



State Regulatory Update

An Update on State Legislative and Regulatory Issues Affecting the CPA Profession

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Fall 2015

Overview

Welcome to the Fall 2015 edition of the State Regulatory Update. This periodic publication by the AICPA State Regulation and Legislation Team provides news and information of interest to State Boards of Accountancy.

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Legislative Update

AICPA Releases Year-in-Review, State of the States Database

The AICPA has released two documents to help its state-level partners track legislative and regulatory issues affecting the profession across the country. The annual [Legislative Year-in-Review](#) highlights this year's activity on CPA profession issues such as the comprehensive definition of attest, taxes on professional services, and the regulation of marijuana, while the [State of the States database](#) reflects each jurisdiction's position on key sections of the Uniform Accountancy Act (UAA) and other issues.

One important topic in the Legislative Year-in-Review is the comprehensive definition of attest. In May 2014, the AICPA and the National Association of State Boards of Accountancy approved changes to the UAA to include a more comprehensive definition of attest. Designed to protect the public, this change closed a loophole that allowed unregulated, non-CPAs to perform certain attest engagements, such as reports on greenhouse gas emissions, using the Statements on Standards for Attestation Engagements (SSAEs).

Currently, 30 U.S. jurisdictions have adopted the comprehensive definition of attest, with 8 states — Connecticut, Kentucky, Maine, Maryland, Minnesota, Oklahoma, Oregon and South Carolina — enacting the new

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definition this year. Additionally, governors in Georgia and Iowa signed legislation adopting critical conforming changes related to the definition of attest to their states' accountancy statutes. Legislation to adopt the comprehensive definition of attest was also recently introduced in Pennsylvania.

Another major topic in the report is the state-level debate over the taxation of professional services, which continued to be one of the greatest threats to the CPA profession in 2015. Currently, only Hawaii, New Mexico, and South Dakota broadly levy a sales tax on professional services. This year, however, 19 more states looked at the issue, either through a specific tax on services or through a tax study commission. This is more than double the number of states that looked at the issue in 2014.

Six governors mentioned broadening their state's tax base to include professional services, including accounting and auditing, with the governors of Maine and Pennsylvania actually including it in their budget proposals. Additionally, eight states — Connecticut, Florida, Indiana, Maine, Mississippi, Missouri, Ohio and Vermont — considered legislation to enact a tax on services. None of these proposals were successful, however, thanks in part to efforts by the CPA profession and state CPA societies.

California remains the only state with an active tax on service bill. The bill would broaden the tax base by imposing a sales tax on services, including those CPAs provide, and phase in a lowering of the corporate and personal income tax. The legislation may be turned into a ballot initiative in 2016. The California Society of CPAs is opposing the bill and would oppose any related ballot effort.

The regulation of tax preparers at the state level was another issue of concern for the CPA profession in 2015's legislative sessions. These state-based programs add an unnecessary layer of cost and regulatory burden for tax preparers — particularly CPAs operating under interstate mobility laws, as these CPAs could be required to register in multiple states should such programs be approved. Additionally, the bad actors whom these programs are designed to thwart are the ones that are most unlikely to participate in state-based programs. Nevertheless, these programs continue to receive consideration in state legislatures. California, Maryland, New York, and Oregon currently regulate tax preparers, and the Illinois House of Representatives is considering a bill to license tax preparers in the state. Though the bill exempts CPAs from its requirements, the Illinois

Society of CPAs urged the bill sponsor to hold the legislation pending a recommendation from the Illinois Tax Return Preparer Task Force.

The legalization of marijuana for both recreational and medicinal use continues to pose challenges for the CPA profession. While marijuana is illegal at the federal level, state governments and voters are showing a willingness to decriminalize the drug, and “state-legal” marijuana businesses are seeking the services of CPAs. Because of the disparity between federal and state laws related to marijuana businesses, many state boards of accountancy are now discussing the topic, with four states — Connecticut, Florida, Oregon and Washington — issuing formal guidance to those CPAs who wish to provide services to marijuana-related businesses.

For example, in its guidance, the Oregon Board of Accountancy has stated that Oregon licensees will not face any action related to a violation of the state’s Code of Professional Conduct solely for providing services to the marijuana industry, but it cautioned those licensees to address all risks surrounding federal enforcement. The AICPA, in conjunction with the Colorado Society of CPAs and the Washington Society of CPAs, has also developed a [white paper](#) on the issue that describes state-level marijuana laws and how they affect CPAs who are considering providing services for marijuana-related businesses.

More information on these and other 2015 policy trends is on the AICPA State Regulation and Legislation Team state board [webpage](#).

