

# Miles CPA Review: REG - 2017 Updates

## Summary of updates:

- **“New version” CPA exam structure (w.e.f. April 2017)**
- **REG-3, 4, 5: Changes in filing deadlines & extensions**
- **REG-1 Updates**
- **REG-6.1: Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010** – No longer tested on the CPA exams [to be deleted]
- **Reg-7.3: Commercial paper (UCC Article 3)** - No longer tested on the CPA exams [to be deleted]
- **REG-6 Updates**

## Note:

- Most of the changes in REG every year is for the inflation-indexed \$ which are not tested on the exams (and there's no need to memorize).
- There have been certain changes in filing deadlines and extensions for tax returns of few business entities (e.g., C-Corporations, Partnerships). Note that the AICPA has explicitly specified that **filing deadlines and extensions will no longer be tested on the CPA exams.**

# “New version” CPA exam structure (w.e.f. April 2017):

## MCQ testlets

50% weightage

Recommended time:

- Testlet #1: 50 mins
- Testlet #2: 50 mins

## TBS/WCT testlets

50% weightage

Recommended time:

- Testlet #3: 30 mins
- Testlet #4: 50 mins
- Testlet #5: 60 mins

	MCQ testlets		TBS/WCT testlets			
<b>FAR</b>	Testlet #1 33 MCQs	Testlet #2 33 MCQs	Testlet #3 2 TBSs	Break: 15 min	Testlet #4 3 TBSs	Testlet #5 3 TBSs
<b>AUD</b>	Testlet #1 36 MCQs	Testlet #2 36 MCQs	Testlet #3 2 TBSs	Break: 15 min	Testlet #4 3 TBSs	Testlet #5 3 TBSs
<b>REG</b>	Testlet #1 38 MCQs	Testlet #2 38 MCQs	Testlet #3 2 TBSs	Break: 15 min	Testlet #4 3 TBSs	Testlet #5 3 TBSs
<b>BEC</b>	Testlet #1 31 MCQs	Testlet #2 31 MCQs	Testlet #3 2 TBSs	Break: 15 min	Testlet #4 2 TBSs	Testlet #5 3 WCTs

## Old version vs. New version:

	CPA exams (2011 – March 2017)	CPA exams w.e.f. April 2017
<b>Skill-level tested</b>	<ul style="list-style-type: none"> <li>• Remembering &amp; Understanding</li> <li>• Application</li> </ul>	<ul style="list-style-type: none"> <li>• Remembering &amp; Understanding</li> <li>• Application</li> <li>• <b>Analysis</b></li> <li>• <b>Evaluation</b> (for AUD only)</li> </ul>
<b>Exam structure &amp; scoring weights</b>	<b>FAR:</b> 90 MCQs (60%), 7 TBSs (40%) <b>AUD:</b> 90 MCQs (60%), 7 TBSs (40%) <b>REG:</b> 72 MCQs (60%), 6 TBSs (40%) <b>BEC:</b> 72 MCQs (85%), 3 WCTs (15%)	<b>FAR:</b> 66 MCQs (50%), 8 TBSs (50%) <b>AUD:</b> 72 MCQs (50%), 8 TBSs (50%) <b>REG:</b> 76 MCQs (50%), 8 TBSs (50%) <b>BEC:</b> 62 MCQs (50%), 4 TBSs (35%), 3 WCTs (15%)
<b># of Testlets</b>	<b>4 testlets:</b> 3 MCQ testlets + 1 TBS/WCT testlet	<b>5 testlets:</b> 2 MCQ testlets + 3 TBS/WCT testlets
<b>Time Allotment</b>	<b>FAR:</b> 4 hours <b>AUD:</b> 4 hours <b>REG:</b> 3 hours <b>BEC:</b> 3 hours	<b>FAR:</b> 4 hours <b>AUD:</b> 4 hours <b>REG:</b> 4 hours <b>BEC:</b> 4 hours
<b>Break</b>	Optional breaks (count against time)	<b>15-min Standard break</b> (after Testlet #3) + Optional breaks (count against time)

\* MCQ - Multiple Choice Question | TBS - Task Based Simulation | WCT - Written Communication Task

## REG-3, 4, 5: Changes in filing deadlines & extensions

Note: There have been certain changes in filing deadlines and extensions for tax returns of few business entities (e.g., C-Corporations, Partnerships). Note that the AICPA has explicitly specified that **filing deadlines and extensions will no longer be tested on the CPA exams.**

