

"An investment in knowledge always pays the best interest."
- Benjamin Franklin

For this edition, RMA LI Chapter President Michael Heller welcomes Albert Brenner, our February 10th speaker, to provide opening remarks.



The New Year is certainly off to a rollicking start. Some businesses are reporting 2022 results that were as good as or better than before the pandemic. Employment continues to increase. Consumer sentiment has bounced back from a mid-year 2022 historic low. Gasoline prices are nearly two dollars a gallon cheaper than six months ago. We have a new Congress in Washington, albeit one that took nearly a week and fifteen votes to elect a new

House Speaker. Inflation remains high but appears to be moderating. Despite war in Ukraine, fuel supplies in Europe are ample, and crude oil is less expensive today than it was in January 2022 before Russia's invasion.

Meanwhile, we've learned to live with the pandemic – new variants? no matter! And but for a broken logistics system at Southwest Airlines, Americans would have enjoyed a holiday season marked by more travel than before "SARS-CoV2" and "omicron variant" became household words. Even China has finally learned that you can't lock down the virus by locking down people.

Nevertheless, we are anxious. Multiple statistics appear to be signaling that a recession is near – from an inverted yield curve to the index of leading economic indicators. The leading Wall Street macro research firm has a 50% probability of a recession beginning in 2023 and 75% by 2024. Whatever happened to a soft landing?!

I will try to make some sense of where we are in the business cycle at our Economic Outlook event on Friday, February 10th while I suggest we need to start thinking of the economy as a complex organism always evolving.

I look forward to seeing you there.

Sincerely,

Albert J. Brenner, CFA

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Save the Date

2023 Outlook on Economies and Markets with Albert Brenner

February 10, 2023, 8am – 10am

Venue: Radisson Hotel Hauppauge

[Register here](#)

RMA LI - Young Professionals

Be YOUR Authentic Self and THRIVE

February 15, 2023 8:30am – 10am

Venue: M&T Bank

100 Motor Parkway, Lower Level, Vanderbilt Room

Hauppauge, NY 11788

[Register here](#)

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James T. McCarthy Scholarship - \$2,500

Dr. Pearl Kamer Scholarship - \$2,500

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Application deadline: May 1, 2023

Eligibility:

Bankers and students interested in pursuing their education and career in the area of banking, commercial lending or credit risk management. You must be enrolled at an accredited college, pursuing a pertinent degree program.

Application package must include the following:

- College transcript and evidence of current enrollment at an accredited college
- Essay from applicant stating:
 - Why you have chosen or are interested in a career in banking
 - Your career goals and how this scholarship will help you meet your goals
- Employment history and current job description, if applicable
- Extracurricular activities, community service
- List of leadership positions, honors and awards
- Letter of recommendation from your current employer or professor

Note: Incomplete application packages will be disqualified.

Applications will be reviewed by the
Scholarship Committee of the
Long Island Chapter of Risk Management Association.

Forward questions or your completed application package to:

Bonnie Dougherty, Senior Vice President

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The CFO's Role in Supply Chain Management



Anthony D'Agostino Grassi Manufacturing & Distribution Consulting Principal

Many CFOs are reluctant to get involved in the supply chain management process, leaving that area to the COO and his or her team of experts. But in the current environment, it should be all-hands-on-deck as businesses continue to grapple with supply chain disruption and the uncertainty it brings to the entire company.

Best practices for a manufacturer are different than those for a distributor, and both are different than those for a retailer. The challenge of finding the right best practices is that many manufacturing businesses now overlap all three categories. In today's world of migration away from brick-and-mortar shops, the online fulfillment process places many companies in the position of operating as manufacturer, distributor and retailer.

This migration, combined with the rollercoaster of on-again, off-again demand caused by COVID and post-COVID environments, leaves supply chains snarled. The shift toward flexible work-from-home arrangements further complicates the issue, straining every function and process in an organization.

Fortunately, there are best practices in risk management that can help any CFO better support the supply chain management process.

Risk Management Essentials

Risk management for a CFO takes on new challenges in this ever-changing environment. Internal controls, remote procedures and the need for accurate forecasts, all force a CFO to reach beyond the normal four walls

of the company to manage supply chain relationships and soften the blow caused by the pendulum of swing of demand.

