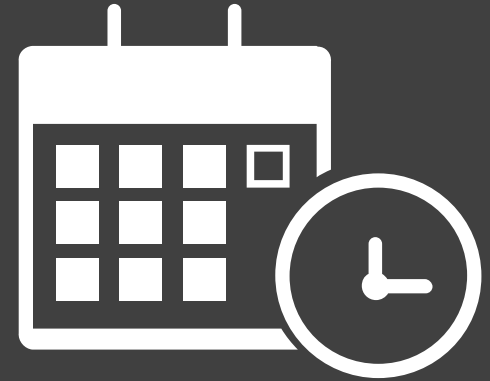


# 2023 Year-End Planning Considerations





# Accrual vs. Cash Method

- ▶ Accrual Basis - Usually Used for Financial Reporting Purposes
  - Revenue Recognized when Earned
  - Expenses are Recognized when Incurred
  
- ▶ Cash Basis - Temporary Deferral of Receivables & Payables and Related Taxes
  - Revenue is Recognized when Received
  - Expenses are Recognized when Paid
  - Accrued Pension & Profit Sharing is Deductible if Paid by Filing Date of the Tax Return
  - Credit Card Purchases are Considered a Cash Purchase
  - What to Watch Out For:
    - Undeposited Cash Received is Income
    - Unissued Checks are not Expense

# General Planning

- ▶ PTE Tax Consideration
  - Adopted by Massachusetts with a 10% benefit claw back at individual level
  - Adopted by many additional states across the country
  - Arbitrage Can Result with Non-Resident Member / Shareholders
  - Analysis as to benefit should be performed to determine benefit
  - Currently PTE tax is only available to cover 5% tax on ordinary income and not the additional 4% MA Millionaires tax
- ▶ Section 179 up to \$1,160,000; \$2,890,000 cap on expendable equipment before limitation
- ▶ Bonus Depreciation(automatic unless opting out)
  - 80% 2023
  - 60% 2024
  - 40% 2025
  - 20% 2026
- ▶ 163J Limitation of 30% on Deductible Interest Expense
  - No longer able to add back depreciation and amortization in calculating base threshold

# Potential Tax Benefits

- ▶ 179D Deduction for Energy Efficient Interior Improvements
  - Previous deduction \$1.80 per square foot, Current deduction \$5.00 per square foot
  - Current Legislation Allows for allocations on projects for federal, state, and local government owned buildings as well as tax exempt entities
  - Requires Careful Consideration
  - Third Party Study is Recommended
- ▶ R&D Credits
  - Third Party Study is Recommended
- ▶ ERC (Employee Retention Credit For 2020 and 2021)
  - If Qualify, Benefit Could be Significant
  - Will Require Amending Payroll and Income Tax Returns.
  - IRS Scrutiny due to many fraudulent claims
    - Pausing New Claim Processing Until 2024
    - Avenue available to withdraw erroneous claims
- ▶ ERC Benefit is Taxable
  - To the year in which the benefit was derived

# Other Considerations

- ▶ MA Millionaire Tax
  - Applicable for 2023
- ▶ MA Charitable Deduction
  - Allowed on MA return for 2023, event if not itemizing federally
- ▶ PPP Loans
  - Should be close to running its course
- ▶ Excess Business Losses Limitation Applicable Again
  - \$289,000 / \$578,000
- ▶ Meals & Entertainment
  - 50% is Deductible
  - Entertainment is Not Deductible
  - Holiday Parties and items Given to Public are 100% Deductible



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# **Introduction to CECL (Current Expected Credit Loss) FASB Topic 326**

**Presented to ACEC/MA Accounting & Finance Forum**

**Nicholas Tamvaklis, Partner, A&E Practice**

**December 19, 2023**

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# Introduction to CECL

- Where it began
- Probable versus expected
- Goal of the new standard
- Effective date
- Lots of judgement



