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Emerging Accounting and HR Issues

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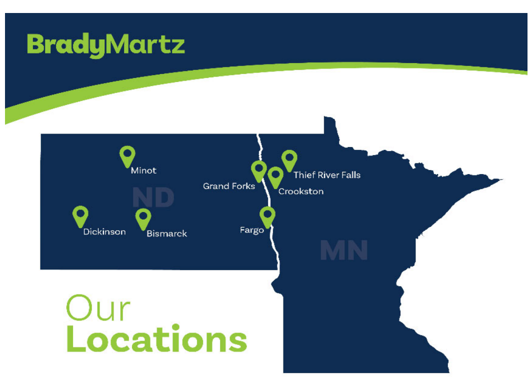
Regional Office Locations

Brady Martz is a regional public accounting firm with office locations throughout North Dakota and Northwestern Minnesota



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Emerging Issues in Accounting

- ERTC Credits
- Tax Law Changes, Regulatory Changes, and New Accounting Standards
- Automated Accounting Processes
- Role of AI
- Upskilling
- Cloud based accounting and the rise of accounting solutions
- Data Analytics
- Big Data
- Remote Working
- Expense Management
- Cash Flow and Financial Forecasts

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ERTC: What Is It And Why Do We Care?

- CARES Act March 2020
  - Let's get it done on the 941
  - PPP? No ERTC for you!
- Consolidated Appropriations Act December 2020
  - 2021 extension and guidelines
  - 2020 changes – PPP and ERTC together at last
- American Rescue Plan March 2021 – Keep the good time going

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Cares Act created the ERTC

- The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law on March 27, 2020.
- Among the many tax deductions and credits included in the CARES Act was the ERTC.
- The ERTC is a refundable payroll tax credit for retaining employees and continuing to pay compensation to them.
- The credit is fully refundable because the Eligible Employer may get a refund if the amount of the credit is more than certain federal employment taxes the Eligible Employer owes.

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Who is eligible?

- Employers that carry on a trade or business during calendar year 2020, including tax-exempt organizations, that EITHER:
  - Fully or partially suspend operations during any calendar quarter in 2020 due to orders from a governmental authority limiting commerce, travel, or group meetings due to COVID-19; or
  - Experience a significant decline in gross receipts during the calendar quarter (50% reduction for 2020).
- Available to employers of any size. The size of the employer (number of FT employees, based on ACA definition of 130hrs per month) will determine the amount of eligible wages.
- Companies are aggregated and treated as a single employer for full or partial suspension, 100 employees, and significant decline

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What is a full or partial suspension?

- Trade or business is partially suspended if:
  - An appropriate governmental authority imposes restrictions on the employer's operations
  - The orders limit commerce, travel or group meetings due to COVID-19 and
  - The orders nominally affect an employer's typical operations.
- All three of the above tests must be met.

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Gross Receipts

- "Gross receipts" has the same meaning as when used under Section 448(c).
  - Receipts include total sales (less returns and allowances) and income from services provided
  - Receipts also include interest, dividends, rents and royalties and sale of assets
  - Gross receipts are not reduced by COGS.

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What is a significant decline in gross receipts?

- Significant decline in gross receipts is calculated by determining the first calendar quarter in 2020 (if any) in which an **employer's gross receipts are less than 50% of its gross receipts for same calendar quarter in 2019**. If the gross receipts drop by more than 50%, you count that quarter as a quarter eligible for the credit.
- Each quarter in 2020 after that counts as a significant decline until the end of the first quarter in which gross receipts are greater than 80% of its gross receipts for the same calendar quarter in 2020.

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What is a significant decline in gross receipts?

Example: In each quarter of 2019, Business A had gross receipts of $1,000,000. In 2020, Business A's gross receipts by quarter were:

Quarter:	1Q 2020	2Q 2020	3Q 2020	4Q 2020
Gross Receipts:	$450,000	$200,000	$825,000	$900,000
% of 2019	45%	20%	82.5%	90%
Qualifies	Yes	Yes	Yes	No

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What are qualified wages?

- Wages (as defined in Section 3121(a)) and compensation (as defined in 3231(e)) paid by an Eligible Employer.
- Qualified wages include qualified health plan expenses that are properly allocable to the wages.
- Qualified wages are capped for each employee at $10,000 TOTAL, for all quarters (for 2020).
- For "large" employers (to be defined later), wages cannot exceed the amount the employee would have been paid for working the same duration during the 30 days preceding the period.