Visibility into "sell-through" data is essential for manufacturers to navigate these changes. Best practices would have companies monitoring everything from cus-

tomers inventory and supply availability to scheduled delivery dates from critical suppliers.



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Key performance indicators (KPIs) throughout an organization take on new meaning in this context. At a minimum, make sure you are tracking forecast accuracy, on-time delivery, unit throughput, average days in work in process, yield, scrap, order fulfillment rates, workstation efficiency and lead times. In this environment, a yield loss on one manufactured part can hold up an entire shipment – just look at the impact of semiconductor availability on the auto industry.

This data combined with another best practice – communicating and working with customers and distributors to modulate inventory levels enables a company to proactively mitigate as much risk as possible.

Evaluating internal controls is an essential best practice in any economy, but especially in today's risky environment. Remote workforces and reduced headcount leave companies especially vulnerable

to gaps in supply management controls. Everything from an initial requisition to the positive pay upload and bank reconciliation need to be executed with a proper segregation of duties within a system of KPIs. The CFO needs to elevate visibility into internal control operation from a background process to a monitored system.

In remote work environments, Zoom and Microsoft Teams meetings are typically focused on a limited number of issues. The visibility into the connection between various supply chain issues becomes blurred. Critical KPIs and vigilant controls are the guiderails that keep these connections at the forefront and create a clearer roadmap to delivering exceptional value to customers.



Year-End Tax Planning for the Construction Industry



Tauseef Kahn, CPA, MST, Supervisor
Ira Kantor, CPA, Partner
Marcum LLP

With the holiday season fast approaching, many of us are gearing up for family gatherings and a return to normal life post-pandemic. However, plenty of headaches remain. Businesses are dealing with sky-high inflation not seen in the last 40 years. There is a potential recession on the horizon. And in the construction industry, labor shortages abound.

Here are several items we advise our construction clients to keep in mind for 2023 planning and beyond.

Employee Retention Tax Credit

Businesses can no longer pay wages to claim the Employee Retention Tax Credit, but they have until 2024 (and in some instances 2025) to look back on their pandemic payroll to retroactively claim the credit by filing an amended tax return.¹ Businesses have until April 15, 2024, to file amended returns for Q2, Q3, and Q4 of 2020, and until April 15, 2025, to file amended returns for Q1, Q2, and Q3 of 2021.

An eligible employer could potentially qualify for a total credit of \$26,000 per employee for the last three quarters of 2020 and the first three quarters of 2021 combined (there is a \$5,000 maximum per eligible employee in 2020 and a \$7,000 maximum per eligible employee for quarters 1-3 in 2021).

Bonus Depreciation

Bonus depreciation allows business taxpayers to deduct additional depreciation for the cost of qualifying business property, beyond normal depreciation allowances. It's intended to spur capital purchases by all business taxpayers, small, mid-sized, and large.² Under the Tax Cuts Jobs Act (TCJA), businesses can deduct 100% of cost of acquiring a qualified property between September 28, 2017, and December 31, 2022. It will be limited to 80% in 2023 and 60% in 2024 until it fully sunsets at the beginning of 2027.

Research and Development Expenses

The Tax Cuts & Jobs Act (TCJA) of 2017 required any research and development costs incurred after 2021 to be amortized ratably over five years, rather than deducted in the year the costs are incurred (or amortized over five or 10 years at the election of the taxpayer, subject to specific requirements).³

Meal and Entertainment Deductions

Beginning January 1, 2023, meal and entertainment deductions will revert to tax rules under the TCJA. The passing of the Consolidated Appropriations Act of 2021 temporarily changed these deductions for tax years 2021 and 2022. For tax year 2023, many of the meal and entertainment deductions will be reduced from 100% deductibility to 50% deductibility.

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Net Operating Losses

When projecting losses in 2022, it is important to note that the net operating loss rules under the TCJA are back in effect beginning with tax year 2021. Most taxpayers no longer have the option to carryback a net operating loss (NOL) — most, NOLs arising in tax years ending after 2020 can only be carried forward. The two-year carryback rule in effect before 2018 generally does not apply to NOLs arising in tax years ending after December 31, 2020. The Coronavirus Aid, Relief, and Economic Security (CARES) Act provided for a special 5-year carryback for taxable years beginning in 2018, 2019, and 2020. Also, losses arising in taxable years beginning after December 31, 2020, are limited to 80% of the taxable income.

