Inc., Lexington
**Audrey D'mitri Taylor**, Deloitte & Touche, LLP, Louisville
**Qian Wang**, Anchor Fluid Power, Cincinnati, Ohio
**Matthew Spencer Wempe**, Crowe, LLP, Louisville

# Members in motion

## Appointments

**Carol Flynn,** owner of Flynn Accounting, LLC was appointed to the Indiana's Department of Revenue first ever Tax Advisory Council.

## Awards

Outstanding Committee Chair Award went to **Mark Loyd** for the Tax Committee. Charles George nominated him and had this to say: Mark has devoted a significant amount of time and expertise to KyCPA as we have dealt with numerous tax issues the last two years, culminating with tax reform during the 2018 session. He has been remarkably responsive to KyCPA and our members despite his busy schedule.

## Firms

**Blue & Co., LLC, Lexington office:**

- **Ryan Graham** has been promoted to senior manager.
- **Joseph Duruttya** has been promoted to manager.
- **Emily Ezell** has been promoted to senior accountant.
- **Laura Farris** has been promoted to senior accountant.
- **John Brown** joined Blue & Co. as a staff accountant on the tax team.

**Riney Hancock CPAs PSC:**

**P. Ryan Moore, CPA** has been promoted to senior manager in the Tax Services Division.

**P. Harrison Price, CPA** has been promoted to manager in the Tax Services Division.

**Laura E. Minor, CPA, QKA** has been promoted to supervisor in the Tax Services Division.

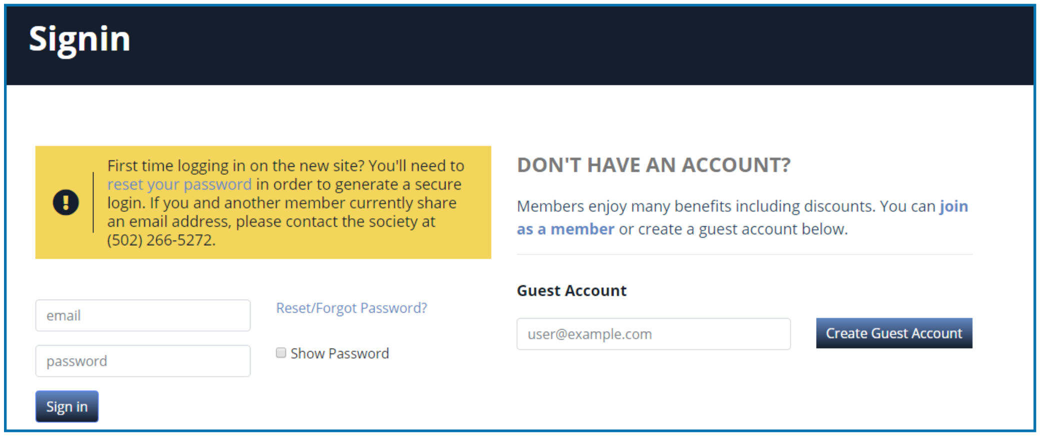
**Tara L. O'Shan** joined Riney Hancock CPAs PSC as a staff I accountant in the Tax Services and the Audit and Assurance Services Divisions.