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Differences in qualified wages for large vs small

- Large Employers:
  - Wages are those paid to an employee for a quarter even though the employee is not providing services because of either business suspension or the gross receipts condition.
- Small Employers
  - All wages paid to the employee regardless of whether the employee ceased providing services
- For both types qualified wages do not include qualified leave wages required to be paid under the FFCRA.

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Calculating the credit

- Effective from March 13 to Dec. 31, 2020, the amount of the ERTC available for a quarter generally is equal to:
  - One-half of the qualified wages that the employer paid to employees for that quarter, but is limited on a calendar year 2020 basis
  - Up to $10,000 in qualified wages paid per employee during the whole period from March 13 to Dec. 31, 2020 can be taken into account for determining the total amount of the ERTC across the four quarters of 2020 (so the maximum employee retention credit per employee for 2020 is $5,000).

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Claiming the credit

- Credit is claimed on the 941 as a credit to required payroll deposits
- Reduces the deductible wage expense on income tax returns
- Generally 2-3 years to amend the 941 (form 941x)

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Changes in 2021

- In 2021 the following changes were made
  - Extended credit to June 30, 2021 (and subsequently to all of 2021)
  - Credit increased from 50% to 70%
  - $10,000 wage cap is now **per quarter** not per year (now $7,000 potential credit per employee per quarter)
  - Gross receipts test is modified
    - 20% reduction in gross revenues for 2021 quarters, not 50%
    - Compared to same Q in 2019 or can use previous quarter
  - Small employer is now 500 employees, not 100
- New Infrastructure Bill changes
  - Ends at Q3 2021, except for "recovery startup businesses" (started during the pandemic after Feb 15, 2020, gross receipts not over $1M)
  - These businesses can take part in Q3 and Q4 2021
  - Credit cannot exceed $50k per quarter

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Employee Retention Credit Overview

	2020	2021
What is it?	50% payroll credit up to $10,000 of wages per employee	70% payroll credit up to $10,000 of wages per quarter per employee
Who is eligible?	Fully or partially impacted by a government order limiting commerce, travel or group meetings OR	
	50% decline in gross receipts compared to same quarter in 2019	20% decline in gross receipts compared to same quarter in 2019
What are qualified wages?	>100 full-time employees in 2019: Wages/healthcare expenses attributable to time NOT working	>500 full-time employees in 2019: Wages/healthcare expenses attributable to time NOT working
	</ 100 full-time employees in 2019: ALL wages/healthcare expenses paid	</ 500 full-time employees in 2019: ALL wages/healthcare expenses paid

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Interplay with PPP

- How does a company maximize ERTC
  - Use a shorter covered period for PPP forgiveness
  - Maximize non payroll costs for PPP.
  - Capture excess compensation above PPP limit for ERTC
  - Maximize payroll costs that qualify for PPP that do not apply for ERTC
- Other contradictory credits in play as well
  - R&D
  - Active Duty Employees Credit
  - FFCRA
  - Empowerment Zone Employment Credit
  - Work Opportunity Tax Credit

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Tax law, regulatory changes, and new accounting standards

- **5,593 page Consolidated Appropriations Act**
  - **Tax extenders**
  - **PPP deductibility**
  - **2nd draw PPP**
- **Tax changes on top of mind, understanding tax liability and shifting tariff policies**
- **Potential new tax law changes coming up**
- **New revenue recognition standards and standards for lease accounting**
- **Dates have shifted and new implementations are on the horizon**
- **Potential new stimulus packages bring more changes**

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Automated Accounting Processes

- This is a key trend in the industry
- Eliminates confusion and minimized errors
- Process relies heavily on computers, so may increase the risk of fraud or compromised security
- Aims to guide business in arriving at data driven decisions quickly and accurately

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The Role of AI

- Artificial Intelligence is producing many positives
- Can analyze large volumes of data at high speed
- Increased productivity
- Generates more accurate data at a reduces cost
- Optimized administrative and data entry tasks
- Increase in BOT and RPA technologies that are scalable for organizations of all sizes.
- 66% of accountants will invest in AI in the next 2 years
- Majority of accountants feel AI can improve their overall efficiency and happiness