New Jersey State Board of Accountancy Adopts the AICPA Code of Conduct

Congratulations to the New Jersey Board of Accountancy for becoming the 19th jurisdiction to adopt the AICPA Code of Professional Conduct. Established as a set of principles, rules, and interpretations, the Code embodies ethical professional conduct and guides CPAs in the performance of their professional responsibilities.

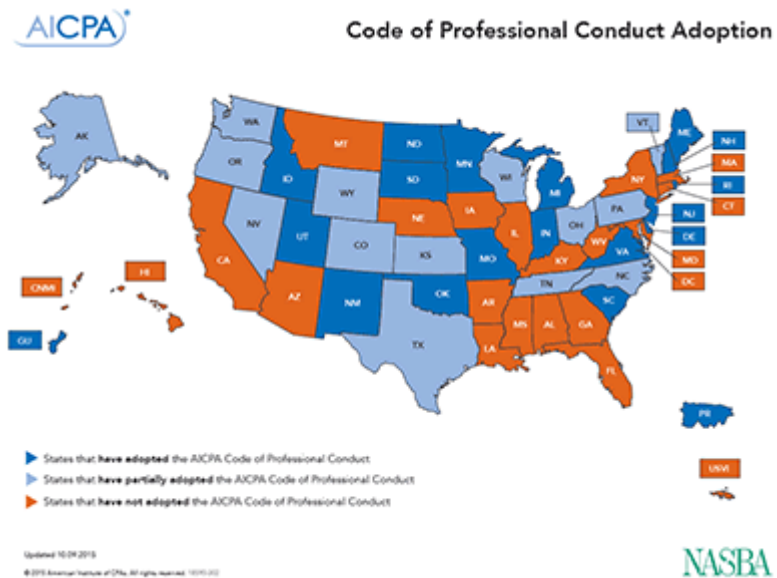
For over 100 years, CPAs who are members of the AICPA have adhered to the Code as part of their AICPA membership. Nationwide adoption of the AICPA Code ensures that all CPAs — not just those who are AICPA members — adhere uniformly to these same robust ethical standards.

The AICPA and NASBA recently joined forces to encourage more state boards to adopt the robust ethical standards of the AICPA Code. Without uniform mandatory ethical standards, CPAs who practice under mobility

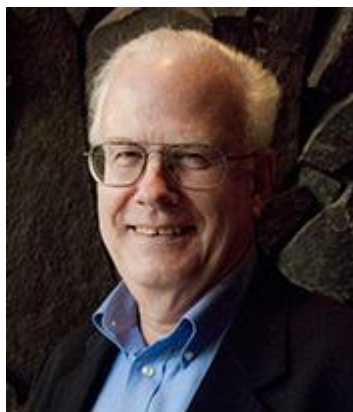
can find it hard to navigate inconsistent requirements across multiple states. Uniformity of ethical standards is necessary to facilitate compliance with the rules, protect the public, and to promote sound business practices.

The revised AICPA Code also provides additional guidance for CPAs not generally found in state board regulations, including a conceptual framework for how a CPA should proceed when there is no established guidance. For more information, on the benefits of the Code, download the AICPA and NASBA [information sheet](#).

The New Jersey rule adopting the Code became effective on September 21.



AICPA State Regulation and Legislation Team Welcomes Steve McConnell



The AICPA State Regulation and Legislation Team is proud to announce that Steve McConnell has joined the team as a consultant. Steve, a retired CPA, has over 40 years of experience with the CPA profession, state boards of accountancy, and state CPA societies. He is a former chairman of the Oregon State Board of Accountancy and a current associate member of NASBA, where he has served as member of the Board of Directors, chair of the Positive Enforcement/Quality Review Committee, and co-chair of the Joint AICPA/NASBA Uniform Accountancy

Act (UAA) Committee. Steve is also a current member and former chair of the Oregon Society of CPAs, an honorary member of the AICPA, and a former member of the AICPA Council. Steve's experience gives him firsthand knowledge of the roles that regulators and advocates play in the professional community, and he looks forward to representing the Team at the upcoming NASBA Annual Meeting.

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Peer Review Update

Increasing Transparency

Attendees of the NASBA Annual Meeting will have the opportunity to learn what information is made available to state boards and Peer Review Oversight Committees (PROCs) as part of the AICPA's Facilitated State Board Access (FSBA) website. Sue Coffey, AICPA Senior Vice President – Public Practice & Global Alliances, and Janice Gray (OK), will be speaking at the meeting on Monday, Oct. 26, while Donna Roethel Freundlich will be on-site near the NASBA Registration desk to provide live demos of the FSBA website on Monday afternoon and Tuesday morning.

Also, as part of its continuing efforts to provide transparency of the AICPA Peer Review Program, the Peer Review Board approved the 2015 Annual Report on Oversight during its open session held on September 18, 2015. The Annual Report has been posted on the [Transparency page](#) within the Peer Review Interest Area.

