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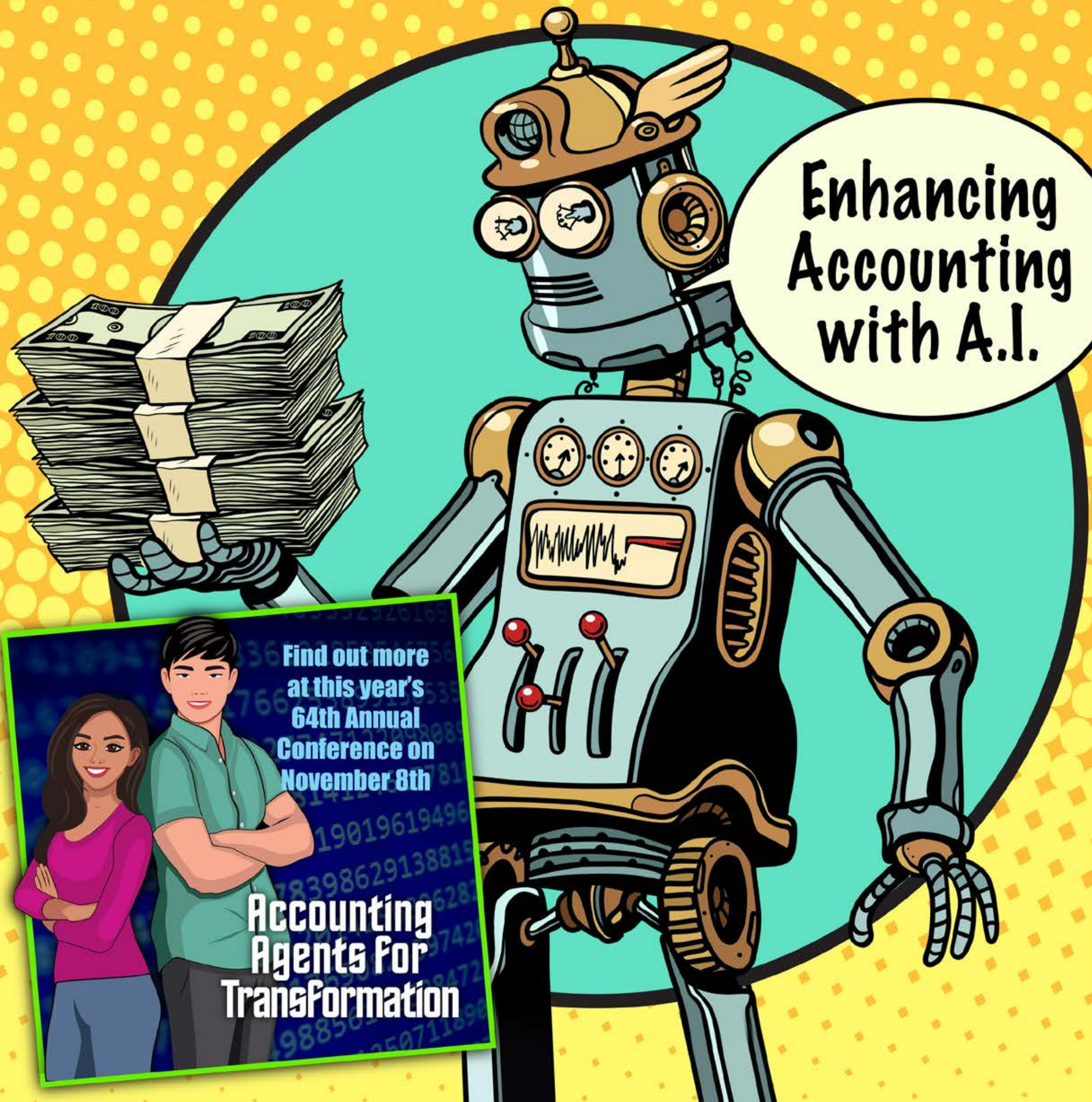
KĀLĀ

The Official Publication of the Hawaii Society of Certified Public Accountants



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In This Issue

President's Message

By Dr. Frank T. Kudo

Change seems to be everywhere. We try to understand what it brings to our lives, careers and our future. Is it good or bad for us? Sometimes confusing and unsettling, but as the saying goes …" the only thing constant in life is change." So maybe we need to take the time to understand and really digest what is going on.

Recently I was asked for my support by the American Institute of CPAs (AICPA) to have accounting designated as a STEM field of study. First, STEM is the acronym for Science, Technology, Engineering and Mathematics, if you don't already know that. STEM came about decades ago when the U.S. found that we were trailing other developing countries in developing our students for science, technology, engineering and mathematics careers. That's when the Federal government decided to work with educators at all levels in establishing and financially supporting STEM fields of study.

So, what does STEM have to do with the field of accounting?

Over many years, accounting has changed from a system of recording economic transactions and the preparation of financial statements, to a field in which now provides analysis and predictions of what is coming over the horizon. Don't get me wrong, accountants still must record transactions and prepare financials, but their area of responsibility has been significantly expanded.

Accountants' role has been evolving both in industry and as a CPA practitioner, to that of a "predictor of the future" for the business. Wow, do you mean the accountant is somehow a "Merlin" or seer, an advisor to the King? Well sort of.

The accountant advises management about the risks, hazards, impediments, high and low returns of projects and investments, new revenue opportunities, productivity of the assets producing revenues, efficiency of how cash flows within an organization to support working capital and investment needs, but most of all … what the future holds if the company pursues its current path. Accountants needed new tools and skills to meet their broadening responsibilities and adopted the use of statistical and probability analysis for trend studies and financial modeling, as well as predictive analytics for decision making, analytic software for report analysis and presentation, artificial intelligence to access financial risk in real time etc. All these new tools and skills are enveloped in the new emerging technologies.

