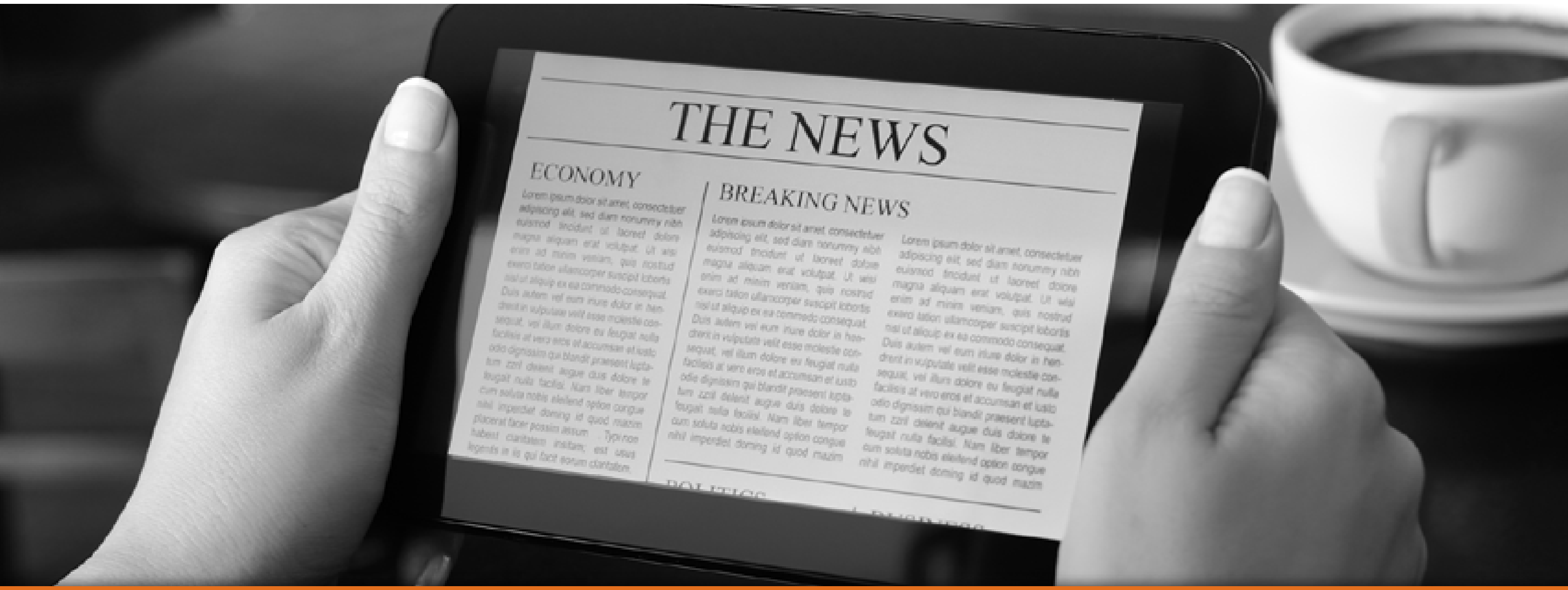
HOWARD



HOWARD ANNUAL UPDATE

2019

To Our Clients and Friends:

It seems every news cycle in 2019 is consumed in political coverage. While some focused on political news, the financial marketplace news has been generally positive, and the Texas economic outlook has remained strong. Dallas and surrounding communities continue to experience an influx of companies and population growth that is expected to continue for the next 10 years.

During 2019 we also experienced together some of the surprises in new tax provisions, including the challenges of the rules surrounding “Qualified Business Income”. We also prepared for some of the more challenging provisions of new financial accounting and reporting requirements which will change the way we analyze the performance in some industries quite significantly. This stressed the importance of advance preparation to best address and utilize new laws and provisions.

The firm also experienced growth during 2019. We continued to expand our tax advisory practice and our audit practice, including forensic and litigation support. We added professionals in each of our service lines to ensure our ability to be responsive and focus on preparing our clients for continued success. While economic fluctuations are inevitable, we are keenly focused on readying our clients for every twist and turn and welcome the opportunity to be your trusted advisors in 2020.

Contents

TAX PLANNING

The 2019 income tax season was unlike any other, the most frequent word used to describe it was "challenging". The Tax Cuts and Jobs Act (TCJA), signed into law effective for the calendar year 2018, contained several surprises for both CPAs and taxpayers, and very little guidance from the IRS. The new law was the most sweeping tax change since 1986.

With complexity always comes opportunity. 2019 was full of opportunity! Right now, we are busy adjusting tax planning and guidance to strengthen our clients' approaches. We'd like to share some of our experiences from the 2019 tax season in order to assist in the preparation for the upcoming year.

The biggest area that caused additional complexity, and more importantly, planning opportunities related to the new Qualified Business Income (QBI) deduction. The QBI deduction allows up to a 20% deduction on qualifying pass-through income. If you are in the 37% tax bracket, this deduction essentially lowers your effective tax down to 29.6%. This deduction was limited to certain types of entities and contained several phase-out provisions. Early in the tax season, there was some confusion as to who qualified, what income would be included, and how the deduction would be calculated across entity types. We eventually received guidance from the IRS allowing us to start tailoring plans for our clients to maximize this incredible tax benefit.

The QBI deduction was not the only part of the TCJA that we lacked guidance on. The IRS issued an announcement in September that they will need congress to make a technical correction on the adjusted Bonus Depreciation rules as they apply to tenant improvements and restaurant equipment. This is an area that will have a direct impact on our real estate and restaurant clients. We had hoped the IRS would issue a pronouncement earlier in the year providing details on how to handle these items for depreciation purposes, but it doesn't look like that will be the case. We are also still waiting on the IRS to publish rules and regulations related to the Carried Interest, which will also affect many of our clients.