Continued Collaboration

The AICPA Peer Review Board and the NASBA Compliance Assurance Committee held their sixth annual joint meeting in July. The purpose of the

meeting was to provide updates on the activities of each organization, including prior year accomplishments and planned activities for the coming year.

In addition, Jim Brackens, AICPA Vice President – Ethics & Practice Quality, served as the keynote speaker for the 2015 Peer Review Oversight Committee (PROC) Summit, also held in July. He discussed near- and long-term changes to peer review and the impact on PROCs.

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Ethics Update

Conceptual Framework Toolkits Launched

Three separate toolkits are now available to assist members in the implementation of the Conceptual Frameworks and are specifically tailored for [members in business](#), [members in public practice](#) and members working through an [independence](#) matter.

Each toolkit includes the following:

- Steps of the conceptual framework to provide members with detailed guidance on how to apply the conceptual framework approach.
- A flowchart that serves as a visual aid for breaking down the steps of the conceptual framework approach.
- A worksheet to aid members with applying the steps of the conceptual framework. The macro-enabled worksheet allows members to document their assessment and save the worksheet as a separate document.
- Examples of relationships or circumstances that are not addressed in the AICPA Code and how the conceptual framework may be applied in such situations.

On The Horizon

The Professional Ethics Executive Committee (PEEC) has a number of active standard setting projects. Two projects are nearing the exposure draft stage. One such project is to develop guidance related to a member's obligations concerning the confidentiality and return of client files when the member either sells or discontinues his or her practice or the member acquires a practice. The other project is to clarify the definition of "client."

The remaining four active standard setting projects are still in the research stage. These projects are as follows:

- Identify any updates necessary to the nonattest services subtopic in light of current information technology (including cloud) service offerings by members.
- Identify areas in the Code that have significant differences from the state boards' rules and determine if the PEEC should reconsider the guidance in these areas.
- Analyze whether the prohibitions in the commission and contingent fee rules should be expanded to cover all attest clients, and whether permitted commissions should require written disclosure to a client. This task force will also consider the continued appropriateness of the duration of the prohibition and whether any additional safeguards are needed for circumstances in which commissions and contingent fees are permitted.
- Determine whether the "Entities Included In State and Local Government Financial Statements" interpretation [1.224.020] should (1) incorporate the threats and safeguard approach; (2) clarify who at the firm and which immediate family members the interpretation should extend to; (3) contain any exceptions, and determine whether the final guidance should be extended to the federal government environment.

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Exam Update



Help Shape the CPA Exam's Evolution

For nearly 100 years, the Uniform CPA Examination (Exam) has stood as the gateway to the licensure process. Aligned to the dynamic needs of the profession, the Exam provides confidence that an individual who passes is equipped with the relevant knowledge and skills for initial licensure. Whether you're new to the profession or a seasoned veteran with decades of experience, you understand the value placed on CPAs as vital financial experts expected to protect the public interest.

The AICPA has consistently led the evolution of the Exam, ensuring its content captures the realities of a CPA's responsibilities on the job. Most recently, the AICPA's Examinations team spent nearly two years engaged in a comprehensive research effort called a [practice analysis](#). This involved gathering essential input from members of the profession and other stakeholders to aid in development of the next version of the Exam for 2017.

The results of this in-depth effort informed the recently released Exposure Draft, [Maintaining the Relevance of the Uniform CPA Examination](#). The Exposure draft summarizes the proposed changes between the current and next version of the Exam, as well as provides a summary and detailed information on content knowledge and skills to be tested. At the heart of the proposed changes is a move to enhance the Exam's assessment of a candidate's ability to think critically, solve a problem, analyze a situation, and make a competent evaluation -- something the practice analysis revealed as essential for a newly licensed CPA. The Exam's structure would include greater content integration and increased task-based simulations throughout all sections.

Comments on the Exposure Draft are due November 30, giving Exam stakeholders an opportunity to review the planned changes and raise any

issues. When reviewing the Exposure Draft, it is important to consider two key questions:

1. Is the next version of the Exam on the right track?
2. What are your thoughts on continual improvement beyond the release of new Exam?

Preservation of the strength and vitality of the CPA profession remains the AICPA's primary goal, and one way to work toward that goal is the continued evolution of the Exam. The AICPA relies on the valuable input and insights from its stakeholders. Collectively, we can ensure that newly licensed CPAs have demonstrated the knowledge and skills necessary for initial licensure. Your feedback on the Exposure Draft is critical to this effort.

Help shape the next version of the Exam. **Review and respond to the [Exposure Draft](#) by November 30, 2015.** All responses will be considered as content, design and structure of the next version of the Exam are finalized in preparation for an announcement in early 2016 and launch in 2017.

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