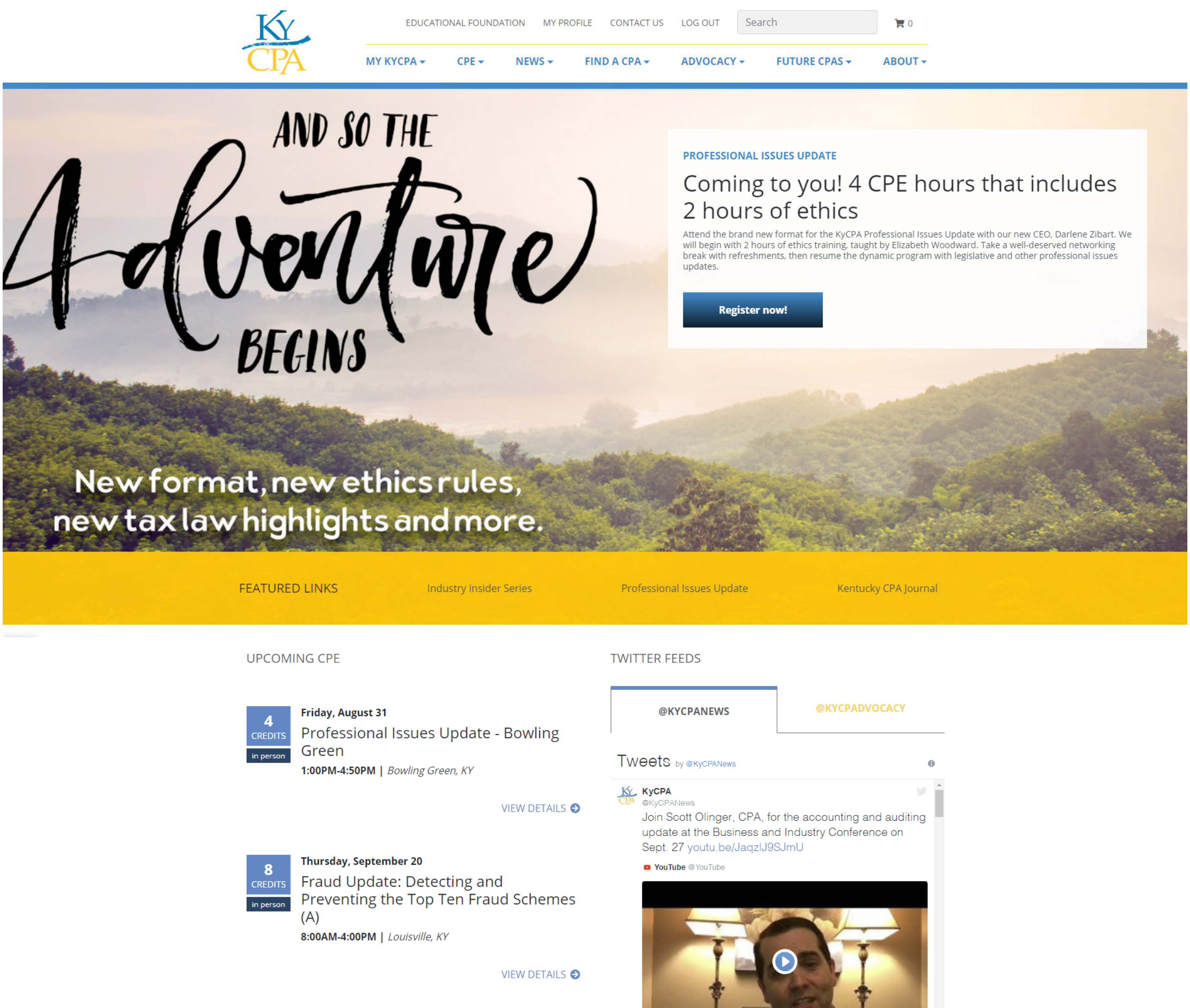
**MCM CPAs & Advisors LLP:**

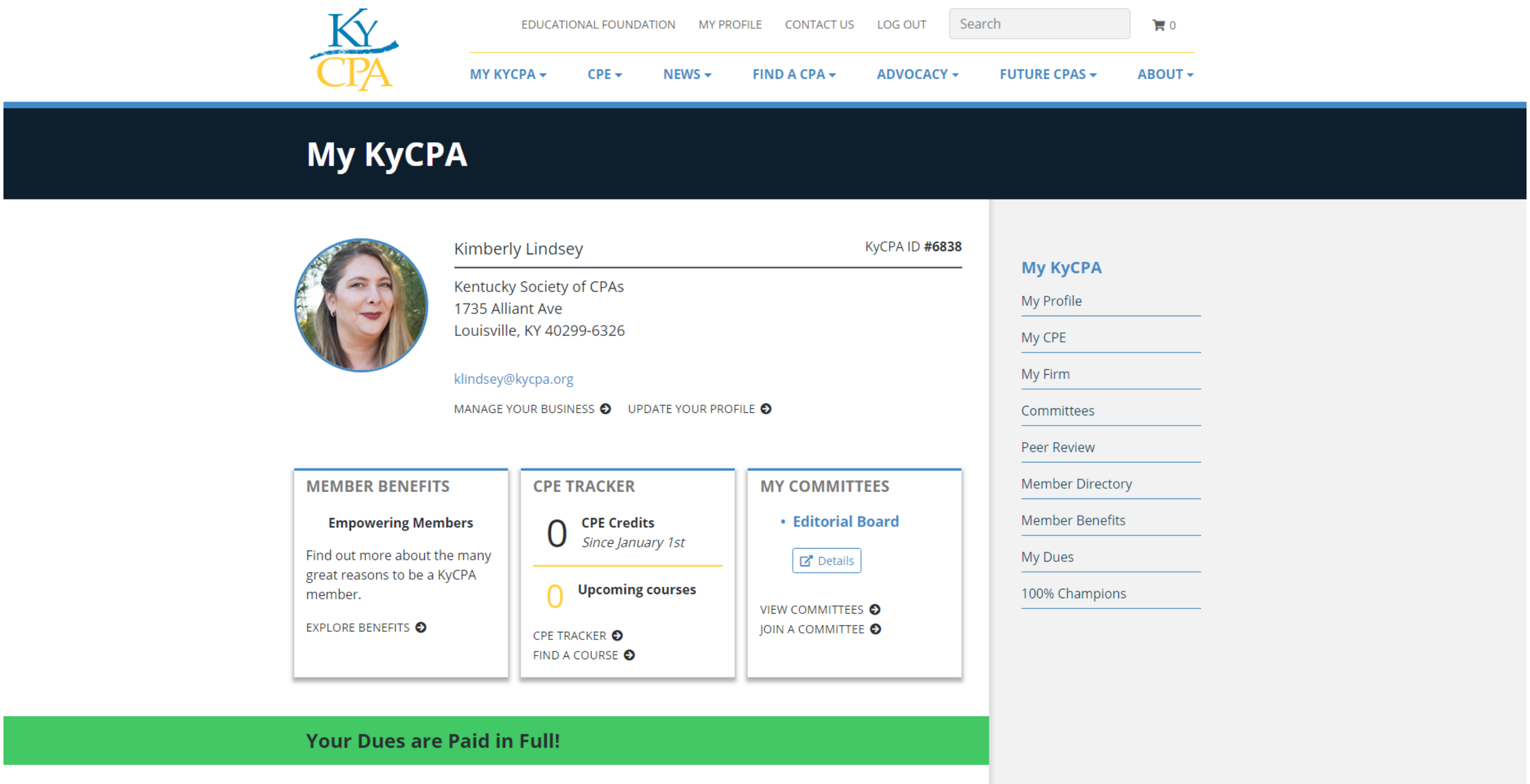
**Brad Smith, CPA** recently named managing partner.