Excess Business Loss Limitation

Non-corporate taxpayers such as individuals, trusts, and estates are not allowed to claim a deduction for any excess business loss. Any disallowed excess business losses are treated as net operating losses for the current year, and this informs any NOL carryover to subsequent tax years. The at-risk limits and passive activity limits are applied before calculating any excess business loss. An “excess business loss” is the excess of the taxpayer’s aggregate trade or business deductions (determined without regard to the limitation of the provision), over the sum of the taxpayer’s aggregate gross trade or business income or gain, plus the threshold amount which for 2022 is \$540,000 for joint returns and \$270,000 for any other filing status.

Section 163(j) Business Interest Deduction Limit

A taxpayer’s deduction of business interest expense paid or incurred for the tax year is generally limited to the sum of:

- The taxpayer’s business interest income for the tax year for which the taxpayer is claiming the deduction (not including investment income) and;
- Thirty percent of the taxpayer’s adjusted taxable income (ATI), but not less than zero.

Pass-through Entity Tax Election

The TCJA limited individual taxpayers’ state and local tax deduction to \$10,000. In response, many states (more than half, as of now) have enacted some form of “workaround” to minimize the limitation’s impact on self-employed (Schedule C) individuals and taxpayers who own pass-through entities.

The pass-through entity tax (PTE) allows partnerships and S-corporations to elect to be taxed at the entity level for state income tax purposes. If the entity makes this election, the partner or shareholder is usually allowed to claim a credit on their state individual income tax return for the amount of their distributive share of the pass-through entity tax paid by the partnership or S-corporation. This election also allows the partner or shareholder to not report their distributive share of income on their personal state income tax return.

Inflation Reduction Act

The Inflation Reduction Act of 2022 was officially signed into law by President Biden on August 16, 2022. The bill has significantly expanded two key federal tax incentives to promote energy efficiency: the 179D deduction and 45L tax credit.

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The 179D Deduction

The 179D deduction is permanent within the law, allowing government-owned building owners to allocate special tax deductions to their architects, engineers, and contractors who design the building's energy-efficient systems. This deduction had a maximum of \$1.88 per square foot in 2022. The bill includes significant changes in four main areas:

- Starting in 2023, the maximum deduction will rise to \$5 per square foot if prevailing wage and apprenticeship requirements are met.
- It significantly expands the list of eligible buildings to include other tax-exempt entities such as religious and educational entities, and other non-profits. This potentially expands the tax savings opportunities for professionals in the design and construction industries who may not have been involved in public-owned property in the past.
- The bill updates the calculation methodology, replacing the partial deduction with a more favorable sliding scale. This may yield more benefits when the maximum deduction is not obtained.
- This deduction is available to architects, engineering firms, and contractors when they are considered primary designers.

45L Tax Credit

The existing 45L tax credit program allowed up to a \$2,000 tax credit per eligible dwelling unit, which typically impacted single-family and multi-family developments. The 45L program expired at the end of 2021, but the bill includes significant changes in these areas:

- Extends the 45L tax credit retroactive to the beginning of 2022 through the end of 2032.
- Increases the maximum tax credit to \$5,000 per dwelling unit starting in 2023 (the max is still \$2,000 for 2022).
- Aligns some program criteria with other government energy programs. This can expand eligibility to other residential developments beyond multifamily projects of four stories or less.

This tax credit is abatable to home builders and multi-family residential developers. For multifamily developers, the tax credit is reduced to \$500 or \$1,000 per unit if strict energy efficiency rules are not followed. 5

As we approach year-end, it is important that business leaders review current finances to identify opportunities for efficient tax planning in 2023 and beyond. Consult your Marcum tax professional for assistance in developing the appropriate strategies for your particular situation.

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The Expected Impact of CECL On Portfolio Company Valuation



Joe Mauro Senior Associate in Financial Services Baker Tilly

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-13, Financial Instruments – Credit Losses, ASC Topic 326. The ASU requires entities to measure credit losses on most financial assets carried at amortized costs and certain other instruments using an expected credit loss model. The ASU also states that entities that qualify under the definition of an SEC Filer, not including small reporting companies, are required to adopt Current Expected Credit Losses (CECL) for the years beginning after December 15, 2019, while all other entities are required to adopt CECL for the years beginning after December 15, 2022.