The STEM designation will acknowledge that the accounting profession has a major role in the development of technology and higher mathematics. It will address our national pipeline efforts to bring more students into the field of accounting by providing Federal funding to teachers in K–12 to teach accounting in the classroom. Currently, many Hawaii public schools have no funds to teach accounting in the classroom.

Please support the STEM designation for accounting, and help advance these efforts by asking our Hawaii congressional members to cosponsor the bipartisan bills.

S. 1705

Senator Mazie Hirono -
Thank You for co-sponsoring S. 1705
Mazie_hirono@senate.gov
Ben Strand:
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Senator Brian Schatz -
Ask to co-sponsor
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Robert Joyce:
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H.R. 3541

Representative Ed Case -
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Annika Nozaki:
Annika.nozaki@mail.house.gov

Representative Jill Tokuda -
Ask to co-sponsor
Jill.tkuda@mail.house.gov
Mitch Heidenreich:
heidenreich@mail.house.gov

You may use these templated letters or create your own wording.

TAX FOUNDATION OF HAWAII

Hawaii's Watchdog on Taxes & Government

By Tom Yamachika

If you're not already a supporter of the Tax Foundation of Hawaii (TFH), it's never too late. TFH is the 'watchdog' for Hawaii taxpayers and keeps us informed of what the government is doing with taxpayers' money. To support TFH's mission, please donate here.

Why an Annual GET Return?

For those of you who pay GET, here's a quick quiz. Let's say you are a monthly filer. How many returns do you have to file to report one year of business activity?

The answer is thirteen. Twelve will be monthly returns on Form G-45. One will be an annual reconciliation return on Form G-49. If your answer was twelve, take your "F" and go to the back of the class.

Don't underestimate the significance of the annual reconciliation return! Here are some reasons why: First, the three-year statute of limitations that the Department has to assess any additional tax never starts running until the annual return is filed. Second, all exemptions, deductions, reduced rates, and other "tax benefit" items can all be disallowed unless the annual return is filed within a year after it is due. Third, if the annual return isn't filed the statutes of limitations start behaving crazily.

What do I mean by that? Consider this case, which is one of the first I had when I was representing taxpayers. My taxpayer's auditor, at the time kind of an unknown guy, would go on to become one of the Department's "ace" auditors and top producers (see how scary that sounds in a non-sales context?) and would be significantly promoted before retiring from the Department. My taxpayer was being audited for the years XX1, XX2, and XX3, between seven to ten years ago. It had filed all required monthly returns, but no annuals. The auditor innocuously said, "I don't have an issue with the total amount of income reported. But I think $x of the year XX2 income belongs in XX3. So I am going to assess you for year XX3."

At this time I was still pretty green in terms of tax experience, so I thought, well, that would give the client an overpayment for year XX2. So, I replied, "That looks fine to me. But I'll file a refund claim for year XX2."

"Go right ahead," the auditor replied.

A few days after receiving the assessment for year XX3 (which included more than a trivial amount of penalties and interest), I had the client file a claim for a refund for year XX2. "Six of one, half a dozen of the other," I was thinking. "It'll work out." About a week later, I got a tersely worded, computer-generated letter. There would be no refund for year XX2. When no annual return has been filed, there is another part of the statute of limitations that kicks in and says that any claim for refund has to be filed within three years after payment of the money.

Needless to say, the client was furious. (Even though the client could have avoided the problem entirely if he had filed annual returns.)

So what is it about the annual return that gives it such outsized significance? Taxpayers in other states file twelve monthly returns instead of thirteen, and they don't have to go through these kinds of headaches. If there is some kind of accounting adjustment at the end of the year, they can just pull out the proper month's return and amend it. Is there some other significant information that appears on an annual return that can't be disclosed on one of the monthlies? Not really. So why don't we just make life easier for everyone and get rid of it?

Nah. That would be too simple. First there have to be studies, and blue-ribbon commissions, and a few expert reports. Maybe then someone will begin to think about this as an actual beneficial idea.

Tom Yamachika is President of the Tax Foundation of Hawaii - the 'watchdog' that keeps an eye on Hawaii's taxes. Tom is also the owner of Aloha State Tax, a small law firm with emphasis on State taxes. Prior to going solo and the TFH, Tom was a principal with Accuity LLP where he managed the tax consulting practice, including quality and risk management and practice development.

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This year's 64th Annual Conference on November 8th will feature Insightful discussions, innovative ideas and connect with peers. From modernizing accounting, to artificial intelligence and yes, ongoing corruption in Hawaii.

Powerful, leader, driving force, passionate about the profession, energetic – just some ways to describe **Carla McCall,** CPA, CGMA, Chair of the American Institute of CPAs (AICPA). The accounting profession continues to navigate the changing and challenging business environment. We've been resilient by seizing opportunities, while providing guidance to accelerate and lead the evolution of client services and business practices. In this professional issues update, Carla will share how the profession is accelerating and leading to grow services, connections and confidence while also keeping the profession attractive, prosperous and exciting for the next generation of CPAs and CGMAs.

We continue to hear of political corruption in Hawaii, very serious and undermines the public's trust in our system. **Alexander "Ali" Silvert** returns for a riveting discussion on criminal versus non-criminal corruption, ethical obligations of AG lawyers, and the pervasive problem of giving false testimony. And, of course, the failure of the Legislature to pass meaningful campaign finance reform. Will there be any political fallout from the New York Times/Civil Beat expose? He'll keep you wanting to hear more! Also, pick up a copy of Ali's new revised edition of "The Mailbox Conspiracy" with a brand-new up-to-date epilogue, more photos and documents, and some new information.*

One of the Top 25 Thought Leaders in the profession, **Donny Shimamoto**, CPA, CITP, CGMA, will discuss how we can enhance accounting services using artificial intelligence (AI). There's a lot of hype around AI and how it will revolutionize the way we work. Some people have even said it will replace accountants. While this is still probably more than a few years off, there are some AI tools that are ready for accountants to adopt now. This session will look at the ways that AI can already be used in audit, tax, and finance. We'll also discuss the cybersecurity and privacy implications of AI and what you should be doing to mitigate those risks.

