

CONNECTION

WINTER 2016

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Join us for the NH Society of CPAs

Annual Meeting & Recognition Reception

May 12, 2016

5:00 – 7:00 PM

Derryfield Country Club, Manchester, NH

AGENDA

- ELECTION OF OFFICERS AND DIRECTORS FOR FY 2016/2017
 - PAST PRESIDENTS' RECOGNITION
 - SPECIAL RECOGNITION AWARDS
 - SCHOLARSHIP AWARDS

REPORT OF THE NOMINATIONS COMMITTEE

The Nominations Committee, as prescribed by the Bylaws, submitted their report and recommends the following fellow members for officers' and directors' positions.

Nominations as Officers

President-Elect
Kendra Bell, CPA

Treasurer
Evan Stowell, CPA

Secretary
Edward C. David, CPA

Director
David E. Barradale, CPA, Esq.

Nominations to the Board of Directors

For a Three-Year Term (5/1/2016-4/30/2019)

Jason E. Cole, CPA
Kelli D'Amore, CPA
Jason D. Houston, CPA
Kerrin A. Rounds, CPA
Ryan T. Warren, CPA

Linda M. Engstrand, CPA, was nominated as President-elect in 2015 and assumes the position of President of the New Hampshire Society of CPAs on May 1, 2016.

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CPE & Events Manager
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Change



Robert S. Smalley, CPA
2015-2016 NHSCPA President

I saw a facebook post recently that said "There is nothing permanent except change". One of many memes I have seen over the last year posted by well-meaning aspiring "life coach friends" aimed at broadening my perspective and make me feel different about things. It didn't. The truth is most of the time I hate change. I think most CPAs can be that way. In fact, I have had a lot of success in life by finding something great and sticking to it. My wife is a great example of that.

The problem for me and people like me, is that we are in a time of great change. Some good changes...some bad... It is all about perspective I guess. Take retirees for example. While they are off enjoying some well-earned time on the beaches of south Florida, the hole left by their departure can often be wide and deep.

This is certainly true of our CEO, Marlene Gazda. For years, Marlene has been our fearless leader. Our guiding force. In my time on the board as well as my time as President of the Society, I have gotten to know Marlene personally. She is a woman of great character and an overwhelming sense of caring. Most who have spent any time with her will also tell you that while slight in frame, inside beats the heart of a lion, certainly one of the strongest women I have ever known. Overcoming personal adversity at a young age, she went on to lead our organization with the utmost integrity for over 33 years. In the coming months we will be celebrating those years of outstanding stewardship.

Today the society stands at a challenging point in its history. A large number of you are starting think about life after accounting. At the same time, we are challenged to continue to provide great CPE in new and inventive ways. Because of Marlene's leadership, we are in a strong position to face these challenges. Our balance sheet is healthy, a fact that is not true for all state societies. Our membership is committed and our board is nimble and ready to change direction as needed. I am confident about our future.

As Marlene prepares to step down from her post early this summer, we will truly witness the end of an era. While efforts are already underway to find that suitable replacement, when the time comes, in my heart I won't be ready for the change. I never am.

Marlene Gazda, Chief Executive Officer of the New Hampshire Society of CPAs, Announces her Retirement



Marlene Gazda, who, for most of us, is the only leader we have known here at the Society, has announced her retirement effective as of June 2016, after 33 years of dedicated service to the Society, its members and the accounting profession in New Hampshire.

We are planning to hold an event in honor of Ms. Gazda to be held this spring and additional information will be posted here on the Society's website as plans firm up.

The President of the NHSCPA Board of Directors, Robert Smalley, CPA, has appointed a Search Committee headed by Steven M. Burke, CPA, Esq., Past President of the NHSCPA Board, to search for Ms. Gazda's replacement. Resumes and letters of interest may be submitted to the Search Committee at a private email address created for this purpose at: ceosearchcommittee@nhscpa.org by March 15, 2016. All applications will be treated as strictly confidential.

Click [here](#) to view Candidate Attributes & Job Description.

PERMANENT NEW TAX RULES

EXPLORE THE OPPORTUNITIES

The Permanent R&D Tax Credit provides opportunities to qualifying clients due to the extension for 2015 and beyond, but there are also additional provisions that offer new ways in which your clients can utilize this tax credit. For instance, start-ups and small businesses will see a greater benefit of the R&D tax credit beginning in 2016.



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Brazee & Huban (MA)

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Kirk Leoni, Managing Partner
Nathan & Wechsler Co., PA (NH)

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5th Annual Business Partners' Wine Tasting Event

On Thursday, December 3rd at the Derryfield Country Club, CPAs, business partners, attorneys, estate planners gathered together for an evening of networking, beer and wine tasting.



**SAVE THE DATE FOR THE NEXT
BUSINESS PARTNERS'
BEER & WINE TASTING EVENT**

Thursday, December 1, 2016
Derryfield Country Club, Manchester, NH

Legislative Update

By Joel C. Olbricht, CPA, Tax & Legislation Committee

I would like to let you know about the value of your membership in the NHSCPA and our tax legislation advocacy in Concord. The Tax & Legislation Committee of the NHSCPA is very active this year in supporting and opposing legislation. We also support working collaboratively with the NH DRA (Department of Revenue Administration), on state taxation issues. This is really satisfying and compelling work - because it is our state tax system. All our efforts get results.

The short list of legislation that we are following and actively lobbying on are SB 239, SB 342 and HB 1385, HB 1443, and SB 343. We work with our lobbyist Teresa Rosenberger from Devine Strategies.

SB 239 is a bill directly pushed by the NHSCPAs. This bill has now passed the Senate and will move on to the House. This bill brings NH into the current Internal Revenue Code (IRC) of 2016 and every amendment of the IRC thereafter. This is a big positive step. This gets NH from using the IRC of 2000 to IRC of 2016. The bill also sets only three decoupled IRC sections 168K (bonus depreciation), 179 (Asset Expensing), and 199 (Domestic Production Deduction).

SB 342 and HB 1385 and complimentary bills deal with the issues of the NH taxation of step up for assets in capital transactions (remember the headlines around the Planet Fitness tax issues?). The bills are different in approach but accomplish the same goal. We are supportive of this issue and are working hard to get a bill passed. We believe that NH should not tax step ups, unless the taxpayer makes an election to do that purposely.

HB 1443 is a bill to change the burden of proof in reasonable compensation from the DRA and move this back to the taxpayer. The NHSCPA is opposed to this. If the IRS has burden of proof in federal reasonable comp cases, then the State of NH should have that

burden. We will maintain a strong voice to oppose this issue in the House and Senate.

We also support SB 343. This is a Study Commission setup to review NH income apportionment. With the changes in Massachusetts and Maine apportionments, NH needs to study if a change is needed, rather than the historic three factor apportionment. If the study Commission legislation passes, we will have a seat on the Commission. It has passed the Senate.

We also continue to have quarterly informal meetings with the DRA management. These meetings allow good feedback from the profession and tax administration. Both the DRA, the NHSCPA Tax & Legislation Tax Committee, and the Tax Committee of the NH Bar Association find these meetings to be helpful to all groups and all issues.

The latest discussions and issues are:

Filing Deadline issues - we are supportive of the DRA attempts to change due dates next year to the federal deadlines.

