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CPA FIRM REQUIREMENTS

**Senate Bill 1238 as passed by the Senate
Sponsor: Sen. Beverly Hammerstrom**

**Senate Bill 1239 as passed by the Senate
Sponsor: Sen. Dale L. Shugars**

**Senate Bill 1240 as passed by the Senate
Sponsor: Sen Thaddeus G. McCotter**

**Senate Bill 1241 as passed by the Senate
Sponsor: Sen. Bill Schuette**

**House Committee: Insurance and Financial
Services**

**Senate Committee: Economic Development,
International Trade and Regulatory
Affairs**

First Analysis (10-3-00)

THE APPARENT PROBLEM:

Recent changes in the public accounting profession, including the expansion of services offered by CPA firms, the globalization of practices and competition, new technologies, and legal challenges to the traditional regulatory structure, among others, have led to changes in how state laws regulate the profession. Public Act 10 of 1997, which amended the Occupational Code, essentially overhauled the state law regarding public accountants. That act provides as a condition for licensure as a public accounting firm that at least two-thirds of the equity and voting rights of the firm be held directly or beneficially by individuals licensed in good standing as certified public accountants. The most recent updating of the industry-sponsored model act, known as the uniform accounting act, calls instead for a simple majority of owners of a CPA firm to be CPAs, in recognition of the changes in the accounting and financial services marketplace. Legislation has been introduced to put this standard into state law.

THE CONTENT OF THE BILL:

Senate Bill 1239 would amend the Occupational Code (MCL 339.728) to provide that a simple majority (rather than two-thirds) of the individuals holding equity and voting rights of a public accounting firm

would have to be individuals who were licensed as certified public accountants (CPAs) in Michigan or another state or the equivalent in another jurisdiction acceptable to the board.

Senate Bill 1240 would amend the Professional Service Corporation Act (MCL 450.224) to delete a provision that permits a professional corporation to engage in the practice of public accounting if at least two-thirds of the shareholders are licensed in good standing as certified public accountants and all other shareholders are licensed or legally authorized to render a professional service offered by the professional corporation.

Senate Bill 1238 would amend the Michigan Limited Liability Company Act (MCL 450.4904) to delete a provision that permits a professional limited liability company to engage in the practice of public accounting if at least two-thirds of the equity and voting rights are held by individuals licensed as certified public accountants.

Senate Bill 1241 would amend the Michigan Limited Liability Company Act (MCL 450.4102 and 450.4902) to delete services rendered by a certified or other public accountant from the definition of "services in a learned

profession”. Public accountants would continue to be classified under “professional service”.

BACKGROUND INFORMATION

Public Act 10 of 1997 amended the Occupational Code to provide new regulations for certified public accountants. Public Act 10 put in place the current requirement that two-thirds of the equity and voting rights of a firm would have to be held directly or beneficially by licensed CPAs. Prior to that all owners of a CPA firm had to be CPAs.

FISCAL IMPLICATIONS:

The bills would have no fiscal impact on state or local government, according the Senate Fiscal Agency. (SFA floor analysis dated 5-18-00)

ARGUMENTS:

For:

The bill would update state laws on CPA firms to make them conform with recent changes proposed in the industry-sponsored uniform accountancy act. The accounting industry is proposing that states require only a simple majority of CPAs as partners, officers, or shareholders in CPA firms (rather than the current two-thirds) in recognition of the reality that these firms now employ a significant number of non-CPAs to provide valuable related services, such as financial planning. Industry representatives say that in today’s marketplace, CPA firms have extended their scope of practice beyond the traditional accounting, auditing, and taxation services. They compete against non-CPA firms in providing services to the public. They need to attract non-CPAs into the firms, and the non-CPAs do not want to be second-class citizens who are unable to become partners, officers, or shareholders. Proponents of the bill say requiring a simple majority of firm owners to be CPAs will ensure that the ethical standards of the profession are adhered to.

POSITIONS:

The Department of Consumer and Industry Services (CIS) supports the bill. (9-29-00)

A representative of the Michigan Association of CPAs testified in support of the bill. (9-27-00)

Analyst: C. Couch

#This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.