### REG-5.1 (III) Tax Accounting Periods, Filing Deadlines & Extensions

#### ➤ Filing Deadlines & Extensions

	Tax Return Form	Deadline if calendar yr	Fiscal Yr Allowed?	Deadline if fiscal yr (after fiscal yr-end)	Automatic Extension allowed	Extension Form
<b>Individual</b>	1040	4/15	Yes for sole proprietors (but generally calendar yr)	3.5 mths	6 months	4868
<b>C-Corporation</b>	1120	4/15	Yes	3.5 - 4.5 mths	5 - 7 months	7004
<b>S-Corporation</b>	1120S	3/15	Yes (but generally calendar yr)	2.5 mths	6 months	
<b>Partnership</b>	1065	3/15	Yes (but generally calendar yr)	2.5 mths	6 months	
<b>Estate</b>	1041	4/15	Yes	3.5 mths	5.5 months	
<b>Trust</b>	1041	4/15	No		5.5 months	
<b>Tax-exempt</b>	990	5/15	Yes (but generally calendar yr)	4.5 mths	6 months	8868

[Note: No changes for Individuals, S-Corporation]

### REG-3.2 (II) Filing Requirements for Form 1120 (C-Corporations)

➤ For tax years beginning 2016, filing deadlines and extension timelines have been revised [however, these would no longer be tested on the CPA exams – so below table is for reference only]:

C-Corp year-end	Form 1120 Filing deadline	Extension to file *
<b>Dec 31 Calendar year</b>	15th day of 4 <sup>th</sup> month after year-end (i.e., 4/15 if calendar year C-Corp)	5 months (i.e., upto 9/15)
<b>Fiscal Year End (other than Dec 31 or Jun 30)</b>		6 months (i.e., 15th day of 10th month after year-end)
<b>Jun 30 Fiscal Year</b>	15th day of 3 <sup>rd</sup> month after year-end (i.e., 9/15)	7 months (i.e., upto 4/15)

\* Note: Extension to file is granted automatically to the taxpayers on filing form 7004 (does not extend the time to pay, only the time to file)

## **REG-4.2 (II B) Filing Requirements for Form 1065 (Partnerships)**

- **Due date of Form 1065:** Within 2½ months after year-end (by **3/15** for calendar-year partnerships)
  - Note that the automatic extension period for partnerships is 6 months (upto 9/15 for calendar year partnerships){Thus, extended deadline for both S-Corps & partnerships is 9/15; this ensures that shareholders/ partners get their K-1s before the 10/15 extended deadline for individual returns}

## **REG-4.3 (II B) Filing Requirements for Form 1041 (Estates & Trusts)**

- **Due date of Form 1041:** **4/15** (for all trusts and calendar-year estates)
  - Note that the automatic extension period for trusts & estates is 5.5 months upto 9/30 (vs. 6 months for S-Corp/Partnership, and 5 months for calendar year C-Corp){Thus, extended deadline for S-Corps and partnerships is 9/15 while that for trusts & estates is 9/30; this ensures that shareholders/partners/beneficiaries get their K-1s before the 10/15 extended deadline for individual income tax returns}

# REG-1

Note: Most of the changes in REG every year is for the inflation-indexed \$ which are not tested on the exams (and there's no need to memorize).

- **Married filing jointly (MFJ)** - Married (as of **year-end**)
  - Includes same-sex 'married' couples (not applicable for arrangements like registered domestic partnerships or civil unions)

# REG-6 Updates

## Pg R6-4 [highlighted portion below added as additional content]

- **“Blue sky laws”**- State statutes regulating the issuance and sale of securities. Also contain antifraud and registration provisions
  - Compliance with state laws is required in addition to federal laws. Note that compliance with the federal laws does not automatically imply compliance with the state laws; similarly, exemptions from federal laws does not imply exemptions from state laws
  - **However, most of the state blue sky laws have been preempted by federal laws (by National Securities Markets Improvement Act or NSMI Act, 1996)**
    - ✓ Note: NSMI Act did not preempt regulation of securities under Regulation A and Rules 504 & 505 (under Regulation D)
    - ⇒ **JOBS Act, 2012, now also preempts Regulation A** only if shares listed on a national exchange or sold only to ‘qualified purchasers’ as defined by the SEC