Efile - NH now receives eFile tax returns for NH Interest and Dividends taxes. The DRA hopes to accept corporate tax returns electronically for 2016 forms and are working on these enhancements.

Epay - New this tax season will be the ability for taxpayers to direct checking account debits on amounts due on the NH I&D returns.

We also review new rules, legislation, and judicial cases.

If you have an interest to assist your Society with these issues, join us at the next Tax & Legislation Committee meeting, date TBD. Please join us.



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What are Firms Doing to Cope with Busy Season Getting Busier?

By Don Cook

The issue of busy season getting busier with the compression of tax season is one that has increased substantially in recent years for a number of reasons, including:

- More investments made in hedge funds and other vehicles that require K-1s which tend to arrive in the later part of tax season.
- Brokerage firms that continue to send out Form 1099s later into tax season (some as late as March this last tax season).
- Congress passing tax bills in December and as late as January. Most notably the tax extenders package, which includes the renewal of over 50 tax credits (including the R&D Tax Credit).
- Additional time required to be spent learning the changes and trying to update tax planning for clients. In addition, it delays the time the software companies can have their tax preparation software updated and many states, such as Georgia, will then adopt some of these changes as late as the middle of March (has happened as late as May).
- The move over the last 25 years of many corporate clients changing their year-end to December has shifted their tax and audit work right into the middle of tax season.

Firms large and small are grappling with this issue of tax season compression, and it affects not just those CPAs practicing in tax. It has a ripple effect in firms and begins to affect audit departments and even those in industry who are working with CPA firms on their tax and audit work. Firms are finding there is not just a single solution to this issue, but that by looking at a more holistic approach to compression and making a number

of changes, the overall burden can at the very least be eased.

The Georgia Society of CPAs had the opportunity to sit down with a few CPA firms throughout the state to find out what best practices they are utilizing to ease the burden of tax season getting busier with the compression of tax season. Here's what the firms had to say.

Staffing/Balancing the Workload

"We made it a priority [and have had some success] to obtain other work outside of tax season. Examples of this type of work include landing audits of Employee Benefit Plans, nonprofits, and governmental agencies. This type of work tends to be more focused in the summer and fall and can help firms balance their staff work schedules a little better throughout the year." Ron Thomas, tax partner, Robinson Grimes.

- Better sharing of staff and better scheduling tools. For some firms this could include having staff meetings every Monday morning from February 1 to April 15 to help identify bottlenecks and smooth out workloads. For other firms this could entail incorporating firm wide scheduling software so department partners can see who is busy doing each task.
- Utilization of interns during tax season to assist in preparing tax returns, even during the summer to keep projects moving when staff are fitting in vacations.
- Have audit departments work with clients to move audit work normally performed in tax season back to the fall.
- Have tax staff look at extending a greater number of tax returns. Some firms extend all gift tax returns until after tax season and some are looking to increase their numbers of extended individual tax returns by 10 percent or more.

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What are Firms Doing...

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- Move the work of extending tax returns in March and April to December, January and February (as much as possible) by making better projections on who should extend.

Meals/Creature Comforts

“One thing we do that I believe staff appreciate is feed them. First, we provide dinner Monday through Thursday evenings starting mid-January through April 15. We have a sign-up sheet and offer a few choices with varying providers – pizza, sandwiches, take-out, home cooking, etc. Starting around mid-March, we

provide the fixings to make sandwiches, salads and desserts on the weekends. And, lastly, for the last five days leading up to April 15, we serve a catered lunch for the entire firm.” Elizabeth Harden, partner, McNair, McLemore, Middlebrooks

- Continuing creature comforts of meals and massages is important to some local firms. They do everything they can to make working late bearable. Meals are provided on a regular basis, massages are provided on occasion, they celebrate birthdays monthly, and much more.

Technology/Speeding Up Workflow

“Everyone has laptops, making it easier to work from home and access the network. This provides some degree of work/life balance. There are days when someone may leave at three or four for a family event, and work in the evening from home. This also allows for more flexibility on the weekends. Our audit department has employed this technique for years. Auditors may not even come in the office during a given week. They just go between their home and the client.” Ron Kelm, tax manager, Warren Averett

- Provide the right tools for job completion to speed up workflow. Some firms ensure their tax department personnel has at least two large monitors and their audit staff is equipped with an additional large monitor in addition to their laptop.
- Provides 24/7 email access on smart phones, which keeps everyone interacting and productive.
- Utilize electronic tax return delivery to clients via a secure portal or Sharefile - no more waiting on the mailing of original documents for original signatures.
- Use software to scan individual client documents. The software organizes the client data by income type (Form 1099-INT, Form 1099-DIV, etc.). Use the technology to populate the return organizer into

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NHSCPA VOLUNTEER OPPORTUNITIES!



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volunteer
opportunities.**

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Please take a look at the committee and task force offerings this year.

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**Join a committee
today!**

What are Firms Doing...

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software, which replaces the need for an individual to input the data. Senior staff can then act as initial reviewers and will make corrections and input data that cannot be automatically 'populated' for the scanned data files – mostly income types that are not reported on government forms and itemized deductions.

Culture

"I would say BT's culture is our strongest strategic advantage we have to facing the increased pressure and demands of a compressed tax season. We have established an environment that supports, encourages, and motivates professionals to serve the client, surpass their expectations, and pass on that culture to them through our work. The tax practitioners can take risks and be innovative or ask for assistance and work collaboratively because we are supportive not competitive. There is a true culture of support and concern for each other here." Jerry Weil, partner, Bennett Thrasher, PC.

- Additionally, firms are increasingly focusing on gathering input on efficiency measures. Their best ideas come from the people doing the work. Having a pipeline to embrace these thoughts is important.
- One firm has gone in a different direction on hours worked and they don't have required office hours on

weekends, although many still do come in the office at least one day on the weekend because unless you have large dual monitors and a docking station at home, it's not as efficient to work at home. We give our staff a chargeable hour expectation and it's up to them how they meet it. A few staff have purchased docking stations and dual monitors for home use at their own cost to allow for more flexibility and full efficiency at home.

Firms have historically grappled with the issues of busy season for many years. Unfortunately, busy season seems to have gotten busier and the time available to get it all done has certainly compressed for many of the reasons mentioned earlier in this article. Firms continue to try new approaches to make things work better for their clients, their staff and the firm as a whole. They will continue to search for ways they can smooth out the work in tax season to make it as palatable as possible.

Don Cook is the vice president of legislative affairs at The Georgia Society of CPAs. He is responsible for legislative advocacy on behalf of the CPA profession in Georgia.

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Online Learning

Looking for alternatives to classroom style programming? Try one or more of the following self-study opportunities.

The NHSCPA offers a variety of ways to meet your CPE requirements. In addition to the many conferences and seminars offered by the NHSCPA, we have partnered with a variety of webcast providers to bring you live, interactive webcasts. Courses range from two to eight credit hours and cover technical and nontechnical skills alike. Learn from the most experienced CPAs across the country, while earning your CPE from the comfort of your home or office.