Timely updates, useful information, and amazing discussions for 7 hours of quality CPE, enough food to fill your belly, fun SWAG, happy hour and hella fun! Don't miss this event and register now!

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Great Speakers And Topics!

Carla McCall, CPA, CGMA, is Managing Partner of AAFCPAs, a preeminent, 300+ person CPA and consulting firm based in New England. She is Vice-Chair of the Board of Directors of American Institute of Certified Public Accountants (AICPA). Carla was named one of the Most Powerful Women in the Accounting Profession in 2020-2021, 2022, and 2023 by the AICPA and CPA Practice Advisor Magazine.

Alexander "Ali" Silvert was raised in New York City and Vermont. After graduating from UCLA and driving a cab in New York, and a year of post-graduate political science courses at New York University, he switched to Boston College Law School where he obtained his JD in 1984. In October of 2020, Ali retired as Federal Public Defender after 33 years. Ali is currently a lecturer at the University of Hawaii Richardson School of Law and runs his own private federal criminal law consulting firm in Hawaii.

Donny Shimamoto, CPA.CITP, CGMA, is the founder and managing director of IntrapriseTechKnowlogies LLC, a specialized CPA firm dedicated to helping small businesses and middle market organizations leverage strategic technologies, proactively manage their business and technical risks, and enable balanced organizational growth, and development.

Crafting AI Guidelines for CPA Firms: A Thought Leadership Approach

By Eri Shively of Boomer Consulting, Inc.

Artificial intelligence (AI) is one of this century's most exciting new technologies, and its use has spread like wildfire since ChatGPT was released in 2022. According to Deloitte, 74% of companies are testing Generative AI technologies, and 65% already use them internally.

AI presents both remarkable opportunities and significant challenges. Extensive regulations governing AI have yet to be established, so firms must proactively establish guidelines for its use.

This article explores why your firm needs AI guidelines and offers practical steps to help you develop these essential frameworks.

Why do we need AI guidelines?

The regulatory environment surrounding AI is still developing. There are few, if any, specific rules and policies governing its use in professional settings, including accounting. This regulatory vacuum makes it challenging to create enforceable AI policies, as policies must be specific and trackable. Instead, you should focus on crafting flexible and adaptive AI guidelines that can evolve with the technology and regulatory changes.

AI guidelines provide a framework for ethical and practical AI usage within the firm. They help ensure employees use AI tools responsibly, enhancing productivity without compromising professional standards or client trust. These guidelines also serve as a foundation for training staff on the appropriate use of AI, promoting consistency and transparency across the firm.

Considerations for creating AI guidelines

AI guidelines aren't one-size-fits-all, so we won't offer a specific list of guidelines to incorporate into your firm. However, we will provide a few considerations when crafting your standards.

Understand AI's limitations and potential biases

While powerful, AI systems aren't infallible. They can exhibit biases based on the data they are trained on, leading to skewed results. For CPA firms, this means being aware of the potential for AI to produce biased financial analyses, recommendations, or content.

Your AI guidelines should address the process for regularly auditing AI outputs to identify and correct any biases in AI-generated reports. When creating your own AI models, use a wide range of data sources to train AI models, reducing the risk of bias.

Ensure accuracy through human oversight

AI is prone to "hallucinations," generating incorrect or nonsensical outputs. The data sets used by AI may become outdated and not reflect the latest financial and regulatory information. Using AI requires rigorous fact-checking and human oversight.

Your guidelines should address procedures for humans to review AI-generated outputs before they're finalized.

Recognize AI's non-human nature

AI operates based on logic and data—it can't understand context or emotions as humans do. This limitation means you should not use AI to answer ethical or emotion-driven questions.

Your AI guidelines should define acceptable AI use cases by clearly delineating tasks suitable for AI and those requiring human judgment. Educate employees about what AI can and cannot do so they have realistic expectations about its applicability to their work.

Promote transparency in AI usage

Being transparent about AI use is essential, as this builds trust with clients and stakeholders.

Inform clients when you use AI tools in their projects, explaining the benefits and limitations. Keep detailed records of how AI tools are used, including decision-making processes and data sources.

Address security concerns

Security is paramount when integrating AI into your accounting practice. Your guidelines should address security and advise employees never to input customer or proprietary business information into public AI systems or those without adequate safeguards to protect the data.

Creating AI guidelines is crucial to leveraging AI's potential while maintaining ethical standards and client trust. By understanding AI's limitations, ensuring rigorous oversight, and promoting transparency and security, you can effectively navigate the complexities of integrating AI into your firm's processes. Your guidelines will provide a solid foundation for adapting to new challenges and opportunities as the technology and regulatory environment evolves.

Erin Shively, IT Coordinator at Boomer Consulting, Inc., is excited to grow the company's existing tech stack with new and emerging technologies. Her role includes troubleshooting technology issues, tracking and creating internal processes, and handling on-site tech set up for events at the Accounting Innovation Center.

Tap into the financing advisory opportunity

By Matt Elwell

If you asked each of your firm's client advisory services (CAS) clients to write down their top 3 pain points, then compared the list to the top 3 services you provide to them, how would the two lists match up? Is your CAS practice delivering services that really pinpoint the challenges that keep your clients up at night?

Especially for owners of small businesses, cash flow and business financing issues often top the list of their worries. But when it comes to financing, many firms don't currently offer services that directly address this aspect of their clients' businesses. Instead, financing issues are left for clients to work out with their banks or other lenders.

This is a major missed opportunity. CAS practices are better positioned to help clients identify, understand, and address their financing challenges than anyone else – even banks – because of their intimate knowledge of the day-to-day workings of clients' businesses, from strategy to spreadsheet.