## Pg R6-7 [highlighted portion below added as additional content]

- Before registration, no sale of securities may occur. Once the SEC deems the registration statements complete, the registration is **“effective” 20 days after filing** and the securities may be sold, provided investors receive a prospectus with the sale
  - **30 days before filing** of Registration (Pre-filing period) - No sales activity is allowed
    - ✓ Unless exempt, no sales activity allowed within 30 days before filing (since any communication made more than 30 days before filing registration is not considered sales activity)
  - **After filing but before the registration is effective (20-day waiting period)** - Only some sales activity is allowed
    - ✓ Make Oral offers to sell.
    - ✓ Issue a preliminary prospectus called a **“red herring” prospectus** -Prospectus that has been filed but is missing certain unavailable information (like issue price) has not yet become effective
  - **After the effective date** - Securities may now be sold
    - ✓ Must provide each prospective investor with the **prospectus**, containing substantial historical information about the company & discussion of the risks involved in the securities
    - ✓ **“Tombstone ads”** can be placed announcing how to acquire a prospectus- Note that a tombstone ad announces the availability of a prospectus on a potential investment, and is not itself considered an offer to sell
  - Note exceptions below:
    - ✓ **Shelf registration** - Allows **single registration statement covering securities that the company expects to sell during the next 3 years** (instead of going thru the entire registration process for each offering)
      - ⇒ Useful for companies with two or more security offerings in a short time-frame (e.g., mutual funds); however, companies are required to periodically update the prospectus
      - ⇒ Not available for first time issuers
      - ⇒ In 2005, the SEC expanded this concept to allow large companies categorized as **“WKSIs”** (well-known seasoned issuers) to file registration statements covering 3-year periods
        - WKSI is a company that has filed regularly with the SEC (for at least one year), and either has (i) \$700 MM or more of public equity float, or (ii) issued \$1 billion in registered debt over the past 3 years
        - Thought process was that these WKSIs are anyways widely followed in the markets and a separate registration statement for each of their offerings within the 3-year period would not provide much value-addition
    - ✓ **Emerging Growth Companies (EGCs)** - Category of companies created by the **JOBS Act, 2012**, which are allowed certain breaks/exceptions from the traditional registration process [JOBS Act, 2012, is covered in detail subsequently]

## Pg R6-8 [highlighted portion below added as additional/revised content]

- **Regulation A** - Applies to **small offerings** by issuers that raise up to **\$50 MM** over a time period not exceeding 12 months (earlier ceiling was \$5 MM; increased to \$50 MM by JOBS Act, 2012)
  - ✓ Sort of “Mini-IPOs” (hybrid between private placements and an IPO)
  - ✓ Not a registration exemption, but makes it simpler, faster and cheaper. Only requirements:
    - ⇒ **Notification** - SEC must be notified with **15 days** of the first sale (the same requirement that applies to all Regulation D offerings)
    - ⇒ **Offering circular** containing key information about the company must be prepared and provided to all prospective investors (far less extensive than a prospectus)
    - ⇒ **2 years F/S** (unaudited is fine under Tier 1; but audited required under Tier 2)
      - [For Regulation D offering, even offering circular not required - simply notification is ok]
  - ✓ “Testing the waters” allowed - unique provision whereby companies are allowed to make some preliminary offers, and may even cancel the offering if they find insufficient interest
  - ✓ With the expansion under JOBS Act, 2012, also known as “Reg A+”. 2 offering tiers:

	Tier 1	Tier 2
<b>\$ limit</b>	\$20 MM in 12-month period	\$50 MM in a 12-month period
<b>Investor limitations</b>	None	Unaccredited investors cannot invest more than 10% of their income or net worth (whichever is more); for unaccredited entities, cannot invest more than 10% of their revenue or assets (whichever is more)
<b>General solicitation</b>	Allowed	Allowed
<b>F/S</b>	2 years unaudited	2 years audited
<b>State blue sky review</b>	Required	N/A (state review preempted)

## Pg R6-9 & 10 [highlighted portion below added as additional/revised content]

- ✓ **Rule 506 - Unlimited as to dollar value and time**
  - ⇒ All requirements of rule 505 apply except
    - Non-accredited investors must be sophisticated investors or be represented in their purchase by a sophisticated investor
    - General advertising/solicitation allowed if all accredited investors [JOBS Act, 2012]
  - ⇒ Can use if required to report under 1934 act

	Rule 504	Rule 505	Rule 506
<b>Is General solicitation/advertising allowed?</b>	Sometimes (allowed if sales are only to accredited investors and other conditions are met)	No	Sometimes (allowed if sales are only to accredited investors)

## Note:

- REG-6.1 - III (E): Dodd Frank Act - No longer tested
- REG-6.1 - III (F): JOB Act - Added as additional content