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MAY - JUNE

DATE	COURSE TITLE	VENDOR	LEVEL				CPE CREDIT							
			Basic	Inter	Adv	Update	AA	MG	Tax	Ethics	Other			
5/24/2016	Executive Education's Annual CFO Spotlight: 4 Select Issues	Executive Education, Inc.				✓								8
5/25/2016	4 Most Overlooked Business Risks: Preparing for the Future	Executive Education, Inc.		✓			8							
6/1/2016	Ethics: A Current Update AM SESSION	Richard DelGaudio, CPA				✓							4	
6/1/2016	Compilation, Review and Preparation Under SSARS 21 PM SESSION	Richard DelGaudio, CPA				✓	4							
6/2/2016	Sweeping Your Workpapers for Landmines: Avoiding Deficient Audits	Surgent McCoy		✓			4							
6/3/2016	A Practical Alternative to GAAP: Simplify Your Reporting by Converting to FRF for SMEs	Surgent McCoy	✓				8							
6/6/2016	AICPA's Becoming an AICPA Peer Review Team or Team Captain: Case Study Application	AICPA		✓			8							
6/9/2016	Not for Profit Conference	NHSCPA				✓	8							
6/13/2016	Engagement Planning and Risk Assessment Activities	Surgent McCoy		✓		✓	8							
6/14/2016	Audits of 401(k) Plans: New Developments and Critical Issues for an Effective and Efficient Audit	Surgent McCoy	✓				8							
6/15-16/16	Accounting & Auditing Update Workshop	AICPA				✓	8							
6/17/2016	Auditing Employee Benefit Plans	AICPA				✓	8							
6/20/2016	Ethics in the Real World: Living Values for Today AM SESSION	Executive Education, Inc.				✓							4	
6/20/2016	Creating the Best Projections You Can: Insights and Techniques PM SESSION	Executive Education, Inc.		✓			8							
6/21/2016	The Strategic CFO: Big Picture Skills	Executive Education, Inc.		✓			8							
6/22/2016	Accounting & Auditing of NPOs - New Guide	Paul Koehler, CPA				✓	8							YB
6/23/2016	Governmental Accounting and Auditing Update	Paul Koehler, CPA				✓	8							YB
6/24/2016	OMB Guidance for Federal Awards	Paul Koehler, CPA				✓	8							YB
6/27/2016	Critical Tax Issues and Planning for Accounting Periods, Methods, Related Party Transactions, and Form 3115	Surgent McCoy		✓								8		
6/28/2016	Advanced Selected Issues for Trusts, Estates and Their Beneficiaries	Surgent McCoy			✓							8		
6/28/2016	New Hampshire Taxation for Businesses and Their Owners KEENE LOCATION	Devine, Millimet & Branch, PA				✓						8		
6/29/2016	Fiduciary Income Tax Returns - Form 1041 Workshop with Filled-In Forms	Surgent McCoy			✓							8		
6/30/2016	K1 Boot Camp for S Corporations and LLCs	Surgent McCoy				✓						8		



CPE TRACKER

Maintain a record of all your CPE credits!

View a complete CPE transcript at anytime during the period and print a final version to attach to the NH Board of Public Accountancy's official form. Call Roberta to walk you through the process at 603-622-1999.

Annual Busy Audit and Tax Season Kickoff

The Young Professionals Committee would like to thank Jason Cole, CPA, Esq. from Devine Millimet & Branch, PA for sponsoring the 8th Annual Busy Audit and Tax Season Kickoff event. CPAs, Attorneys and

business professionals from across the state gathered for one last informal networking event before the traditional "busy season" for the public accounting industry.



2016 Young Professionals Leadership Program

The 2016 Young Professionals Leadership Program will be held this year from August 17-19th at the White Mountain Hotel and Resort in beautiful North Conway. The objective of the Leadership Program is to provide an opportunity for young people in the accounting profession, who have stood out as potential future leaders, to develop and foster the skills that they will need to be strong leaders in the future. The program is focused on training in the areas of leadership, communication, and management skills. Applications will be sent to the firms in late April.

Interested in Joining?

Interested in learning more about what the YP Committee does? Do you have ideas for events and programs that the YP Committee could plan? Come to our next YP Committee meeting in April 21, date TBD. For more information, email Roberta at rdaly@nhscpa.org.

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New Laws That Will Affect How You Do Business

By Patrick C. Closson, Esq. and Charla Bizios Stevens, Esq.

Although the 2015 legislative session was dominated by the budget, the NH Legislature was able to pass several pieces of legislation that impact NH businesses. This legislation falls into five areas:

- Change to business tax law
- Update of securities laws
- Modernization of banking laws
- Business name availability, and
- Laws impacting the employer/employee relationship.

The changes to the NH securities law and banking laws were comprehensive updates of these statutes and modernize the laws related to these two industries. These updates continue the efforts of the past several years to modernize certain key NH business statutes, including the limited liability company statute in 2013 and the business corporation statute in 2014.

The Impact of the Budget Debate

The Legislature spent much of 2015 debating the budget. The initial budget was vetoed by the governor and a compromise was finally reached in early September. The result of the compromise was a reduction to the Business Profits Tax (BPT) and the Business Enterprise Tax (BET) that will be phased in over two periods.

During phase I, for taxable periods ending on or after Dec. 31, 2016, the Business Profits Tax will be reduced from 8.5 percent to 8.2 percent and the Business Enterprise Tax will be reduced from 0.75 percent to 0.72 percent. In phase II, for taxable periods ending on or after December 31, 2018, the BPT rate will be reduced to 7.9 percent and the BET rate will be reduced to 0.675 percent, contingent upon combined unrestricted general and education trust fund revenues of \$4.64 billion being collected during the biennium ending June 30, 2017.

On or about Dec. 31, 2017, the legislative budget assistant will report on whether revenue collections have met the threshold. The Department of Revenue Administration will issue a Technical Information Release at that time advising taxpayers of the applicable BET rate for taxable periods ending on or after Dec. 31, 2018.

Securities

The changes to NH's securities law reflect a comprehensive update and modernization of the securities law. These changes are intended to make it easier for NH businesses to raise capital, without sacrificing any of the protective measures that are necessary to protect the public.

Among the key changes are the increase to the number of investors that may take part in a private offering during a 12-month period to 25. (Prior law limited the number of investors to 10.) The law eliminates the lifetime cap on the number of investors that may take part in private offerings.

The updated law also makes it easier for companies to coordinate the issuance of securities of their company by eliminating the need for the company to register the employees who are facilitating these efforts as issuer-dealer agents. Each of these changes makes it easier for NH companies to raise capital and align NH's securities law with laws in other states.

One additional change included in the updated securities law is the elimination of the use of the form SRA in entity formations in NH. The form SRA was unique to NH in that it required people who were forming entities in the state to certify that they were complying with NH securities law. The elimination of this form will make the process of forming a business entity in NH easier.

Banking

This past year the NH Legislature also passed comprehensive legislation that modernized the state's

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New Laws...

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banking statutes. The updated banking statutes make the process of forming banks and credit unions in NH more efficient. The updated law clarifies and improves corporate governance for banks and credit unions. The bill modernizing NH's banking laws also included several amendments governing trusts in the state.