Why firms haven't jumped on the financing advisory opportunity before now.

So why don't many CAS practices help guide and support their clients' financing needs today? For starters, although they have access to clients' detailed financial information, CAS practitioners may not have taken the next important step of analyzing it through the lens of their financial needs. Just as important, CAS leaders may be unsure of exactly how their firms can help – and what tools they need – to address these issues once they're identified.

Financing advisory is quickly emerging as one of the most valuable ways for CAS practices to serve clients' most critical needs, enabling them to deepen client relationships and trust while creating a new source of additional revenue. The growth of this practice area has been accelerated by the emergence of advanced financial technology (fintech) tools designed specifically to help accounting firms and CAS practices deliver these services – not just banks.

It all starts with holistic accounting.

Holistic accounting is the key to unlocking the potential of financing advisory. In a holistic approach, firms go beyond traditional financial statements to consider every key aspect of their clients' businesses, from operational efficiency and financial health to market positioning, growth prospects, and more.

Taking a holistic approach requires engaging more deeply with clients to better understand their businesses, beyond traditional accounting tasks. What are the most important challenges and obstacles they face today? What are their business goals – and what strategies are they pursuing to reach them?

With a steady cadence of formal and informal meetings structured to get the answers to questions like these, your team will gain the insights they need to uncover financing needs for clients – at the moments they're needed most. Combine these meetings with a more comprehensive business analysis and financial forecasting/scenario planning tools, and you'll be able to provide a level of value to clients that they won't get from other relationships. Whether they're facing cash flow issues or need to make strategic investments in real estate or equipment, you can help enable their success. Without a holistic accounting approach, your firm may never even know about these issues until it's too late to help.

Technology can help. Here's how.

Not sure your firm is ready to deliver financing insights and help clients obtain the capital they need? A host of powerful new fintech tools have brought these capabilities within reach, even for small firms. These tools change the traditional financing dynamic, putting firms at the center of the transaction – they can finally take the lead in the financing process, providing a direct path from identifying financing needs to accessing capital. For example, CPA.com's partner Biz2Credit delivers a cloud-based service that allows firms to actively monitor the loan approval process and secure highly competitive financing for their clients.

Over the course of only a couple of years, fintech has already transformed what's possible for firms to deliver in financing – see this short video for a first-hand account of how these capabilities have already changed one firm leader's practice. These advances have unfolded so quickly that many firm leaders haven't even noticed – yet.

Take the first step.

Want to know more about these new tools and capabilities? Start with a visit to the CPA business funding portal page to learn more about how the portal works and how to access it for free. It may be the first step you take toward unlocking an entirely new revenue stream and helping clients where they need it most.

Matt Elwell is the Product Account Manager for Financing Advisory Services with CPA.com. Matt started his career in the banking sector and spent the majority of his career as a consultant in the franchise space. Matt is passionate about helping entrepreneurs to work on their businesses rather than simply working in them. He brings together his banking and consulting backgrounds to work with accounting firms to help them build deeper relationships with their clients by adopting financing advisory services.

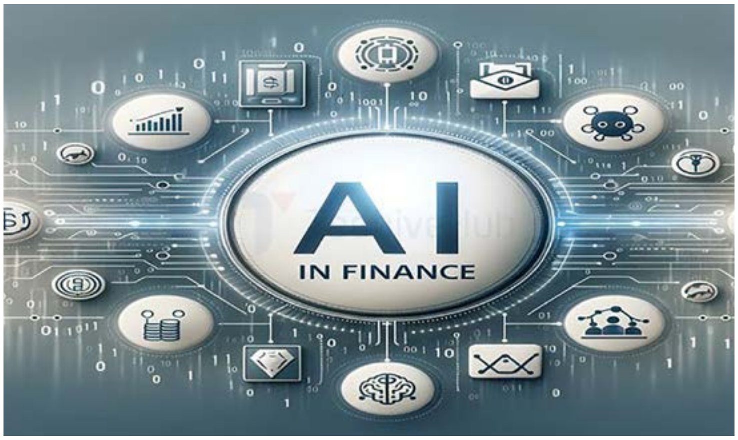
AI Uses In The Financial Sector

The financial industry is witnessing an unprecedented revolution driven by innovative technology. Artificial intelligence (AI) uses in the financial sector have made the technology a vital tool. By processing vast amounts of data at incomprehensible speeds, AI applications are altering the finance landscape, enhancing everything from fraud detection to personalized banking services.

There's much money in AI – an industry projected to be worth $407 billion by 2027. Increasingly, there is a lot of AI in the financial sector, such as Microsoft Copilot for Finance in Excel, Outlook, and Teams. The use of AI in finance is widespread, but it is focused on several key areas. In this quick overview, we will touch on AI technology's various roles in the financial sector and the monumental shifts it catalyzes in how financial bodies conduct business.

1. Risk Management

AI is a game changer in risk assessment, where the key is to predict future financial outcomes based on historical data. Machine learning models can now analyze complex data sets and patterns, providing more accurate predictions. Algorithms in machine learning empower financial applications to become more adept at identifying trends, anomalies, and actionable insights. These algorithms have led to enhanced credit scoring, early fraud detection, and the ability to monitor real-time market conditions to mitigate risks. Remember, the NIST AI Risk Management Framework (AI RMF) provides guidelines for incorporating trustworthiness considerations into designing, developing, using, and evaluating AI products, services, and systems.



2. Customer Service And Personalization

Banking has always been a personal business, and while it may seem counterintuitive, AI makes it even more so. Chatbots, virtual assistants, and predictive analytics models powered by AI are driving hyper-personalized customer experiences. For example, Ally Assist can answer customer questions, provide financial advice, and help customers with budgeting and bill pay tasks.