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The Role of AI (contd)

- Positives
  - Can address labor shortages
  - Can lead to more insightful data
  - Delivers insightful data
- Negatives
  - Accountants will need to develop different skills
  - Initial upfront costs and training
  - Overall "fear factor"

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Upskilling

- As automation increases, staffing needs will change
- Learning new skills and expertise to leverage the outputs of technology
- Important to learn more and become an expert in
  - Cloud based payroll
  - HRIS systems
  - ERP systems
  - Financial modeling and forecasting
- Soft skills will become more important as well
  - Ability to work independently
  - Different makeups of teams with remote working
  - Need for multiple types of communication skills
- Being efficient at all of these as an organization is shown to boost employee morale.

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Cloud based accounting

- Becoming a popular place for accounting services
- Companies are able to access their system and data at any time
- Helps with the transition to remote work
- Can also help tracking inventory, sales, expenses
- Also "niche" technologies for bill pay, inventory, etc
- Ability to connect systems together
- Allow for the creation of workflows
  - Leads to time savings
- 67% of accountants believe that cloud technology can make their roles easy

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Rise of Accounting Software

- As the need for cloud based solutions intensifies, more and more are entering the market
- Built specifically with the accountant in mind
- Optimizes processes and minimizes manual tasks
- Strong demand for platforms that manages the GL and gives a better understanding of tax management
- Popular solutions include Sage Intacct, NetSuite, Gusto, Bill.com

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Data Analytics

- As technology allows accounting tasks to become easier, the industry is quickly shifting to data analytics
- Accountants becoming advisors
- Need unique skills to analyze data
- Find valuable insights
- Identify process improvements
- Increase efficiency
- Risk management
- Cloud technology has made data analytics more real time and automated
- Use cases in tax, consulting , risk management, internal audit

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Big Data

- Byproduct of data analytics
- Plays a large role across many sectors, and is becoming increasingly popular in the accounting industry.
- Supports companies through expanded assessment methods
- Identify which collected data is the most valuable
  - Turn this into valuable insights
    - Understand your customers
    - Understand your transactions
    - Pre-empt customer demand
    - Drive the customer experience

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Remote Working

- Unemployment is roughly 3% less in finance and accounting vs the national rate
- Companies are having a hard time finding and retaining top talent
- Candidates are not able to dictate more terms of their employment
- Accounting leaders are now adapting to the trend of remote work
- 85% of firms are very likely to let employees work remotely
- Seeing similar trends across our client base
- Made more possible with technology
  - Cloud based tools
  - Zoom, Teams, Etc.
- Burnout
  - The ability to work anywhere makes it hard to really take time off

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Expense Management

- Travel spend decreased by 77% form 2019 to 2020.
- Spend risk was three times higher in 2020 vs 2019
- Fraud activity in expense reporting increased by 57% from Q2 to Q3 2020 alone
- The increase of remote employees brings new expense management challenges
- New remote employees have technology needs
  - Caused a number to take advantage
- Update your expense policy
  - Focus on allowable home office expenses
  - Check internal controls
- Automate expense management process with technology
  - Expensify

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Cash flow and Forecasts

- Economic hardship tends to move companies to cost containment
- Deferring planned investments
- Studies showing companies have switched focus from EBIT to cash
- Led to additional cash management needs
- Companies are confident in generating additional revenues in 2021 going forward
- Improving the efficiency of AR and AP ensures steady cash flow
- Other metrics to look at
  - Expenses
  - Past due invoices
  - Operating cash flow
- Generate and track cash reports daily to start to learn trends

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Cash flow and Forecasts (contd)

- Conditions created by the pandemic made accurate financial forecasting challenging, and more important than ever
- Business leaders should look at different possible scenarios
- Re examine forecasts of expenses, cash, and sales
- Try to understand all the inputs and try different assumptions
- Model cash flow
- Burn rate
- Liquidity
- Things can change very quickly
  - It is important to have access to real time analytics

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Emerging HR Issues

- COVID-19 Vaccination and Testing ETS
- 6 Ways COVID-19 Will Change The Workplace Forever
- Employee vs. Independent Contractor
- Employee Well-Being
- HR Jobs of the Future

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COVID-19 Vaccination and Testing ETS