These improvements include clarifications concerning: the limitation periods applicable to claims against trustees, trust advisors, and trust protectors; non-judicial settlement agreements and the law of settlor intent. For example, the amended RSA 564-B:10-1005(e) clarifies that the three-year limitation period only applies to claims against deceased trustees if the claim has not already been barred by the one year limitation. If either probate or publication has occurred, the one-year limitation period under RSA 556 and RSA 564-B:5-508 will apply. The amended statute provides that a trustee and any other person who has the power to enforce a trust must participate in a nonjudicial settlement agreement.

The changes also include new trust provisions concerning decanting and disclaimers, as well as minor clarifications concerning spendthrift trusts and definitions of commonly-used trust terms. In 2006, NH passed the Trust Modernization and Competitiveness Act that made the state one of the most attractive in the country for trusts. Since the adoption of the Modernization Act in 2006, NH Has seen a proliferation of trust companies formed in the state. The state has continued to revise and improve its trust statutes to maintain its position as a leader in the trust industry. The most recent changes are a continuation of this effort.

Business Name Selection

In 2015 the corporation and limited liability company name selection statutes, NH RSA 293-A:4.01 and 304-C:32, were amended to make it easier to obtain an entity name in NH. This is an area of great frustration for people trying to form entities in NH.

The changes to the name selection statutes removed the clause in the applicable statute prohibiting any

name which would "likely be confused with or mistaken for" another entity's name. Now the only requirement that a person seeking to register a name in NH must meet is that the proposed name be "distinguishable from, and not the same as," another name.

This change will allow people to choose a name without the added hurdle of choosing one that is subjectively distinctive from any other entity name in NH and will greatly reduce an issue that created a significant amount of frustration for people trying to do business in the state.

Use of Electronic Devices While Driving

RSA 265-79-c prohibits NH drivers from using "any hand-held mobile electronic device capable of providing voice or data communication" while driving or while temporarily halted in traffic at a stop sign or red light or any other momentary delay.

"Use" is defined broadly, and includes calls, reading or composing text messages or emails, accessing the Internet, and inputting information into a GPS. Drivers are still permitted to use their devices in emergencies or to call 911, and may use a Bluetooth or other hands-free function to send or receive information while driving, provided that the driver does not have to divert attention from the road ahead.

The exception for hands-free devices only applies to adult drivers, as teens under the age of 18 are not permitted to use electronic devices while driving except to report emergencies. The statute carries fines, which increase for each offense. This legislation is of significance to companies whose employees drive on business. Employers should carefully review and update their cell phone or electronic device policies to confirm the policies are in compliance with this law change.

What Didn't Pass and What Does That Mean?

A bill introduced in the NH House (HB 450) would have established a uniform definition of employee

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PROMOTIONS

Fellow Members, **Alison Perrella, CPA & Lance Turgeon, CPA**, of Howe, Riley & Howe have been promoted to Managing Partners of the firm.

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New Laws...

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(as opposed to independent contractor) at least for purposes of NH's wage and hour, unemployment and worker's compensation laws. The statute would not have radically changed the criteria for employment status but would have clarified the criteria and brought some consistency among the various agencies that address the issue of "misclassification."

Employers should note, however, that the U.S. Department of Labor issued a guidance on the issue on July 15, 2015. The document, entitled The Application of the Fair Labor Standards Act's "Suffer or Permit" Standard in the Identification of Employees Who Are Misclassified as Independent Contractors, summarizes the issue by saying, "The analysis whether the factors are met must focus on whether the worker is economically dependent on the employer or truly in business for him or herself." It concludes with the more ominous statement that "most workers are employees under the FLSA's broad definitions."

Speaking of the FLSA

Perhaps the most significant change employers have to look forward to in 2016 is the new rule proposed by the U.S. Department of Labor regarding the salary basis test that employees must meet in order to be exempt from the minimum wage and overtime requirements of the FLSA.

As usual, businesses need to keep a watchful eye on new legislation and proposed legislation on both the state and federal fronts in order to keep abreast of changes which could significantly impact their companies and the bottom line.

Patrick C. Closson and Charla Bizios Stevens are Directors at McLane Middleton, Professional Association. They can be reached at patrick.closson@mclane.com or charla.stevens@mclane.com. Founded in 1919, McLane Middleton, Professional Association is one of New England's premier full-service law firms with offices in Manchester, Concord and Portsmouth, New Hampshire, and Woburn, Massachusetts.

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What Millennials Really Want in the Workplace

By Ruth Saphian, CPA



There's no doubt that Millennials will play a dominant role in the future of business, comprising approximately one-third of the global workforce currently. As a large employer of recent college graduates, Ernst & Young LLP trends ahead with about two-thirds of its population being Millennials (defined as those between the ages of 18-33). The firm believes it is critical to its success to understand what motivates Millennials and to promote a workplace culture that meets their needs.

In 2013, EY began looking at the shifting generational landscape within the workplace and exploring how companies can maximize performance by actively managing the generational mix. Last year, the firm went deeper and looked at how the wants and needs of employees across generations are evolving over time, especially as more Millennials become managers and parents. This 2014 Global generations survey explored how external factors, such as the economy, travel and child care, affect work life.

The results were compelling and encouraging, and most people would appreciate the workplace of the future that Millennials are seeking. They want a workplace that provides opportunities for flexibility, mobility, and learning and development, and one that provides robust health and wellness benefits.

Of course, understanding what Millennials want is the easy part. Effecting meaningful change is harder. This article highlights programs organizations may consider implementing to help attract and retain Millennials, maximize their performance and build a better workplace for all.

Flexibility

According to EY's 2014 Global generations survey, flexibility and paid parental leave are key to sustainability in this complex, 24/7 working world, and workers want flexibility without penalty. Flexibility was the most important noncash benefit or perk in the workplace, with 18 percent of respondents ranking it first. Equally compelling, 33 percent of Millennials said they would likely walk away from their current job in the absence of day-to-day flexibility.

This is proof that companies should embrace flexibility if they aren't already. What's great is that flexibility can take many forms. It doesn't mean everyone has reduced hours or compressed work weeks. In fact, it may be just the opposite.

At many modern companies, all men and women are encouraged to work flexibly, and flexibility is not limited to working parents. Informal flexibility might mean working from home, as needed, for a home-repair contractor appointment, if children are sick or as schedules allow (to catch up on reading and training), starting work earlier to volunteer at a community event later in the day or leaving at a specific time to attend a school play or a family function.

Providing flexibility enables people to integrate work and life, and paid parental leave is a critical component, particularly for many Millennials who are starting their families. According to EY's study, Millennials highly value paid parental leave and would recommend their current company to others (69 percent), be a more engaged and happier employee (79 percent), be less likely to quit (86 percent), be more likely to join the

[CONTINUED ON PAGE 21 >](#)

Are You a Candidate for a Tax Headache?

Does your investment professional look at your tax return?

Having the wrong advisor during tax season can be a huge headache. If you are not sure whether you have the right advisor or not, please take this quick test to see if you are accurately reviewing all of these opportunities to reduce your tax bill and make filing taxes a smoother process.

Please answer **Yes** or **No** to all of the following questions.