## REG-6.1 - III F) Jumpstart Our Business Startups Act (JOBS Act) of 2012

- Law intended to make it easier for small companies to raise capital by easing various securities regulations (via reduction of registration & reporting requirements). Key provisions:
  - **Emerging Growth Companies (EGCs)** - New category of EGCs created who are allowed to go public via IPO without bearing few burdens of being a public company **for the first 5 years**
    - ✓ EGCs are companies whose IPOs were after Dec 8, 2011, and had **less than \$1 billion of annual gross revenues** during its last fiscal year
      - ⇒ No longer EGC at the earliest of (i.e., any one of the following)
        - Company completes a fiscal year with gross revenues of \$1 billion
        - Company completes the fiscal year of the 5<sup>th</sup> anniversary of its IPO
        - Company issues \$1 billion of non-convertible debt in the prior 3-year period
        - Company becomes a large accelerated filer under SEC guidelines (\$700 MM or more of public float)
    - ✓ Several benefits have been allowed to EGCs. Few include:
      - ⇒ Not required to have audits of their internal controls over financial reporting (otherwise required as per Integrated Audit requirements of SOX, 2002)
      - ⇒ Reduced disclosure requirements regarding executive compensation
  - **Crowdfunding** - Allows companies to raise small investments from a large investor base (e.g., via 'crowdfund portals')
    - ✓ Crowdfunding provisions eliminate the 1934 Act requirements which trigger at 2,000 or more total investors (or, 500 or more non-accredited investors)
    - ✓ Requirements:
      - ⇒ Maximum of \$1 MM may be raised in a 12-month period
      - ⇒ Must be done thru an intermediary registered with the SEC
      - ⇒ Limits on amounts each individual investor may invest
      - ⇒ Crowdfunding exemptions not applicable for foreign companies
  - **Increased shareholder threshold for registration/reporting by private companies** (JOBS Act Title 5; also called Private Company Flexibility and Growth Act)
    - ✓ Amends the 1934 Act to increase the threshold for registration for private companies allowing a larger investor base before the SEC registration & reporting requirements apply
      - ⇒ **Earlier:** \$10 MM of assets AND **500 or more shareholders**
      - ⇒ **After JOBS Act, 2012:** \$10 MM of assets AND **2000 or more shareholders (or 500 or more non-accredited investors)**
        - Also, further to JOBS Act, shareholders who got their shares via employee compensation plans excluded from this count
        - Shareholders via crowdfunding also excluded (as per crowdfunding provisions)

- **Expands Regulation A under 1933 Act**
  - ✓ Regulation A has been a hybrid between private placements and an IPO (sort of “Mini-IPOs”). With the expansion under JOBS Act, 2012, also known as “Reg A+”
    - ⇒ **Earlier:** Ceiling of **\$5 MM** in a year; besides, state blue sky review needed
    - ⇒ **After JOBS Act, 2012:** Ceiling of **\$50 MM** in a year; offering may be in either of two tiers:
      - Tier 1 offering - upto \$20 MM; state blue sky review still needed
      - Tier 2 offering - upto \$50 MM; state blue sky regulation preempted for tier 2 offering only if shares listed on a national exchange or sold only to ‘qualified purchasers’ as defined by the SEC
- **General solicitation under Regulation D, Rule 506, under 1933 Act** (generally for private placements)
  - ✓ JOBS Act, 2012, expands Regulation D, Rule 506:
    - ⇒ **Earlier:** General solicitation/advertising not allowed
    - ⇒ **After JOBS Act, 2012:** **General solicitation/advertising allowed if all purchasers are accredited investors**

**Note:**

**- REG-6.3 (V): Regulation for Worker Classification - Added as additional content**

**REG-6.3 (V): Regulation for Worker Classification**

- Workers may be classified as **Employees OR Independent Contractors**
  - Common law “control test” - Worker is employee if principal controls (or has power to control) the method & manner of work. Other factors which make it more likely for worker to be an employee - 40 hour work-week, works primarily for the principal, uses principal’s tools
  - IRS test factors include behavioral, financial, type of relationship (higher control = employee)
    - ✓ Safe harbor - May classify worker as independent contractor (even if IRS test suggests employee) provided a ‘reasonable basis’ exists – i.e., any one of the following is ok: consistent with industry practice, previous IRS or court ruling, IRS ruling or opinion letter
  - Who is responsible for payment of federal taxes?