- OSHA Emergency Temporary Standard published November 5, 2021
  - Applies to private employers with 100 or more employees firm or corporate-wide
- DOL has provided a sample policy
- OSHA Fact Sheet available
- US Court of Appeals for the Fifth Circuit granted a motion to stay – stay tuned for the progress of this litigation

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6 Ways COVID-19 Will Change the Workplace Forever

- Corporate Flexibility
  - People quickly figured out how to work from home
  - WFH will remain popular – the new normal
  - A hybrid approach
  - Gallup poll revealed 54% of US workers would leave their current job for one that allowed to WFH

https://www.forbes.com/sites/williamarruda/2020/05/07/6-ways-covid-19-will-change-the-workplace-forever/?sh=2c64dead323e

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6 Ways COVID-19 Will Change the Workplace Forever

- Headquarters 2.0
  - Corporate office will look and operate differently
  - More focus on interaction and community than about heads-down focus
  - Conference rooms and meeting spaces will foster this community feel
  - Take advantage of the time talent is in one place
  - COVID-19 has made us appreciate interactions more than ever

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6 Ways COVID-19 Will Change the Workplace Forever

- Work-ready Homes
  - Many people found WFH to be a challenge because they didn't have the ideal space
  - One of the biggest challenges people experienced was internet performance
  - Internet in homes will improve
  - WFH considerations will be a top priority for many when building or remodeling

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6 Ways COVID-19 Will Change the Workplace Forever

- E-learning for Everyone
  - Learning is front and center
  - Upskilling and right skilling are essential for innovation and strategic advantage
  - Companies will ramp up their e-learning platforms

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6 Ways COVID-19 Will Change the Workplace Forever

- Business Attire is Retiring
  - We got comfortable getting comfortable
  - The trend toward casual attire will accelerate quickly
  - Dress for Your Day policies
  - People in tech have been wearing shorts and flip flops for decades

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6 Ways COVID-19 Will Change the Workplace Forever

- Video Virtuosos
  - Zoom, WebEx, Hangouts, Skype and others made the grand WFH experiment possible
  - Most people got used to video overnight and it's not going away
  - This new corporate world has made us value our organic, non-robotic humanity ever than before

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Employee v. Independent Contractor

- IRS Guidelines to assist with the determination
- It is critical that business owners correctly determine whether the individuals providing services are employees or independent contractors
- Facts fall into 3 categories
  - Behavioral
  - Financial
  - Type of Relationship
- There is no 'magic' or set number of factors that 'makes' the worker an employee or independent contractor
- The key is to look at the entire relationship

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Employee Well-Being

- COVID-19 has had a profound impact on the mental health and well-being of many employees
- 43% of employees PayChex surveyed said their mental health is worse now than prior to COVID-19
- More than a third reported increased anxiety
- Other issues include depression, lack of motivation, reduced focus, insomnia and an increase in alcohol consumption or substance abuse
- 8 out of 10 employees surveyed said it's important that employers support both their physical and mental health
- 60% said they would be more apt to work for a company programs
- 40% said their organization has failed in that regard

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Employee Well-Being

- Employers are coping with challenges such as workplace safety and keeping their business up and running
- They need a workforce that is stable, energetic and focused
- Investing in employee mental health and wellness programs may help businesses move forward as we adapt to our new work normal

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Employee Well-Being

- Mental health issues take a toll on businesses
  - Decreased productivity
  - Absenteeism
  - High turnover
  - Lower team morale
  - Increased potential for errors
  - Loss of customers
  - Higher healthcare costs

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Employee Well-Being

- PayChex survey showed a gap in perception between employers and employees about mental health
- Employers may simply not be aware of issues because employees are not reporting them
- Focusing on mental health and well-being could improve reporting
- Only 26% of principals surveyed have a way to measure mental health
- Some employers surveyed said employee mental health is more important than other critical business concerns

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Employee Well-Being

- Six Tactics to Help You Create a Mentally Healthy Workplace
  - Offer an EAP
  - Communicate and check in
  - Provide education
  - Offer a rich mix of benefits
  - Adapt HR technology that makes work more meaningful
  - Make data-driven decisions

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HR Jobs of the Future

- HR Data Detective
- WFH Facilitator
- Strategic HR Business Continuity Director
- Algorithm Bias Auditor
- Human Bias Officer
- Future of Work Leader
- Human-Machine Teaming Manager
- Director of Well-Being

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