With the new law, there were several new questions we had to ask, documentation we were required to complete, and complicated new calculations we had to perform that were not previously required. A few of the areas that changed from prior years include:

- Reporting information required for K-1s related to Qualified Business Income, negative tax basis, and recourse debt obligations
- Small business exemptions from Section 163(j) business interest limitations
- Aggregation requirements for testing the eligibility for small business treatment
- International reporting requirements
- Conformity (or lack thereof) of state tax requirements to the new tax law
- Limitation of state and local tax deductions on personal returns ($10,000)
- Businesses and not-for-profits with employees that provide qualified transportation and parking for the limitation on fringe benefits

(continued on page 4)

FINANCIAL ACCOUNTING UPDATE

In efforts to improve comparability and economic reality, there has been some movement on financial accounting during 2019.

Leases: The adjustments to lease accounting place substantially all leases, including real estate, on the balance sheet and were set to take effect for calendar 2019 financial reporting. A one-year reprieve was granted to non-publicly traded entities. While the new lease accounting standard does improve comparability of public companies, its benefits to non-public entities are hotly debated. There are some that are hoping for an indefinite deferral of the effective date; however, there are not any indications that an additional deferral of the effective date will occur. This standard will be of particular interest to privately owned companies whose owners separately own real estate that is leased to an operating entity.

Revenues: There is no indication of any delays forthcoming or will be necessary for the new revenue recognition requirements, which were set to take effect for calendar 2019 financial reporting for non-public companies. Considerations substantially surround determinations of performance obligations and will alter the timing of the recognition of some revenues. Some obvious challenging considerations surrounding long-term contracts will occur; however, certain member-based exempt organizations will need to determine whether a portion of membership dues is attributable to specific performance obligations, such as providing continuing education.

Other Updates: The were several other considerations for 2019, including:

- Exempt organizations that maintain collections (such as art) must disclose how proceeds from disposal of the collections will be used and, if the proceeds can be used for “direct care”, that term must be defined.
- Exempt organizations are now permitted to amortize goodwill over 10 years (unless a shorter period can be demonstrated) and customer-related intangibles that cannot be separately sold should be subsumed into goodwill.
- Share-based compensation issued to a customer as satisfaction or reduction in a transaction price must be recognized at the grant-date fair value.

Fraud: The Association of Certified Fraud Examiners performs an annual study to measure the extent of fraud in organizations. The consistent estimate is that 60% of organizations experience fraud each year. The magnitude of this fraud varies wildly; however, with the economic climate in Texas, the growth-focus of owners in a beneficial climate often results in the best condition for fraud to occur. There are three primary elements of fraud: rationalization, pressure, and opportunity. If your organization has not undergone an audit or a review of its internal controls in recent years, we strongly recommend such. The cost of fraud prevention is insignificant compared to the cost of fraud to your organization.

(Tax Planning continued)

All taxpayers want simplification of the tax code, and unfortunately, the new tax law does not meet this desire! No doubt, our clients and friends felt the impact of the challenges above. We must now adjust our tax planning approach to ensure compliance with the multiple new laws for both personal and business taxes.

In addition to the 2018 tax law changes, there are two large changes for the 2019 tax year taxpayers should be aware of when planning.

For legal divorces and separations effective AFTER 12/31/18, alimony payments are no longer deductible to the payer or taxable to the recipient. Alimony for divorces and separations BEFORE 1/1/19 are still deductible and taxable in the same way as previous years.

Also, starting in 2019, there is no longer a penalty to taxpayers who are not covered by health insurance for all 12 months of the year. However, some states still enact this penalty. These states include Massachusetts, New Jersey, and Washington DC for tax year 2019, and Vermont's penalty goes in effect for the 2020 tax year.

2020 TAX DEADLINES

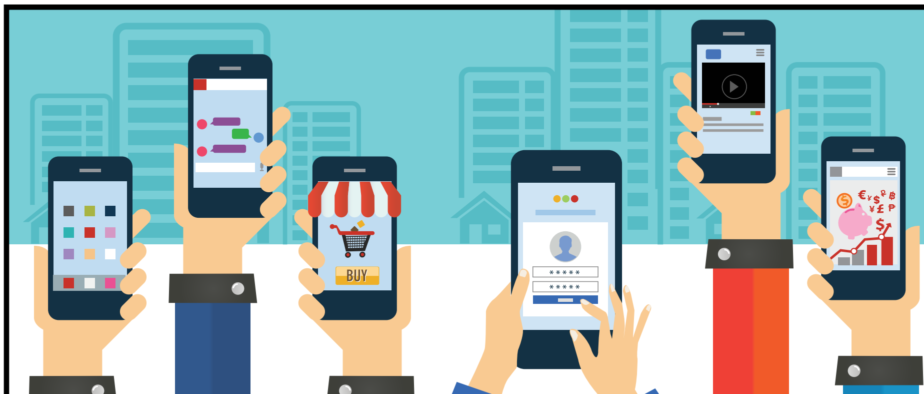
Individual Returns:
April 15, 2020
Extended to October 15, 2020

Partnership Returns:
March 16, 2020
Extended to September 15, 2020

Trust and Estate Income Tax Returns:
April 15, 2020
Extended to September 30, 2020

C Corporation Returns:
April 15, 2020
Extended to October 15, 2020

S Corporation Returns:
March 16, 2020
Extended to September 15, 2020



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