<b>Tax</b>	<b>If worker = Employee</b>	<b>If worker = Independent Contractor</b>
<b>Income tax</b>	Employer	Independent Contractor
<b>FICA</b>	Employer (Employee + Employer share)	Independent Contractor
<b>FUTA</b>	Employer	N/A

- Why a principal may prefer may prefer independent contractor (rather than employee)
  - ✓ No liability for worker’s income tax, FICA taxes (worker plus own share), FUTA taxes
  - ✓ No liability to pay overtime & minimum wages under FLSA (Fair Labor Standards Act)
  - ✓ No liability for employee discrimination under Civil Rights Act of 1964
  - ✓ No liability to provide leave & reinstatement under FMLA (Family Medical Leave Act)
  - ✓ Less likelihood of liability to third parties for injuries due to worker’s torts
- Fines applicable for misclassification (higher fines if misclassification is intentional/fraudulent)
- **Statutory employees - Treated as employees for FICA taxes** even though they are independent contractors under common law rules (i.e., principal needs to pay FICA for worker plus own share). Applies if worker personally performs substantially all services, has not invested in equipment or property (except transport facilities) & performs services on a continuing basis for the same payer
  - Drivers - if agent or paid on commission basis
  - Life insurance agents - primarily selling life insurance or annuity for just one company
  - Home workers - working on returnable materials supplied by the business
  - Salespeople - full-time traveling or city salesperson working on behalf of the business
- **Statutory non-employees - Treated as independent contractors for all federal tax purposes**, even if common law test or IRS test indicates that they are employees
  - Direct sellers - pay relates to sales/output (not hours) & written contract states ‘not employee’
  - Licensed real estate agents - pay relates to sales/output (not hours) & written contract states ‘not employee’
  - Companion sitters - if not an employee of a companion sitting placement service

## Note:

- **Affordable Care Act (ACA), 2010 - Added as additional content [however, with Trump's agenda to repeal the Act, this may not be tested on CPA exams]**

## Affordable Care Act (ACA), 2010

- Also called **Patient Protection and Affordable Care Act (PPACA)** and nicknamed “**Obamacare**”. Designed to increase health insurance quality and affordability, lower the uninsured rate by expanding insurance coverage and reduce the costs of healthcare. Key provisions:
  - **Expand Access to Insurance Coverage** -
    - ✓ Coverage of pre-existing conditions - Prohibits insurance companies from denying coverage on grounds of pre-existing conditions
    - ✓ No dropping policy because of illness - Prohibits insurance companies from dropping coverage for reasons other than failure to pay or fraud
    - ✓ Eliminating gender discrimination - Insurance companies cannot charge more to women (generally because women tend to use more healthcare services including pregnancy)
      - ⇒ Only following factors can be taken into account by insurers when setting the premium: Age, Geographic location, Tobacco use, Individual vs. family coverage
    - ✓ Extension of coverage for children - Family insurance may cover adult children under age 26
    - ✓ Minimized out-of-pocket expenses - Irrespective of the calculations entailed in the insurance policy, the insured would not need to pay above \$6,850 for individual plan and \$13,700 for family plan (i.e., all covered costs to be paid by the insurer)
    - ✓ Elimination of lifetime or annual \$ limits for essential health benefits (e.g., chronic disease which is expensive to treat)
    - ✓ Medicaid Expansion - expanded eligibility and federal funding by enabling states to extend Medicaid coverage to residents 65 years or older, or income upto 133% of poverty line
  - **Employer mandate** - Applicable large employers (with 50 or more employees) need to offer **minimum essential coverage to 95%+ of their full-time employees and their dependants upto age 26**; **if not**, need to pay a tax penalty (known as employer shared responsibility fee)
  - **Individual mandate** - Individuals not covered by a minimum essential health coverage should **buy insurance** from either a private issuer or thru a Health Insurance Marketplace; **if not**, need to pay a tax penalty (known as shared responsibility payment civil penalty)
  - **ACA Health Insurance Marketplace** - one-stop, online location where applicants may shop, compare and enroll in an insurance plan
  - **Revenue-raising provisions** - Subsidies to low/middle-income individuals for new coverage
    - ✓ **Medical & dental expenses deduction** threshold on Schedule A increased from 7.5% to 10%
    - ✓ **Unearned Income Medicare Contribution Tax** (Medical Surtax) **@3.8% on net investment income** for taxpayers whose modified AGI exceeds \$200k for Single (\$250k for MFJ)
    - ✓ **Additional Medicare tax** employee-contribution **@0.9%** for the excess of wages & self-employment income over \$200k for Single (\$250k for MFJ)
    - ✓ Medical device excise tax of 2.3% on sale of certain medical devices
    - ✓ The Cadillac tax - 40% excise tax on excess benefits from Cadillac Plans (employer-sponsored plans); scheduled to be effective from 2020