Allowance for credit losses is an estimate of an amount from a financial asset that a company is unlikely to recover. CECL replaces the current method for estimating the allowance for credit losses, the Incurred Loss Methodology (ILM). This replacement was deemed appropriate as the increase in allowances under ILM were occurring too late in the business cycle, with the change in timing and level of allowances.

CECL covers a broad range of financial instruments such as loans held for investments, held to maturity debt securities, available for sale debt securities, trade receivables, etc. In relation to portfolio companies, CECL will mainly affect the trading of debt securities and how

those securities are valued. One of the main areas that will be affected is Trade Receivable Accounts, as under the new guidance the creation of allowance accounts and alteration to the estimation requirements for allowances will generally result in the reduction of this receivable. How this affects the company's valuation is dependent on the designation assigned to the securities held by the portfolios, as the accounting treatment is different for each designation. See below for the effects of CECL on each security designation:

Trading securities

Securities that are designated as trading are unaffected by CECL, as these securities are accounted for monthly with credit losses being accounted for immediately.

Available-for-Sale securities

Securities that are designated as Available-for-Sale (AFS) are accounted for on a monthly book basis, with valuation changes being recorded to capital as Other Comprehensive Income (OCI). The FASB had decided that CECL will not apply to AFS Securities, but instead has released amendments that are targeted changes to GAAP that remodeled the concept of Other Than Temporary Impairment (OTTI) and require credit losses on AFS debt securities to be recorded in an allowance account.

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Under previous guidance, OTTI would result in the permanent write-down of the debt security, but under the remodeled guidance, instead of there being a permanent write-down, it is now put into an allowance account. This updated guidance will have multiple effects on a company, including affecting a company's initial profits due to the timing of the recognition. Under the direct write-off method, the recognition is delayed, while under the allowance method the recognition is immediate; therefore this will result in higher initial profits under the older write-off method. Trade receivable accounts also tend to be lower under the allowance method, since a reserve is being netted against the receivable amount. The modified debt security impairment methodology also limits the amounts recorded in the allowance for credit loss to the excess of the amortized cost over the fair value of the security.

Held-to-Maturity Securities

For securities that are designated as Held-to-Maturity (HTM), accounting is performed on a monthly book basis. Unlike AFS securities, HTM securities are subject to the new CECL methodology. Under CECL HTM securities will need to be accounted for by requiring an allowance for lifetime expected credit losses when the security is purchased. The allowance will be determined by adjusting historical loss data for current conditions, plus reasonable and supportable forecasts, for pools of securities with similar risk characteristics.

In addition to the already existing requirements surrounding the disclosures of HTM and AFS securities, a new disclosure of an allowance roll-forward, by major security type, for both types of securities will be required. For HTM securities, by major security type, disclosure of credit quality information and allowance for credit losses and management's estimation process will be required. For AFS, disclosure of the accounting policy for recognizing write-offs will be required.

While the full effects from CECL are still to be seen, there are a handful of possible different outcomes that can come from the new credit loss standard. For example, a company's valuation may not differ much from the old standards at all, due to the possibility of the credit loss recognition timing not affecting cash flows or overall financial performance. At the same time, the opposite can occur: the recognition timing of credit losses can affect cash flows, specifically as the recognition timing of the allowance amounts affecting profits, as under the allowance method it is recognized immediately, leading to lower initial profits.

The guidance will also add some volatility to cash flows as it will bring about the possibility of companies using a cash flow model different than what they used in prior years, i.e., a company could switch to using a Discounted Cash Flow Model for the first time to accommodate the new guidance surrounding credit losses, in an attempt to minimize the negative effects, or to maximize any advantage available through the change in cash flow approach.

While CECL has been implemented for SEC filers for almost two full fiscal years and has not yet been mandatorily implemented for smaller non-SEC filers just yet, the full effects of the new standard are still being gauged as there has been limited evidence due to the longevity of the standard as well as number of companies that have fully adopted the new standard. Once CECL has been adopted by all and has been effective for a longer period of time, the full impact of CECL will be known.

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