1. Is the tax basis for all of your existing investments listed on your statements?.....YES NO
2. Did your investment professional prepare a full listing for your accountant of all of your completed transactions this past year along with the tax loss or gain?.....YES NO
3. Did your investment professional do a full review of your tax forms and show you how your investments are impacting your tax forms?.....YES NO
4. Did your investment professional review your retirement withdrawal to see if the amount you are taking is appropriate for you?.....YES NO
5. Did your investment professional review any interest you earned this year and the sources of that interest to see whether or not this is the most appropriate place for that money?.....YES NO
6. Did your investment professional take a look at all of your dividends this year and review the appropriateness of those?.....YES NO
7. Did your investment professional offer you a report on the steps investors can take to reduce their taxes?.....YES NO
8. Did your investment professional review item by item your tax returns and your investment statements to determine if your tax plan is coordinated with your investment plan?.....YES NO
9. Does your investment professional consider tax consequences and tax alternatives each and every time they make a recommendation?.....YES NO

If you answered NO to three or more of these questions, then you may not be maximizing your tax strategies and you could be a candidate for a TAX HEADACHE!



How would your investment professional even know what tax impact there might be on any investment recommendations if they don't even look at your tax return? Our goal is to always review and consider tax implications when making decisions for our clients. Visit us at www.gsrpnh.com or

Please call our office at (603) 472-4447 to schedule a complimentary financial check-up to discuss your potential tax headache.

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What Millennials Really Want...

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company (83 percent) and work longer hours (80 percent)—if granted an opportunity for paid parental leave. Take a moment and consider: how might these statistics apply to your team members?

Mobility

Mobility is also important to Millennials because it enhances their global mindset. More racially diverse than any previous generation, Millennials appreciate how interconnected the global business community has become, and many yearn for on-the-job work experiences outside the United States. Providing opportunities for employees to gain work experience overseas teaches them how to work with people who aren't "just like them," gives them an appreciation for different perspectives and enables them to enrich their account teams upon their return.

In response to this increased demand by Millennials, each year, thousands of EY's people participate in global mobility assignments and cross-border engagements, and many more work on virtual teams spanning the globe. While not every company can mirror programs of this scale, working in virtual teams, paid sabbaticals and cultural exchanges may also provide important mobility experiences for employees.

Many of the firm's programs combine mobility with corporate responsibility, which also helps with retention. According to EY's annual Global People

Survey of employees, those who participate in corporate responsibility programs report significantly higher engagement in their careers and are more likely to commit to building a long-term career with the firm compared to their peers. There are countless opportunities for companies to offer corporate responsibility programs for their team members—benefitting the organization, the employee, and the community.

Learning and Development

Young professionals consistently seek new challenges, and it's important for organizations to provide personalized learning, coaching and experiences that they need to reach their career aspirations. What's also valued by Millennials is an opportunity to contribute to the business early in their careers. This can be accomplished by seeking their input through an advisory forum or by giving employees a channel to share solutions with executives. The real magic happens when Millennials see their proposed changes implemented into business operations and feel good about the contributions they're making.

EY is currently piloting two programs that came from ideas hatched by groups of young professionals. The first allows engagement teams of a certain size to anonymously rate their experiences working on a particular project. Results are tabulated and shared with the engagement partner, who is directed to make improvements that meet the team's needs. This is one more way for teams to elevate their performance and deliver stronger results. Another suggestion put into action is a repository for tutorial videos that have been created by team members. These videos focus on technical and nontechnical topics and can be shared with others to help onboard new hires, as well as with people seeking guidance on new processes or tools.

Most organizations provide technical training to client-serving professionals, so what's even more meaningful is offering Millennials personal development training

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What Millennials Really Want...

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that builds their leadership capabilities. For example, recently EY brought together professionals from the regional assurance practice for a day to focus on personal career development and opportunities within the firm.

If organizations aren't willing to invest in their professionals and help them develop new skills, Millennials will seek an employer that is committed to their ongoing development.

Health and Wellness

Millennials place significant value in health and wellness benefits. Forward-thinking organizations are taking notice and evaluating their benefits in this area to ensure that they're competitive. This could mean gym membership reimbursement, discounted insurance for healthy behaviors, company-sponsored intramural sports teams and more.

In response to increased demand for enhanced health and wellness benefits, earlier this year, Ernst & Young LLP launched a holistic benefits and rewards program with three components—health, financial and life—and offers a \$500 reimbursement toward preapproved fitness and health programs, the refinancing of student loan debt at a lower interest rate and an assistance service that can help employees with anything from booking a vacation to party planning and more.

Interestingly, this initiative stemmed from suggestions made by teams of high-performing professionals

taking part in various leadership programs. They were charged with identifying a business need and gaining support internally for their proposed solution. The firm took action on a great idea and, today, the program positively impacts employees and strengthens the workplace culture. What is important to your team members, and is there a way you can help support them in reaching their goals?

Winning the War for Talent

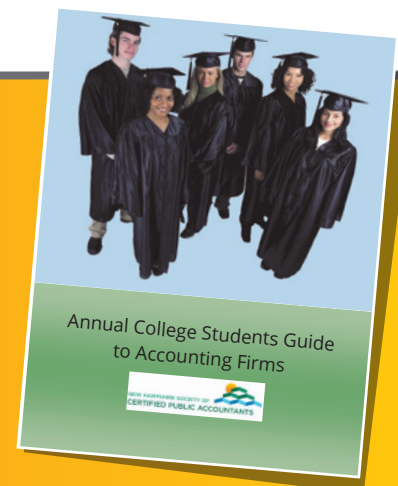
For many accounting firms, particularly the Big Four, Millennials comprise a significant percentage of the workforce, so it's critical for companies to create workplace cultures that meet their changing needs. As Millennials become parents, providing everyday flexibility that enables them to meet increased demands at home and heightened responsibility at work will help retain top talent. Creating a workplace strategy centered on mobility, learning and development, and health and wellness will also go a long way to foster loyalty and engagement among Millennials.

Ruth Saphian is the St. Louis managing partner of Ernst & Young LLP, where she supports more than 300 professionals. She is responsible for developing talent, managing resources, creating high-performing teams and providing exceptional client service. Ruth can be contacted at ruth.saphian@ey.com.

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The Use of Synthetic Equity for Start Up Businesses

By John E. Rich, Jr., Esq.

Increasingly, New Hampshire business owners are using non-qualified deferred compensation arrangements to provide targeted economic benefits to key employees.

Synthetic equity plans are particularly useful for small and startup employers, because they provide flexibility to the employer while helping to retain and incentivize select employees during a company's growth phase, without giving up equity.

All non-current employee compensation can be divided into two broad categories: qualified and IRA plans, and non-qualified deferred compensation plans. Qualified plans, such as 401(k) plans, and IRA plans allow employees to save money for retirement.

These are important employee benefits, but are generally not considered to be employee retention tools. Qualified and IRA plans have annual benefit limits, limited vesting schedules, discrimination and other rules that significantly limit an employer's flexibility to use the plan to reward select key performers.

A non-qualified deferred compensation plan is any plan that results in benefits earned in one year being paid in a future year. The universe of non-qualified deferred compensation plans is further divided into plans whose benefits are based on the value of the business' stock (or unit value in the case of LLCs), equity-based plans and those plans whose benefits are based on some other metric, such as supplemental executive retirement plans (SERPs), which provide retirement income.

Flexibility with Synthetic Equity

For startup and smaller employers, equity-based programs provide considerably more flexibility than qualified and IRA plans and are a better fit than other deferred compensation, because the benefits to

employees are based solely on the value and growth of the business.