# Introducing the new kycpa.org

First time logging in on the new site? You'll need to reset your password in order to generate a secure login.
If you and another member currently share an email address, please contact the society at 502.266.5272.

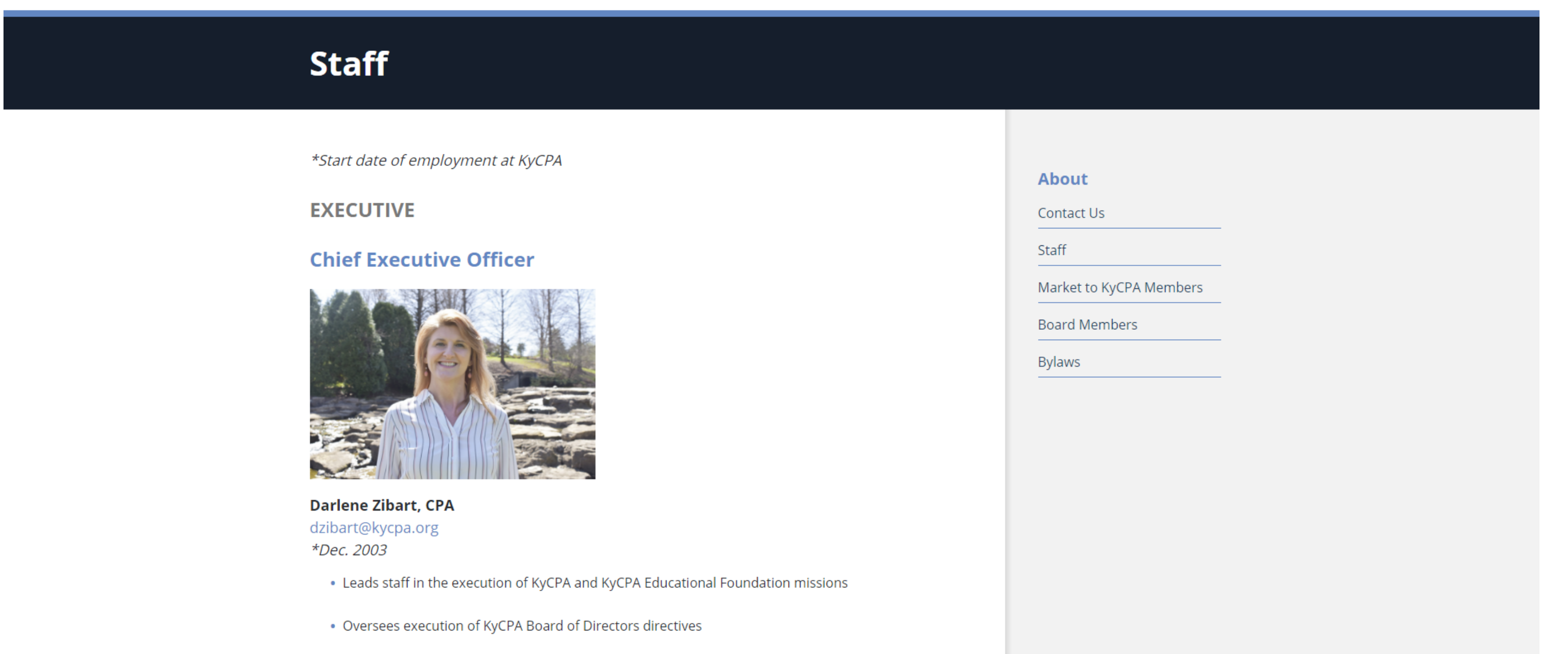





Check it out, you may upload your professional picture under "My Profile" in the "My KyCPA" section. You may also find your CPE tracker and additional personalized information.

Visit the KyCPA staff page to put a face to a name. Staff responsibilities are included so you may contact them for more information or questions on specific topics.



**Kentucky Society**
**Certified Public Accountants**

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