By understanding customer behavior and preferences, AI enables banks to offer tailored product recommendations, thus improving customer satisfaction and retention. For example, Capital One utilizes AI to personalize its products and services for each individual customer. For instance, the company recommends credit cards and other financial products based on customers' spending habits and financial goals.

3. Trading And Portfolio Management

AI has significantly impacted trading and portfolio management. High-frequency trading models leverage AI algorithms to execute complex strategies at speeds impossible for human traders. AI-enablement often captures opportunities that a human might miss. In portfolio management, AI-powered tools can suggest changes in investment strategies based on market conditions or investors' goals, ensuring a dynamic and responsive approach to portfolio management.

4. Compliance And Security

As financial regulations increase, compliance becomes increasingly burdensome. AI, however, provides solutions that streamline compliance processes and enhance security measures. AI-driven systems can monitor vast amounts of transactions and data to detect anomalies, suspicious activities, and compliance breaches more effectively, thus reducing the risk of financial crime and protecting customer assets. McKinsey suggests that generative AI could fundamentally change financial institutions' risk management in the next five years.

5. Operational Efficiency

AI streamlines the most complex and tedious back-office operations. Streamlining means quicker loan approvals, streamlined payment processing, and automation of various administrative tasks. By integrating with existing IT infrastructures, AI technologies can improve efficiency while reducing the potential for inherent errors when humans are involved in repetitive tasks. In the financial sector, robotic process automation can manage tasks such as data entry, invoice processing, and even preparing compliance reports, freeing up human resources for more strategic roles. Further, banks and many other businesses should consider becoming AI-first.

Looking To The Future

AI has the potential to redefine the financial sector for years to come. The technology's growth will be propelled by advancements in machine learning, increased computational power, and the availability of big data. AI and quantum computing will drive these initiatives faster.

While challenges and ethical dilemmas are an inevitable part of this journey, the potential for AI to improve efficiency, mitigate risks, and enhance customer experiences is vast. As illustrated above, these AI uses in the financial sector should provide a competitive edge to early adopters. Consumers and professionals need to monitor these advancements closely since AI will alter the landscape of financial institutions and influence the broader economy and society.

At K2 Enterprises, our commitment lies in providing unwavering support and expert instruction to CPAs. Explore the wealth of resources on our website, where you'll find valuable insights on selecting the most suitable accounting software, ensuring your firm is equipped with the right tools for the journey ahead. If you work in accounting or finance, K2 Enterprises provides continuing education programs to enhance your skills and credentials. Need help learning how to solve your business's accounting technology needs and selecting the right software for accounting or CPA Firms? Visit us at k2e.com, where we make sophisticated technology understandable to anyone through our conferences, seminars, or on-demand courses.

On the Other Hand

By Ronald Heller, Attorney & CPA

Q: What is the connection between fishing for herring in the Atlantic and advising taxpayers about the Internal Revenue Code?

A: This year, the U.S. Supreme Court made several big decisions with important implications for tax practitioners. One of those decision is *Loper Bright Enterprises, Inc. v. Raimondo, Secretary of Commerce, et al.*, 144 S. Ct. 2244, decided on June 28, 2024.

Loper Bright Enterprises is one of several companies involved in fishing for herring in the Atlantic. They were involved in a dispute with the National Marine Fisheries Service (NMFS, pronounced like "nymphs") about the validity of certain administrative rules. Basically, NMFS establishes conservation plans that include annual catch limits and rules about the use of specific types of fishing gear and equipment. To enforce these rules, NMFS puts inspectors aboard fishing vessels. The central dispute in the case was whether the fishing boat operators could be required to pay a fee to cover the cost of having the inspectors on board.

NMFS had adopted administrative rules imposing the fees, but the fishing companies argued that NMFS had no statutory authority from Congress to adopt such rules. They said only Congress has the power to pass laws. While administrative agencies can interpret and enforce the law, they cannot create law that goes beyond the intent of Congress.

Since the 1980s, the rule for deciding this type of case was the rule of "Chevron deference." Named for the 1984 Chevron case, this rule said that courts should defer to an administrative agency when interpreting laws in the agency's area. Chevron established a two-part test: (1) Whether "Congress ha[d] directly spoken to the precise question at issue"? If so, that's the end of the story – the courts must follow the law enacted by Congress. (2) If Congress had not addressed the question at issue with the necessary "level of specificity," is the agency interpretation "a permissible construction of the statute"? If the agency's interpretation was **a reasonable interpretation** of the statute, the courts should follow it. Even if the court disagreed with the agency, and felt that some other interpretation of the law would be better, the court was supposed to follow the agency interpretation as long as it was reasonable.

Now, we get to why this matters to tax practitioners: Based on *Chevron*, courts said "We must defer to a Treasury Regulation so long as it is reasonable." *Mayo Foundation for Medical Education & Research v. United States*, 568 F.3d at 681 (8th Cir. 2009) (citing *Chevron*).

In *Loper*, however, the U.S. Supreme Court expressly overruled Chevron. The Supreme Court said that interpreting the laws passed by Congress was inherently a function of the courts, not of administrative agencies. They rejected the argument that administrative agencies should resolve ambiguity or uncertainty in the law because of their subject-matter expertise, saying that even if the agencies had such expertise, "it does not follow that Congress has taken the power to authoritatively interpret the statute from the courts and given it to the agency."

In the tax world, this means that challenges to IRS Regs may now be easier for taxpayers to win. In defending a Reg, the IRS will have to convince the court that its interpretation of the statute is **the correct interpretation**, not just **a reasonable interpretation**. Challenges will likely become more frequent. This may add to the period of uncertainty when new law is enacted – not only will we have to wait for Regs to be issued, but we'll have to wait for challenges to those Regs to play out.