Employers can selectively reward top performers who help grow the business without fear of discrimination rules. If the business does not grow, the business owner will incur little or no payment obligation.

A key decision is whether the plan will result in employees owning equity or the potential to own equity, as with restricted stock and option plans. Although employees will normally save taxes on the future sale of equity interests, business owners often do not want to give up equity, because equity ownership gives employees statutory rights of access to corporate books and records, and the right to participate in annual meetings.

In these situations, so-called synthetic equity programs, such as phantom unit and unit appreciation rights plans, are the best fit, because they do not confer to the holder any of the other benefits, rights and privileges of being an actual unit or stockholder.

Phantom Unit Rights & Appreciation Units

Phantom unit rights (or phantom stock in a corporation) are used to provide employees of LLCs a cash payment based on the value of a unit (or stock for a corporation) at the time of a liquidity event, times the number of phantom unit rights awarded.

Phantom units are usually granted over a period of years, and the grant is usually conditioned on service and some performance criteria, either of the employee or of the company as a whole. There must be a method to value and communicate the unit value on an annual basis.

For startup businesses with units or stock not subject to marketplace valuation, the value can be determined under the terms of a formula based on book value, or a reasonable multiple of earnings, or some combination

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The Use of Synthetic Equity...

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of the two. Regardless of the formula, it is critical that the employees understand how the unit or stock is valued and believe the valuation method is fair.

Because phantom unit rights confer both past and future value, a vesting period will normally be used whereby employees will vest in the units over a period of years. Normally, the employee will forfeit the phantom unit if he or she terminates employment before the liquidity event, which is normally the sale of the business. These forfeiture provisions (or sometimes the plan itself) are referred to as "golden handcuffs," as they bind employees to the employer. Depending on the situation, the payment terms can be fairly complex to account for different types of sale transactions and the possibility of consideration other than cash being received. These plans also have the flexibility to provide for payments prior to the sale of the business, if desired to reward employees who have added value to the business for periods prior to a sale.

For businesses that have achieved a measure of success, phantom appreciation units can be designed that only entitle the holder to a cash payment equal to the increase in value of the business from date of the award to the date of the liquidity event. Often these appreciation rights plans will give employees the right to exercise and receive payment prior to the sale of the business. However, the exercise right is normally conditioned on meeting vesting requirements or

performance goals, whether for the individual or the business as a whole.

As with any type of synthetic equity, there is complete flexibility to design the plan for the particular needs of the business. Regardless of the type of synthetic equity used, because payment is not made until a future liquidity event or date, employees are not taxed, and the employer does not receive the corresponding tax deduction, until payment is made.

Regulatory Issues to Consider

Although a discussion of all regulatory issues is beyond the scope of this article, advisors designing synthetic equity plans should be mindful of compliance with Tax Code Section 409A, which requires very specific design requirements. Similarly, to avoid violating the Employee Retirement Income Security Act of 1974, as amended (ERISA), participation in the phantom plan must be limited to a select group of management or highly compensated employees.

In summary, synthetic equity plans can provide small business owners with the flexibility to structure compensation packages that provide incentives to employees who assist in growing the businesses.

John E. Rich, Jr., Esq. is a Director at McLane, Graf, Raulerson & Middleton, Professional Association who specializes in employee benefits, pension, ERISA and tax-related matters. He can be contacted directly by email at john.rich@mclane.com.

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American Institute of CPAs Proposes Expanding Joint Venture with CIMA

By The AICPA

Legendary investor Warren Buffett has a saying: "Someone's sitting in the shade today because someone planted a tree a long time ago." This quote underscores the importance of anticipating and preparing today for the opportunities and challenges of tomorrow.

The CPA profession has a long history of doing just that. New Hampshire Society of CPAs (NHSCPA) and the American Institute of CPAs (AICPA) currently are working on a wide variety of initiatives to enhance the relevance and vibrancy of the profession far into the future. These initiatives include programs to promote the value of CPAs as trusted business advisors, enhance audit quality, broaden the definition of attest, help firms identify and remedy issues during A&A engagements, evolve the Uniform CPA Exam, attract the next generation of talent, and meet the information and

educational needs of members in public accounting, business, government and specialized services.

In response to the needs of members working in corporations of all ownership structures and sizes, the AICPA formed a joint venture with the Chartered Institute of Management Accountants (CIMA) in 2011. CIMA is the world's leading and largest professional body of management accountants. Founded in 1919, CIMA represents more than 227,000 members and students operating in 179 countries, working in industry, commerce and not-for-profit organizations. In January 2012, the two organizations launched the Chartered Global Management Accountant (CGMA) designation. The number of CGMA designation holders is now more than 150,000 worldwide, with over 50,000 in the U.S.

Now, the AICPA and CIMA are beginning a conversation with their respective members about a proposal to integrate their operations, strategy and management through a newly formed association. The AICPA would continue to serve members and protect, promote and grow the CPA profession. The new association aims to maximize efficiencies and provide a broader platform for further enhancing advocacy, promoting public and management accounting on campuses and with employers and clients, and developing new research and educational offerings. According to Arleen Thomas, CPA, CGMA, AICPA Senior Vice President-Management Accounting and Global Markets, "A presence in Europe will dramatically increase our ability to advocate for members on international matters that are increasingly impacting the U.S. securities system. In addition, the proposal would enable the profession to achieve even greater influence domestically and internationally and broaden the appeal of accounting to the next generation of professionals."

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American Institute of CPAs Proposes...

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Unwavering Commitment to the CPA

“Our strategy is built on the power of ‘And,’” said Barry C. Melancon, CPA, CGMA, AICPA President and CEO. “The AICPA would continue to maintain an unwavering commitment to the CPA, promote high standards for ethics and quality, and protect the public interest and the core values of the CPA profession. What we would gain through this new association with CIMA is the further professionalization of management accounting. Financial reporting is stronger when we drive quality in both public and management accounting.”

Trends Driving Need for Evolution

The CPA profession has a history of anticipating – and adjusting to – changes in market demands. The profession has grappled with and developed solutions to address increasing complex technology, specialization, and evolving business structures; these drove such evolutionary steps as the computerization of the CPA Exam, non-CPA firm ownership and the adoption of cloud computing solutions.

Current trends and challenges on the horizon have been carefully assessed by the AICPA as part of its ongoing strategic planning process. With record

membership numbers and the CPA reputation at the highest level, the AICPA believes that the time is right to pursue a proposal that will better enable the profession to tackle such factors as:

- The growing worldwide talent shortage and associated demand for ever higher levels of specialized knowledge and services
- Significant demographic and generational shifts
- The increasing number of accounting graduates bypassing professional affiliation and the associated commitment to a professional code of conduct
- The shift of economic growth toward Asian and emerging markets
- The greater international mindset of today’s graduates and the overall trend toward more international connectedness and interdependencies
- Regulatory impact coming from Europe and other parts of the world that are affecting businesses in the U.S.
- The need for finance professionals, facing an increasingly competitive job market, to differentiate themselves from their peers and demonstrate greater strategic management and business partnering skills

Building on Existing Joint Venture’s Success

Approximately 50 percent of most state CPA society and AICPA members work in businesses of all sizes and ownership structures. Creating the CGMA offered these professionals a complementary designation and enhanced resources. Since the designation’s launch, the American Institute of CPAs and CIMA have delivered nearly 120 reports and tools plus online events and career development resources to members seeking to increase their knowledge and hone critical skills for the future. The organizations also developed the [CGMA Competency Framework](#)

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American Institute of CPAs Proposes...