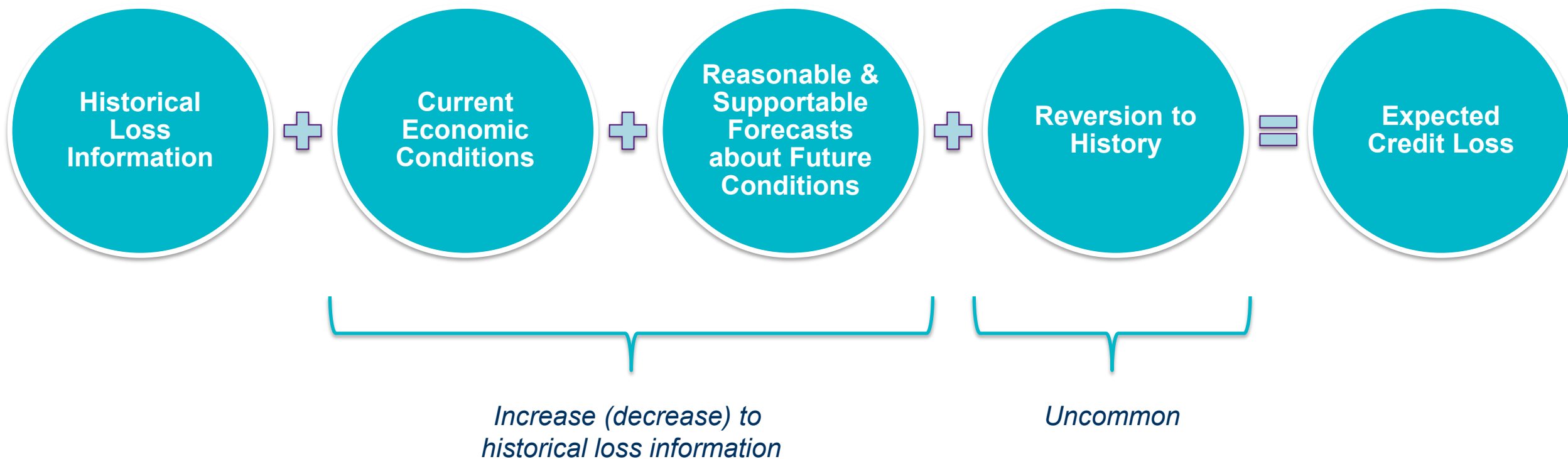
# Scope

Notes receivable	Cash equivalents
Held-to-maturity debt securities	Receivables arising from time-sharing activities
<b>Trade receivables and contract assets that result from revenue transactions or other income</b>	Receivables resulting from sales-type or direct financing leases
Receivables that relate to repurchase agreements and securities lending agreements	Loan commitments, standby letters of credit, financial guarantees, and other similar instruments
Loans to officers and employees	All reinsurance recoverables, regardless of the measurement basis of those recoverables

# What is Changing

	Legacy Standard ("Old GAAP")	CECL Standard ("New GAAP")
<b>When to recognize credit losses</b>	When probable that loss has been incurred (generally after initial recognition of the asset)	When losses are expected, in almost all cases upon initial recognition of the asset
<b>Period to consider</b>	N/A	Contractual term
<b>Information to consider</b>	Historical loss and current economic conditions	Historical loss, current economic conditions, reasonable and supportable forecasts about future conditions
<b>Unit of account</b>	Pooling generally not required, but permitted	Pooling required when assets share similar risk characteristics