Last but not least, all of this may apply to long-established Regs as well as new ones. Just a few days after *Loper*, the Supreme Court decided *Corner Post Inc. v. Board of Governors of the Federal Reserve System*. The administrative rule at issue had been enacted in 2011. Corner Post opened for business in 2018. In 2021, Corner Post joined in a suit to challenge the rule. The case was initially dismissed under a 6-year statute of limitations (6 years from enactment of the rule in 2011). The Supreme Court held that the claim did not accrue until Corner Post was injured by the agency's rule. Therefore, in effect, Corner Post had six years to file suit, starting with the date Corner Post was created. This raises a very interesting question: If an existing taxpayer wants to challenge a decades-old IRS Reg, can that existing taxpayer form a new subsidiary (or an "unconnected" but friendly entity) to challenge that long-existing Reg?

* * * MEMBER ADVISORY * * *

AVOID A RICO* INVESTIGATION…KNOW THE LAW!

CPAs are known for "doing the right thing" and the following information is provided to HSCPA members whose core values are to uphold the legacy and integrity of the accounting profession.

Ethics CPE

Do Hawaii CPAs need Ethics CPE for license and Permit to Practice (PTP) renewals?

Yes. Even if you are renewing your license only, you will need four (4) hours of Ethics CPE. For those renewing both license and PTP, the four (4) hours of Ethics CPE can be part of the 80 hours of required CPE. Be prepared and register for an Ethics course here. Upcoming reporting year: License and PTP renewals by December 31, 2025. Firm PTP renewals will require peer review reporting, if applicable.

Important Hawaii Administrative Rules

(HAR 16-71) CHANGE*

Section 16-71-33 requires a minimum of 20 hours of CPE be earned each year for the PTP. For a permit to practice public accountancy covering each biennium, an individual applicant shall file, together with the application and payment of a fee for a permit to practice, an attestation as to the completion of at least 80 hours in continuing professional education programs. The 80 hours shall have been earned by the applicant within a 24-month period, and within 24 months prior to the date of the application for a permit to practice, with a minimum of 20 hours earned within each calendar year.

*effective November 27, 2021

Using the "CPA" Designation

Can one use "CPA" after his/her name with a license but without a PTP?

The law in Hawaii says that it is a prohibited act to use the title Certified Public Accountant or the abbreviation "CPA" unless you hold both a CPA license and a current Permit to Practice, subject to certain exceptions.

If you have a CPA license but not a current PTP, you may call yourself a "CPA", but you must make it clear that you are NOT actively engaged in the practice of public accounting (e.g., by adding the words "not in public practice").

People in different positions use the title "Certified Public Accountant." Some of them prepare tax returns, some of them do audits of financial statements, some of them do financial planning, some of them do business consulting, and some of them hold management positions in industry. There are CPAs in government, CPAs who teach, and CPAs who do other things that may not even be related to accounting. Nothing in the law says that you must be actively engaged in the public practice of accounting to call yourself a CPA.

The way to indicate that you are not holding yourself out to be in the practice of public accountancy, according to Administrative Rule 16-71-9, is to add the words "not in public practice" following the title CPA. Thus, assuming that you do have a current, valid CPA license, you may use the title Certified Public Accountant or the designation CPA if you follow it with the words "not in public practice".

If your CPA license has lapsed, then it is clearly a prohibited act to use the CPA title, even with the words "not in public practice" added. To fit within the exception, you must have a current CPA license.

It is not a violation to make a statement that is clearly historical rather than current, such as "I was a CPA for 30 years before I retired." That type of statement is not a violation because it does not imply that you are a CPA now. However, if you do not have a current PTP, any statement that suggests or implies that you are a CPA now should clearly indicate that you are not in public practice.

Of course, the other alternative is to maintain a current Permit to Practice. If you have both a CPA license and a current permit to practice, then no disclaimer is required.

To initially obtain your CPA license, you had to satisfy the applicable standards regarding Education and Experience, and pass an Examination. You have good reasons to be proud of that achievement, and if you follow the rules, it's appropriate to let people know about it. You are a CPA – the fact that you left public practice doesn't change that.

Having CPAs in important positions in government, industry, and academia is good for the profession and good for society. If your CPA background helps you do your job, that proves the value of the CPA profession. Identifying yourself as a CPA and showing pride in the profession is a plus for all of us.

Don't become a victim of a RICO investigation! Know the law and comply. If you have any questions, feel free to contact the Hawaii Board of Public Accountancy at (808) 586-2696, e-mail: accountancy@dcca.hawaii.gov.

This advisory is intended as general information, and not legal advice for any specific individual situation. If you need or want legal advice, you should consult an attorney.

*The Regulated Industries Complaints Office (RICO) is a statewide agency of the Department of Commerce and Consumer Affairs. RICO enforces the regulatory standards of over forty professions, occupations, and programs by receiving, investigating, and prosecuting complaints.

In Memory Of

Mark D. Hunsaker

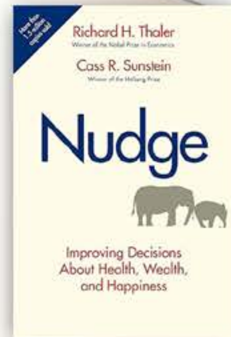
1949 - 2024

Our sincere regret at the loss of a colleague,
friend and member of the HSCPA since 1986.
We wish to express our deepest sympathy
to his family and friends.

Norman's Book Review

"Nudge"

by Richard Thaler and Cass Sunstein



I was always intrigued by the book's title and decided to read the original book that was released in 2008. The authors also issued a "Nudge: The Final Edition" in 2021 which gives additional insights and the impact the original book had since 2008. I will read that book later.

Richard is an economist who was awarded the Nobel Prize in Economic Sciences in 2017 for his contributions to behavioral economics. Cass is a legal scholar who was a University of Chicago Law School professor for 27 years and is currently the Robert Walmsley University Professor at Harvard Law School. Together they literally changed the world by changing how people looked at behavioral economics, and as the book cover noted, by improving decisions about health, wealth and happiness. They describe this not only at an individual level, but also on a macro level for those responsible for decisions that companies, industries, professions and governments make.