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and the [Global Management Accounting Principles](#). In addition, so that members and employers could better assess and address accountants' skills and competency gaps, the organizations launched the [AICPA | CIMA Competency and Learning platform](#). The tool also analyzes public accounting skills, such as those related to assurance as well as employee benefit plan and governmental audits.

CGMA designation holders also have access to the CGMA Magazine, the CGMA Finance Impact Tool, numerous reports and case studies on best practices, and the Harvard ManageMentor online learning and performance support resource program. The website [cgma.org](#) is the hub for all of these resources and more.

Benefits of the Proposal

"We are supportive of the direction the AICPA Board is recommending," said Marlene Gazda, CEO, NHSCPA. "The changes this profession faces today are greater than ever. To preserve our relevance and stature, the profession needs to embrace change and consider innovative ways to better anticipate, reflect and lead. The work between the AICPA and CIMA has contributed greatly to the professionalization of management accounting, and that is much needed today. The proposal would bring together the entire accounting profession and extend the influence of a CPA-led accounting profession in the U.S."

Strengthening the bond between the two organizations would streamline resources and create efficiencies to help both organizations move faster to market and produce content with broader perspective, especially on international business issues, which are increasingly impacting CPA firm clients. In particular, the AICPA cites the gains in advocacy that could be realized when speaking on behalf of more than 600,000 current and next generation accounting professionals. The association of the AICPA and CIMA would form the most influential body for the accounting profession, within the U.S. and globally, advocating on tax, audit, financial reporting and other issues important to members.

What's Next?

Gaining member insights into the AICPA and CIMA evolution is critical to helping the Institute's governing Council determine its next course of action. Council will assess member feedback and consider authorizing a member ballot in the spring. Moving forward would require a vote by members, with a majority of those voting supporting the proposal. CIMA has a similar requirement and timeline. Members are encouraged to visit [aicpa.org/horizons](#) to find out more about what they could gain from a deeper relationship with CIMA and provide feedback on the proposal.



WE WANT TO KNOW!

We do our best to highlight our members' achievements in each issue of the NHSCPA Connection. However, we can't catch them all. Make sure to let us know about new hires, promotions, awards, and any community service events in which you and your firm participate in. Send your news to: rdaly@nhscpa.org

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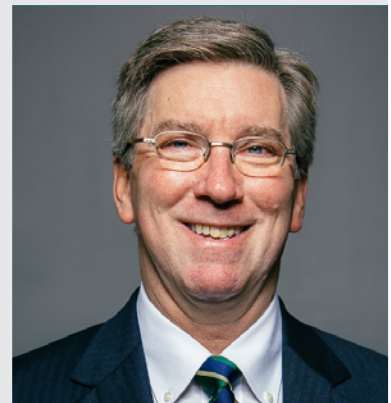
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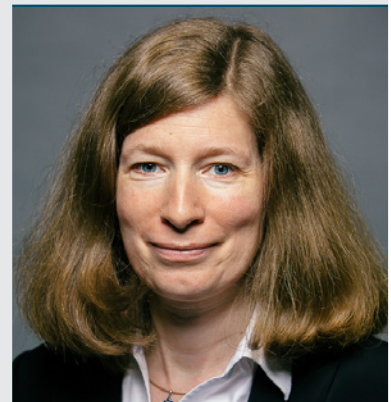
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2017 CPA Exam Changes – FAQs

By Becker Professional Education

The American Institute of Certified Public Accountants (AICPA) announced that it will be launching a new version of the Uniform CPA Exam on April 1, 2017. According to the AICPA's proposed exam: professional content knowledge will remain fundamental to protecting the public interest, but newly licensed CPAs must also possess a higher level of cognitive skill to do well on the exam.

When will the next version of the exam launch?

The most recent communication from the AICPA is that the new exam will launch April 1, 2017. Additional information is expected in Q2 of 2016.

Will candidates still need to score a 75 to pass?

Yes, a score of 75 will be required to pass the new exam.

Is the new exam expected to be harder?

Yes, the new exam may be more difficult than the existing one. The current CPA Exam tests two skill levels – Remembering & Understanding and Application. The new CPA Exam will test four skill levels – Remembering & Understanding, Application, Analysis, and Evaluation. Analysis and Evaluation are considered to be higher-order thinking skills. The testing of these additional skill levels may increase the overall difficulty of the exam. Also, the AICPA is increasing the proportion of Task-Based Simulations (TBS) on the FAR, AUD and REG Exams from 40% to 50% and is adding TBS to the BEC Exam (in addition to the written communication questions).

How many pretest questions will be on each part?

The number of pretest questions is expected to stay the same – 10-15 Multiple-Choice Questions (MCQs) and 1 TBS/Written Communication per part.

If I start the exam before the changes, do I have to retake the sections I already passed?

Candidates who do not pass all four parts before the 2017 changes will be able to keep scores on sections they passed (unless the 18 month window expired).

Are there any strategies that may help me get through the exam before it changes?

If you are graduating in June 2016 and meet the educational requirements to sit for the exam, you will have almost 12 months to prepare and pass before the exam changes. For candidates with less time, you may want to consider an accelerated CPA Review like Becker's FastPass which can help you prepare for the exam in as little as 12 weeks, instead of months. Also, in some states you may be able to sit for the Exam as a provisional candidate before you graduate. For example, Illinois allows candidates to sit for the exam while completing your final term (final transcripts must be submitted within 120 days (4 months) of exam date. Be sure to fully research the requirements for taking the exam outlined by your State Board of Accountancy so that you can sit as soon as possible.

I can only get through one or two parts before the exam changes. Which parts should I sit for before the exam changes?

The first priority for all students should be to pass the BEC Exam before the exam changes because the new BEC Exam will have MCQs (50%), TBS (35%) and Written Communications (15%), and will therefore be more difficult than the current exam [MCQs (85%) and Written Communication (15%)]. Once students have passed BEC Exam, they should then focus on the part that would be most difficult for them.

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Will the simulations on the BEC Exam contain material from all the other sections?

The AICPA has stated that at least one of the TBS on each part of the Exam will include elements from other parts of the Exam, but these elements will be at a basic level (as covered in a college course). For example, a TBS on inventory observation on the AUD Exam could require students to understand basic financial accounting concepts related to inventory. The BEC Exam will not have a “capstone” TBS that covers materials from all parts.

Is there a recommended sequence to take the new exams given the use of integrative simulations?

The AICPA has stated that they will not recommend an order for the exams. However, it is generally best to take the FAR Exam before the AUD Exam because questions on the AUD Exam often refer to financial accounting concepts. It can also be beneficial to take the BEC Exam last because some BEC content relates to the other three parts of the exam (e.g. corporate governance, ethics, internal controls, debt and equity, working capital, hedging).

What impact, if any, will the exam changes have on the score release timeline?

The AICPA anticipates that there will be delays in score releases for the first two testing windows of the new exam. In the long-run, the AICPA expects to follow the [current score release timeline](#).