# The CECL Model



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# Example

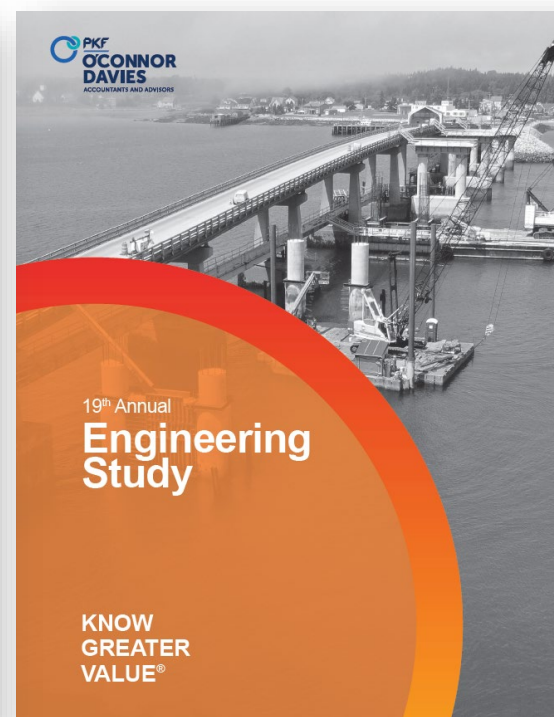
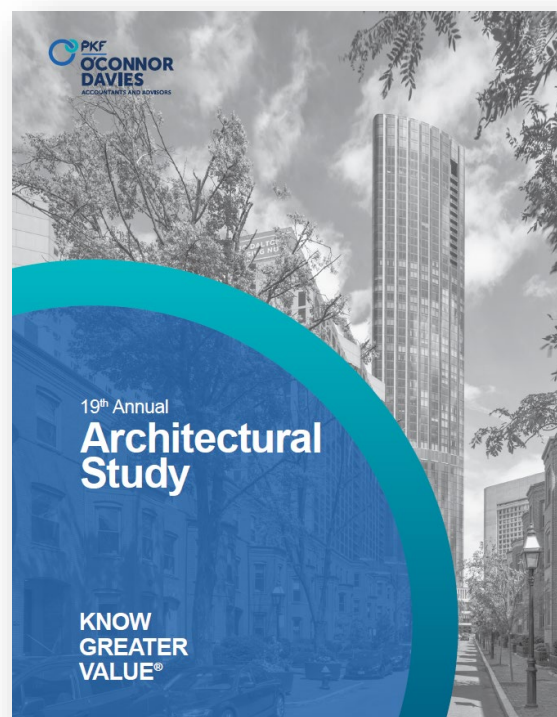
# Final Thoughts

- Have you already started your CECL analysis?
- May or may not be changes to your allowances, based on your current methodology
- Talk to your CPA, they will need to audit/review assumptions for reasonableness
- Ongoing monitoring and updates are required

# Resources

Visit the Architecture and Engineering industry page at **PKFOD.com** for additional resources, including our annual studies.

Our annual A&E Summit is returning in June 2024!



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# Thank You



**Nicholas Tamvaklis, CPA, CDA, MST**  
Partner, A&E Practice  
ntamvaklis@pkfod.com  
781-937-5147

## CECL Example

	Balance	Historical Loss Information	+
		<i>Segments or pools are created based on common characteristics. A combination of both internal and external information, including macroeconomic variables, are used to establish a relationship between historical losses and other variables.</i>	
<b>Pool A</b>			
0-60 days	1,000,000		1.0%
61-120 days	800,000		3.0%
121-180 days	500,000		5.0%
181-240 days	200,000		10.0%
241-300 days	125,000		15.0%
301-365 days	75,000		33.0%
365+ days	25,000		50.0%
<b>Pool B</b>			
0-60 days	300,000		5.0%
61-120 days	250,000		7.0%
121-180 days	225,000		12.0%
181-240 days	100,000		19.0%
241-300 days	85,000		41.0%
301-365 days	60,000		72.0%
365+ days	40,000		96.0%
<b>Specific Identification</b>			
Client name	150,000		N/A
Client name	65,000		N/A
<b>Total Accounts Receivable</b>	4,000,000		
		See Pooling Assets tab	



<i>Increase (decrease) to historical loss information</i>	
<b>Current Conditions</b>	<b>+ Reasonable &amp; Supportable Forecasts</b>

*To reflect current asset-specific risk characteristics, adjustments to the historical data will need to be considered. These adjustments are usually done through a combination of both qualitative and quantitative factors.*