Nudge Definition

The book defines a nudge as *"anything that alters people's behavior in a predictable way without forbidding any options or significantly changing their economic incentives.* The intervention must be easy and cheap to avoid." An easy nudge noted in the book is how food is displayed and the location of various foods greatly impact what food is chosen and consumed.

Choice Architect

The book also defines a choice architect as someone who "has the responsibility for organizing the context in which people make decisions. For example, if you designed a voting ballot, doctor describing alternative treatment, parent describing school options to your child, salesperson, etc., you are a choice architect."

Are You a Nudger or a Nudgee?

I never gave the word nudge much thought before reading the book, but my life is forever changed. I am consumed with how we are constantly nudging someone to do something or being nudged by someone or something to make a certain decision. Nudgee is not really a word, but it sounds good and might qualify as a pidgin word.

My wife gently nudges me to do the dishes daily, eat fruits not chips, etc. Likewise, I try to nudge my wife to reduce her Amazon purchases, albeit with limited success.

At work I feel like a nudger in encouraging my employees to exceed our financial goals.

Whether we like it or not we are equally guilty of being a nudger or nudgee. As the book states, "a good rule of thumb is to assume that everything matters."

Libertarian Paternalism

The book also combines two words that are not normally used together to describe their new movement. The authors states, "libertarian paternalists want to make it easy for people to go their own way; they do not want to burden those who want to exercise their freedom."

Nudge covers in different chapters how libertarian paternalism can help people save more, invest smarter, borrow better, and improve prescription drug Part D decision making. It also covers how it can increase organ donations, save our planet environmentally, improve school choices, and improve social security. Finally, the book presents thought-provoking discussions on health care and marriage.

Large vs. Small Plates and Who You Eat With

If you want to nudge yourself and loved ones to lose weight, use smaller plates. "Large plate and packages mean more eating."

Also, who you eat with makes a big difference. "Obesity is contagious; you're more likely to be overweight if you have a lot of overweight friends. If you eat with one person vs. only yourself, you will eat

35% more. Four people, you will eat 75% more. Finally, in groups of seven or more, you will eat 96% more!"

Iced vs. Hot Coffee

Did you know coffee nudges your perception of strangers? "Iced coffee drinkers more likely see others as more selfish, less sociable and colder than those who drink hot coffee."

Humans Nudging Humans

Whether we admit it or not, we are generally easily nudged by friends, family members and total strangers. The authors note "while humans are not exactly lemmings, they are easily influenced by the statements and deeds of others. This is critical because sometimes massive social changes in markets and politics alike, start with a small social nudge. Additionally, consistent and unwavering people, in the private or public sector, can move groups and practices in their preferred direction, positive or negative."

Do Couples Actually Lookalike?

It is not just folklore, "couples do start to look alike the longer they live together. Why? Couples grow to look alike because of nutrition – shared diets and eating habits, and imitation of facial expressions. In fact, couples who end up looking alike also tend to be happier!"

Company Stock vs. Diversified Portfolio

Most company employees who receive company stock directly or in their 401(k) tend to keep their holdings in company stock. The authors state this is very risky! "Per economist Lisa Meulbroek, a dollar in company stock is worth less than half the value of a dollar in a mutual fund. Thus, in general, workers would be much better off with a diversified mutual fund than with company stock. If you have more than 10% of your retirement money invested in the company you work for, diversify as quickly as possible."

Summary

I can really see how this book changed the world for the better. Personally, it made me look at my every day choices with a better life lens and gave me a much better understanding how I get nudged every day and nudge others either consciously or unconsciously. I highly recommend you read this book to get a better perspective of how we make decisions and life in general.

5 growing pains in client advisory services (CAS) and what to do about them

By Kim Blascoe of CPA.com

Does this sound familiar? After years of your firm successfully delivering the same fundamental set of accounting services to clients, their needs evolve. They start to ask for more. At the same time, you've started to add new clients with new needs. Your team is now being asked to deliver advisory-level insights—a welcome development given the deeper, more valuable relationships that are generated through advisory services. But they're operating with tools and processes that weren't designed to support these deeper, more expansive relationships.

For so many firms of all sizes, this is the origin story of their CAS practices. It's no wonder that the recent Top 100 Firms Report from Accounting Today shows that CAS is a leading growth area for more firms than ever before, with 84% of Top 100 firms that already have a CAS practice reporting growth in this service line.

But maturity tends to come with growing pains. For many firms, growth happens organically in the early phases. But sustaining that growth after notching early wins can be difficult. In fact, it can be tough just to deliver on existing client needs over the long term, without even factoring growth into the equation.

Here are five growing pains we hear most frequently:

1. We don't have a clear strategy for what's next.

If your firm never took the time to set out a strategic plan for its CAS practice, you're not alone. Being opportunistic rather than purely strategic is a successful early path to growth for many practices in their first years. But as they mature, practices have to make choices—which types of clients to pursue, what talent to hire, which technology investments to make, and more. These are bigger decisions with bigger implications over the long term, and simply aligning with the broader firm strategy doesn't work for the unique needs and goals of CAS practices. That's when a clear, multiyear CAS strategy and strategic plan become invaluable, serving as the north star for every significant decision.

2. We can't find the talent we need.

Finding and keeping good talent is a serious challenge throughout the accounting profession. But it's an even steeper challenge for CAS practices. These practices need very specific, hard-to-find skills to grow and expand through advisory services—they need people who can analyze data, provide higher-level business advice based on those insights, and gain the trust of clients in long-term, ongoing, high-touch relationships. It may require tapping into nontraditional sources of talent, such as those with private accounting experience, or even former C-suite leaders, directors or managers from a select industry niche. This requires firms to evolve to optimize their resources and client experience.