How will IFRS be tested on the new exam?

On the new FAR Exam, the testing of IFRS will be limited to testing only the differences between IFRS and U.S. GAAP rather than testing IFRS in its entirety as a standalone financial accounting and reporting framework.

Also, International Standards on Auditing (ISA) are currently testable on the AUD Exam, but will NOT be testable on the new AUD Exam.

Is the exam changing because the examiners thought it was too easy?

No. The exam is changing because the AICPA is committed to keeping the CPA Exam relevant to the accounting profession. The AICPA performed a practice analysis in 2014 in order to assess the relevance of the current exam and came to the following conclusion:

“Overall, the research demonstrated that the profession supports the initiative to make meaningful changes to the exam, to operationalize the testing of higher order skills and to align more closely with the types of tasks regularly performed by newly licensed CPAs.”

When will the exam blueprint be finalized?

The exam blueprint will be finalized in the second quarter of 2016.

Will there be any changes to exam administration – dark months, 18 month rolling window, etc. still the same?

The AICPA is considering making the following changes to exam administration:

- Expanding the testing periods into the first 10 days of each dark month (e.g. the first testing window of the year would be January, February, and the first 10 days in March).
- Extending the 18-month rolling window to 24 months.
- Allowing students to retest for a failed section of the exam in the same testing window.

The AICPA would like to make these changes, but have not set a timeline for the changes because of the complexity of implementation and the required approval process.

For more information about the 2017 changes, visit www.becker.com/2017examchanges



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When Ownership Interests are Sold or Exchanged

By Maurice P. Gilbert, CPA

The New Hampshire Business Profits Tax (“BPT”) contains an adjustment requiring a “mandatory increase” to the taxable profits of the business entity in circumstances in which the business owners sell or exchange their ownership interests. The increase in the taxable income generates an



The often overlooked provision in the BPT statute (RSA 77-A:4, XIV) states: In the case of a business organization where an interest or beneficial interest in the organization has been sold or exchanged, an addition to gross business profits of an amount equal

entity tax liability, however the business entity never receives income or cash to pay the liability. This “phantom income” adjustment is mostly unknown to business owners and is frequently overlooked by advisors who are not very familiar with the state’s sometimes unique tax provisions.

The issue received a fair amount of press coverage this spring during the 2015 legislative session where a New Hampshire-based company was in the process of becoming publicly-traded and sought to obtain a legislative solution to the significant tax impact on its business. After some limited study by House and Senate representatives, an amendment was attached to HB 550 and subsequently passed by the Legislature but vetoed by Governor Hassan.

Small and mid-sized business owners may believe that the problem does not relate to them as they have no intent to go public so the potential tax liability will not affect their business entities. This provision can impose an actual BPT tax liability on businesses of any size with gross income in excess of \$50,000, from a start-up seeking to acquire additional capital to continue to grow their business to owners who now want to dispose of some or all of their interests as part of their succession planning or exit strategy.

to the net increase in the basis of all underlying assets transferred or sold through the sale or exchange of the interest. The increase in the basis of the assets shall be determined in accordance with the provisions of the Internal Revenue Code as defined by RSA 77-A:1, XX.

As the business becomes successful over time, it begins to develop an increase in its value partially created by actual physical assets, such as real estate which appreciates in value, and there is significant value that comes from intangible assets, such as customer contacts or goodwill, built up by the business over time. Whether it is an entrepreneur seeking to obtain capital to grow by selling some of his or her ownership interests to outside investors or an owner looking to spend more free time and enjoy life, it is the increase in value of the intangible assets that tends to drive the purchase price that the new owner is willing to pay for the interest. New Hampshire, unlike the Federal tax law and most other states, does not tax the sale or exchange of business interest owned by individuals, therefore does not get tax revenue from the transaction. So far, you wonder, what is the problem?

The problem exists because the new owners are allowed to recover their investment for the purchase of the ownership interest, such as the amount they paid

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for the goodwill or other appreciated assets, through Federal tax deductions over a future period of varying length based on the type of the asset. These Federal tax deductions also flow through the BPT. The State, in the subsequent years, loses BPT tax revenue but, unlike the Federal and other State Governments with personal income taxes, never received tax revenue on the sale to offset this decrease. The mandatory BPT adjustment seeks to get the offsetting tax revenue from the business entity at the time the interest is sold, unfortunately, the business never received any money or other property in the transaction from which to pay the additional tax liability.

The Legislature's proposed solution, contained in HB 500 in the 2015 Legislative Session, would have added a second paragraph to RSA 77-A:4, XIV providing for an election, filed with the Department of Revenue Administration ("DRA") that forgoes the Federal business deductions for BPT purposes and not being required to make the basis adjustment as "phantom income." The election must be made and filed with the DRA in each year where a business has a sale or exchange of an interest.

Business owners who prefer to take the allowable Federal tax deduction for New Hampshire purposes or who fail to make the required election would continue to pay the additional BPT liability as currently required.

The 2016 Session of the Legislature may have multiple bills to address the problem. A review of the Legislative Services Requests for legislation lists two possible bills as of October 22nd, LSR # 2016-2459 & LSR # 2016-2710, sponsored by Representative Lovejoy and Senator Bradley, respectively. The actual proposed language for these bills is not currently available so it is not possible to see what the statutory changes proposed may look like. As business owners, you may have an interest in discussing this issue with your elected representative, follow the legislation through the 2016 Legislative session beginning in January and possibly appear at the hearings to testify in support of the legislation. The issue impacts businesses of all sizes and hits businesses that are formed as partnerships, limited liability companies and businesses that have elected to be taxed at the Federal level as Subchapter S Corporations.

At a minimum, business owners and advisors need to be aware of the current statutory requirements and any potential modification before the sale transaction takes place and the seller subsequently finds that he or she has a potentially significant BPT tax liability to deal with. The tax is owed on the last return of the seller. The potential effect of such a tax is something that should be part of any discussion between the seller and his or her advisor and addressed appropriately in the transactional documents.

[Our Tax Team stands ready to assist you and your clients in understanding and complying with the current statutory language or the potential impact of any proposed change. Members of our team can also assist practitioners and their clients with tax planning or tax representation before the Internal Revenue Service or the various states' Departments of Revenue.](#)

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- Accounting standards for resolving ethical conflicts
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- Valuation purposes
- 3 Most common valuation approaches
- The weighted average cost of capital

Better Performance Plans: The Microeconomics on Motivating Your Team

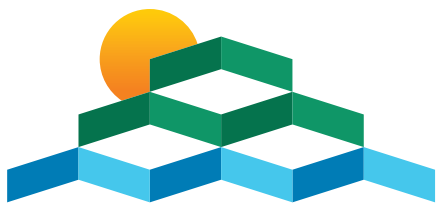
- Discover useful behavioral economics techniques
- Apply Behavior economics concepts in your organizations
- Improving incentive compensation programs and employee performance plans

Heartfelt Leadership: How Ethical Leaders Build Trusting Organizations

- Leadership qualities
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Cases and Group Discussion: This seminar will provide at least five group exercises and opportunities for group discussion





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DECEMBER 1, 2016

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Derryfield Country Club
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2ND ANNUAL WOMEN'S

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