*The forecast period to project expected credit losses should be reasonable and supportable. Document the rationale and provide evidence supporting the reliability and accuracy of economic scenarios and forecasts.*

	10.0%
	10.0%
	10.0%
	10.0%
	10.0%
	10.0%
	10.0%

	15.0%
	15.0%
	15.0%
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	15.0%
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	15.0%
	15.0%

	25.0%
	25.0%
	25.0%
	25.0%
	25.0%
	25.0%
	25.0%

	50.0%
	100.0%

	N/A
	N/A

*See Current Conditions Factors tab*

*Potential sources of information: AIA ABI; ENR Construction Industry Confidence Index; ACEC Sentiment Study, other economic indicators*

<div>Uncommon</div>	
Reversion to History	= CECL Rate

Entities are to revert to historical loss information when unable to make reasonable and supportable forecasts. The reversion method applied must be well documented and is not a policy election.

	1.3%
	3.8%
	6.3%
	12.5%
	18.8%
	41.3%
	62.5%
	7.0%
	9.8%
	16.8%
	26.6%
	57.4%
	100.0%
	100.0%
N/A	50.0%
N/A	100.0%

Total CECL Reserve

**Estimated Credit Loss Estimate**

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*The result should represent the current expected credit loss over the remaining contractual term of the financial asset or group of financial assets.*

13,000  
30,000  
31,000  
25,000  
23,000  
31,000  
16,000

21,000  
25,000  
38,000  
27,000  
49,000  
60,000  
40,000

75,000  
65,000

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569,000

	EXISTING GUIDANCE
When to recognize credit losses	When probable that generally after initi
Period to consider	Not an explicit input
Information to consider	Historical loss and economic condition
Unit of Account	Pooling generally not

ANCE	NEW CECL MODEL
it loss has been incurred, al recognition of the asset	When losses are expected, in aln upon initial recognition of the as
ut to incurred loss model	Contractual term
current ns	Historical loss, current economic reasonable and supportable fore future conditions (with reversion loss information for future perio those that can be reasonably for
ot required, but permitted	Pooling required when assets sha risk characteristics

most all cases  
set

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conditions,  
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are similar

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**ASC 326-20 is applicable to financial assets measured at amortized cost, net investments in leases recognized as insurance exposures not accounted for as insurance.**

The scope of CECL is broad and includes the following:

- Loan Receivables/Notes Receivable
- Held-to-maturity debt securities
- **Trade receivables and contract assets that result from revenue transactions or other income**
- Receivables that relate to repurchase agreements and securities lending agreements
- Loans to officers and employees
- Cash equivalents
- Receivables arising from time-sharing activities
- Receivables resulting from sales-type or direct financing leases
- Loan commitments, standby letters of credit, financial guarantees, and other similar instruments
- All reinsurance recoverables, regardless of the measurement basis of those recoverables

ized by a lessor, and off-balance sheet credit



**ASC 326-20 requires in scope assets sharing similar risk characteristics to be grouped in pools for a lifetime expected credit losses. In situations where a specific asset does not share the same risk characteristics and measure that asset individually.**

In evaluating financial assets on a collective (pool) basis, an entity should aggregate financial assets on include any one or a combination of the following (the following list is not intended to be all inclusive):

- Internal or external (third-party) credit score or credit ratings
- Customer type / size
- Age
- Risk ratings or classification
- Financial asset type
- Collateral type
- Effective interest rate
- Term
- Geographical location
- Industry of the borrower
- Vintage
- **Historical or expected credit loss patterns**
- **Reasonable and supportable forecast periods**

Applying the methodology selected and estimating the characteristics with other assets, entities are to separate

the basis of similar risk characteristics, which may

**Examples of factors an entity may consider include any of the following, depending on the nature of and other factors not on the list may be relevant):**

- The borrower's financial condition, credit rating, credit score, asset quality, or business prospects
- The borrower's ability to make scheduled interest or principal payments
- The nature and volume of the entity's financial asset(s)
- The volume and severity of past due financial asset(s) and the volume and severity of adversely classified assets
- The experience, ability, and depth of the entity's management, lending staff, and other relevant staff
- The environmental factors of a borrower and the areas in which the entity's credit is concentrated, including:
  - Regulatory, legal, or technological environment to which the entity has exposure
  - Changes and expected changes in the general market condition of either the geographical area or the industry
  - Changes and expected changes in international, national, regional, and local economic and business conditions, including the condition and expected condition of various market segments.