3. Our existing processes aren't working for a mature CAS practice.

CAS practices thrive when they can achieve scale. And one of the most important factors in scaling successfully is the practice's ability to streamline and standardize processes. However, for the many CAS practices that have grown opportunistically by taking on new clients and adopting disparate processes based on their individual needs, this can be a daunting challenge. Improving CAS processes is often about identifying what already works well, documenting it, formalizing it, and executing. An objective, outside perspective can be instrumental here, helping introduce leading best practices, doing the hard work of documenting and formalizing processes, providing a practical road map for execution, and helping you overcome obstacles to achieving key milestones.

4. We grew without a growth plan—now we need one.

Many CAS leaders report that growth can come quickly in the early stages. But after achieving the initial quick wins, a more comprehensive strategy may be needed to sustain growth over the long haul. A more formal planning process can make a big difference, helping practice leaders more clearly identify exactly which industries they should be pursuing (and which they shouldn't), how to market to them, and how to execute internal sales and marketing efforts to achieve results.

5. Our needs have outgrown our technology.

Leading CAS practices tend to verticalize by industry—a positive development that bodes well for their ability to continue adding clients and growing revenue. But as they take on a niche approach, they often pivot to new, more specialized tech-stack designs that meet the needs of their focus industries. How can CAS practices accomplish this without losing the standardization that enabled their growth in the first place? It helps to distinguish between the foundation of transactional-focused technology that lays the groundwork for the entire practice and the more specialized, sophisticated tools that can enable advisory-level engagements by industry.

A CAS coach can get your practice operating at its peak.

If your CAS practice is experiencing any of these growing pains, you're not alone. But you can use best practices and insights into what other firms have done to overcome these obstacles to shift the dynamic in your own practice.

An authoritative, objective outside voice can help focus and accelerate your firm's CAS journey. Having access to an experienced CAS expert who can assess what is and isn't working in your unique practice, and share tried-and-true best practices and approaches, can help you clear the obstacles to sustained growth and client success. Additionally, connecting with other firms that are on the same journey and working through similar growing pains can lead to new insights and useful relationships that can pay dividends long after any coaching partnership.

You can learn more CAS best practices by reading our white paper, "The Future of Client Advisory Services: Understanding CPA.com's CAS 2.0® framework". You can also visit cpa.com/cas2 or listen to our recent podcast to find out more about how CPA.com can help accelerate your firm's own CAS transformation journey.

Kimberly K. Blascoe, CPA, leads CPA.com's CAS 2.0 practice transformation programs, focusing on helping firms establish and grow optimized CAS practices through consulting, practice development and training offerings. Prior to joining CPA.com, Kim spent more than 30 years in public accounting, which included leading the CAS practice for a Top 20 firm.

Ycpa

THE BUZZ

Deepen the Trusted Advisor Relationship and Expand Career Opportunities

By Abel Soares III

Earlier in 2023, the American Institute of Certified Public Accountants (AICPA) confirmed there are only five Personal Financial Specialist (PFS) certification holders that reside in the State of Hawaii. To expand knowledge of the certification and its benefits, the AICPA established a PFP Champion Program where I was appointed as the Hawaii champion to promote awareness of the PFS (Personal Financial Specialist) credential and the benefits of the PFP community.

This article will discuss what the credential is, why there are benefits, and why CPAs especially young CPAs joining the profession have a unique ability to offer deeper services while building a non-traditional career.

The AICPA's website provides a lot of information about PFS certification unique to CPAs, some of these are:

What is the PFS credential?

"The AICPA's Personal Financial Specialist (PFS) credential is for CPA financial planners and CPA tax practitioners who want to formally demonstrate their knowledge and expertise in personal financial planning for individuals, families and business owners."

Additionally, CPA/PFS credential holders are uniquely positioned to help businesses and their owners as a trusted advisor by taking into consideration the impact of decisions on not just the business, but also the owner. As a CPA, the experience can range from advising or working in the areas of accounting, attest engagements and taxation, but with the wider reach of internal controls, financial analysis and recommendations for decision-making which may not normally be highlighted for young CPAs.

CPA PFS™

In addition to these areas, the PFS credential allows CPAs to assist clients one step further by tying in the client's personal finances while utilizing a highly technical skill set. The added layer of being able to assist in financial advising beyond the tax return, and assist clients to achieve their lifestyle, retirement, estate, and legacy goals are all areas where the PFS credential provides a beneficial experience to businesses and individuals at a deeper level. These services can be the value-add consulting that provide financial design and implementation for individuals, especially in the following areas of focus for the PFS body of knowledge: tax planning, estate planning, retirement planning, investment planning, risk management and insurance planning, cash flow planning, charitable planning, elder and special needs planning, education planning, employee benefit and business owner planning.

After attaining the PFS, I have experienced a deeper connection with clients and a way to provide greater value by helping them align their business decisions with their personal goals and values. As an example, when working with closely-held business owners desiring to make a major personal purchase, I provide a range of options through tax and income planning. These options provide information to make key decisions to support their goals. One method may allow them to mitigate their tax bill by reinvesting in their business, and the other would allow them to show a greater income to qualify for a mortgage that they could use to buy a home. In addition, we can identify methods of investment that tie to the client's risk profile and opportunities. This could range from reinvesting in their business, marketable securities, retirement plans, fixed income, and more.

To the young CPAs in Hawaii, you have a valuable skill set and there are many opportunities that may not always present themselves -- Accounting can pave the way to those exciting opportunities! To find out more about the PFS credential visit the AICPA website. A hui hou.

YPs Having Fun!

It was a picture-perfect day for a hike at the lush Ho'omaluhia Botanical Gardens on June 29th! Breathtaking sceneries, lush gardens and a great group of adventure seekers took advantage of the morning's great weather for some relaxing recreational activity at HBG. More fun planned for the future so stay tuned!

Thank you to Y-CPA Squad member Dharyl for coordinating the event – more fun planned for the future so stay tuned!