



State tax policy for state CPA societies

Roadmap

Issue overview

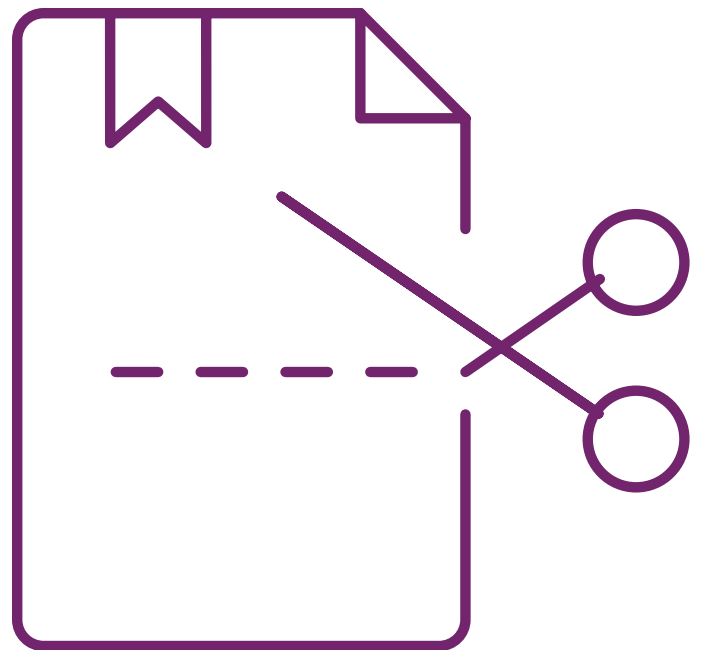
State tax policy has an enormous impact on CPAs, CPA firms and their clients' tax planning. There are three major issues on the state tax policy horizon — professional services, conformity partnership audit rules, and electronic signatures and documents.

Taxes on professional services

With current budget constraints, lawmakers may return to the idea of taxing professional services which, in recent years, have expanded to include services CPAs render. The issue has been raised in at least a dozen states, but nothing has become law.

When it comes to taxes on professional services, there is often talk of "broadening the base" as an act of "fairness." Policymakers look at what they believe will bring business to their state but are often misguided in thinking that lowering or eliminating personal income tax, while taxing professional services, will achieve this goal. Taxes on professional services are actually bad public policy. Since most of the taxes are business to business, they act as a deterrent for new business.

State CPA societies should oppose taxes on professional services without accepting tradeoffs, such as a reduction in income tax. Taxes on professional services are bad for the future of the accounting profession and bad for business.



Partnership audits

In recent years, the accounting profession and other tax organizations collectively approved the Multistate Tax Commission's (MTC) model partnership audit statute. To collect their share of liabilities from the IRS partnership audit and not face substantial legal and administrative concerns, states are encouraged to adopt the MTC's model. This model incorporates the changes needed for states to conform to the new federal regime and establishes more uniform standards for reporting federal audit adjustments for all taxpayers in the state.

In November 2015, Congress enacted the Bipartisan Budget Act of 2015 with changes to the federal partnership audit rules set forth by the Internal Revenue Code (IRC). The new system under the IRC took effect Jan. 1, 2018, with IRS audits likely to start in 2021. The new regime centralizes the IRS' ability to audit, assess and collect any determined underpayment directly from a partnership at the entity level, subject to certain available elections.

Electronic signatures and electronic documents

"Wet signatures" are sometimes difficult to obtain and it is often burdensome to print and mail state tax return documents. This issue has become even more prevalent during COVID-19, when many practitioners were working from home and not able to meet with clients. In 2020, numerous states worked with their departments of revenue to provide guidance on electronic signatures. Additional efforts need to be made to permit electronic filing, electronic submission, and secure email transmission of tax documents, including allowing a secure email of a PDF or electronic copy of a tax document.

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Resources

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