**the asset (not all of these may be relevant to every situation,**

classified or rated financial asset(s)

ff

such as:

the area or the industry to which the entity has exposure

business conditions and developments in which the entity operates,

The standard does not provide prescriptive guidance for an entity to follow when developing its estimate of expected credit losses. The standard provides entities with the ability to use judgment in developing a methodology that is able to be applied on a range of circumstances and is considered reasonable and supportable. The method(s) used to estimate expected credit losses may vary based on the nature of the assets, the information available to the entity, and the timing of cash flows.

- **Loss-rate approach (collective evaluation) ASC 326-20-55-18 through 55-22**
- **Loss-rate approach (individual evaluation) ASC 326-20-55-23 through 55-27**
- Vintage-Year Basis ASC 326-20-55-28 through 55-31
- Expected credit losses using both a collective method and an individual asset method (includes discounted cash flows) ASC 326-20-55-32 through 55-36
- **Trade receivables using an aging schedule ASC 326-20-55-37 through 55-40**
- Practical expedient for collateral-dependent financial assets ASC 326-20-55-41 through 55-44
- Practical expedient for financial assets with collateral maintenance provisions ASC 326-20-55-45 through 55-48
- Potential default is greater than zero, but expected nonpayment is zero ASC 326-20-55-48 through 55-50
- Recognizing write-offs and recoveries ASC 326-20-55-51 through 55-53
- Unconditionally cancellable loan commitments ASC 326-20-55-54 through 55-56
- Recognizing purchased financial assets with credit deterioration ASC 326-20-55-61 through 55-65
- Loss rate approach on purchased financial assets with credit deterioration ASC 326-20-55-66 through 55-70
- Discounted cash flows approach on purchased financial assets with credit deterioration ASC 326-20-55-72 through 55-76
- Identifying similar risk characteristics in reinsurance receivables ASC 326-20-55-81 through 55-85

or expected credit losses. The FASB instead has  
a consistent basis from one period to the next and  
based on the type of financial asset, the entity's ability

d cash flows example) ASC 326-20-55-32 through 55-36

55-47

.71  
through 55-78

# 2023 Year End Tax Planning Considerations

- Gift/Estate Planning
  - Annual Exclusion Gifts - \$17,000 in 2023; \$18,000 in 2024
  - Lifetime Exemption - \$12.92 million in 2023; \$13.61 million in 2024 (sunset 1/1/26)
  - Pay for educational and medical expenses directly
- Charitable Planning
  - Cash, appreciated securities, other assets
  - Consider use of donor advised fund
  - “Bunching” charitable contributions
  - IRA qualified charitable distribution

# 2023 Year End Tax Planning Considerations

- Tax Loss Usage
  - Recognize losses before year end to offset any capital gain
  - Review any prior year tax carryovers
- Roth IRA Conversion
  - Advantages of a Roth IRA over Traditional
- MA Millionaires Tax
  - Taxable income over \$1 million will be taxed an additional 4%
  - Planning Opportunities



# 2023 Year End Tax Planning Considerations

- Corporate Transparency Act
  - Reporting companies required to file a BOI
  - Impact on smaller LLC's and single member LLC's
  - Companies created:
    - before 2024 have until 1/1/25 to file
    - after 1/1/24 and before 1/1/25 have 90 business days to file
    - after 1/1/25 have 30 business days to file

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# Contact

Sarah A. Guilmette, CPA, MBA  
Principal  
sguilmette@pkfod.com | 781.937.5392

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