Economic Impact Analysis
Virginia Department of Planning and Budget

18 VAC 5-20– Virginia Board of Accountancy Regulations
Department of Professional and Occupational Regulation
May 12, 2000

The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 9-6.14:7.1.G of the Administrative Process Act and Executive Order Number 25 (98). Section 9-6.14:7.1.G requires that such economic impact analyses include, but need not be limited to, the projected number of businesses or other entities to whom the regulation would apply, the identity of any localities and types of businesses or other entities particularly affected, the projected number of persons and employment positions to be affected, the projected costs to affected businesses or entities to implement or comply with the regulation, and the impact on the use and value of private property. The analysis presented below represents DPB's best estimate of these economic impacts.

Summary of the Proposed Regulation

The Virginia Board of Accountancy (board) is currently operating under emergency regulations that implement the provisions of Senate Bill 926 passed by the 1999 Session of the Virginia General Assembly. The proposed regulations replace the emergency regulations and continue to implement the provisions of Senate Bill 926. There are several significant changes to the pre-emergency regulations. Proposed amendments include: 1) the elimination of the certificate of maintenance, 2) a reduction in the amount of experience required to earn an original CPA certificate/license, 3) the elimination of a continuing professional education requirement for an original CPA certificate/license, 4) a less restrictive definition of what constitutes acceptable coursework for the continuing professional education requirement, 5) a provision allowing CPAs certified in certain other states to practice public accountancy in the Commonwealth without a Virginia CPA certificate, 6) a large increase in the maximum cost of the CPA examination, 7) a provision allowing CPAs to charge commissions under certain circumstances, 8) a requirement that firms based in the Commonwealth which practice public accounting or use the term "Certified Public Accountant(s)" or the designation "CPA" register with the board, and 9) a requirement that all firms that practice public accounting undergo formal peer review.

Estimated Economic Impact

Under the pre-emergency regulations, CPAs in Virginia could hold either a certificate of license or a certificate of maintenance. For either certificate, the holder was required to complete certain coursework requirements and pass the CPA examinations. An individual could use the CPA designation on their business cards, in advertising, etc., by holding the certificate of maintenance. A certificate of maintenance did not permit the practice of public accounting. In order to practice public accounting, a CPA was required to hold a certificate of license. In addition to passing the CPA examinations and the required initial coursework, the CPA was required to have two years of applicable experience and 20 hours of continuing professional education in order to qualify for an original certificate of license. For renewal of the certificate of license, CPAs were required to complete a total of 120 hours (in real time, not credit hours) of continuing professional education every three years. Renewal of the certificate of maintenance did not require continuing professional education. Annual fees for initial licensure were $15 for the certificate of maintenance and $55 for the certificate of license. Renewal fees were $10 and $30 annually respectively.

Under the proposed regulations, there is only one CPA certification. For the 7,186 former holders of the certificate of license, the proposed new certificate is less burdensome in several respects. The new certificate is less burdensome in that the initial and renewal fees, both $24, are lower than the fees were for the certificate of license. The new CPA certificate requires one year of more broadly defined applicable experience, versus the two years of more restrictively defined applicable experience required for the certificate of license. Also, there is no continuing professional education requirement prior to obtaining the original CPA certificate. Additionally the 120 hours of continuing professional education that are required for renewal are much more broadly defined for the new certificate. For the certificate of license, the continuing professional education had to be in courses pertaining to accounting that were approved by the board. Under the proposed regulations, "the CPA certificate holder may choose the areas of study and courses." Since the new CPA certificate is somewhat easier to obtain and renew than the old certificate of license, it is possible that some individuals will choose to obtain the new certificate and practice public accounting who would not have obtained the certificate of licensure. These individuals would provide new competition in the public accounting market. But the number of such individuals is likely to be small, especially considering the significant new burden of peer review that firms that practice public accounting will face. It seems likely that the benefits of reduced requirements will outweigh the costs of a potential small addition to competition. Thus, former holders of the certificate of license will likely be better off by its elimination and replacement with the new CPA certificate.

For CPAs that would have held a certificate of maintenance[1] under the pre-emergency regulations, obtaining and renewing the new CPA certificate is clearly more burdensome. The initial and renewal fees, both $24, are higher than the fees were for the certificate of maintenance. The new CPA certificate requires one year of applicable experience versus no experience requirement for the certificate of maintenance. Also, the new CPA certificate requires 120 hours of continuing professional education over three years for certificate renewal, versus no continuing professional education requirement for the certificate of maintenance. There is a significant opportunity cost associated with this requirement. Those 120 hours could instead be devoted toward three weeks of earning income via one's business, or time with one's family, or leisure, or some other chosen pursuit. Additionally, since these 120 hours can be in any area chosen by the CPA, this requirement provides no assurance to the public that the CPA is keeping up to date on skills relevant toward competence in their profession. Clearly, former holders of the certificate of maintenance are worse off by its elimination and replacement with the new CPA certificate.

The proposed regulations include a provision allowing CPAs based and certified in certain other states to practice public accountancy in the Commonwealth without a Virginia CPA certificate if their states' CPA certification requirements are "substantially equivalent" or exceed the requirements for a Virginia CPA certification. This proposed amendment may be beneficial

[1] According to the Department of Professional and Occupational Regulation, there were 6,708 certificates of maintenance holders prior to the implementation of the emergency regulations. The existing certificate of maintenance holders were given new CPA certificates at the time of implementation, but are required to meet the renewal requirements for the new certificate.

to consumers of public accounting services in Virginia. The supply of public accounting services could be increased, while the minimum qualifications of those providing the services is not reduced.

The new regulations also increase the ceiling on the cost of the CPA examination fee from $200 to $1,000. According to the Department of Professional and Occupational Regulation (DPOR), the maximum amount of the examination was changed to cover the anticipated increase in cost when the examination is given via a computer system. Under the expected computer-based system, CPA candidates would have much more choice as to when they took the exam. There is no indication that candidates would be able to continue to take the exam via the less expensive non-computerized method. It is likely that a significant percentage of candidates would not be willing or able to pay several hundreds of dollars more in order to gain greater flexibility of when the exam is taken. The potential large increase in cost of the exam could create a barrier to entry into the profession for less affluent candidates.

Under the pre-emergency regulations, CPAs were forbidden from receiving commissions. The purpose of this prohibition was to avoid a conflict of interest on the part of a CPA providing public accounting services. The proposed regulations allow CPAs to earn commissions from non-public accounting clients. This allows CPAs to earn additional income by, for example, selling financial products, without creating a conflict of interest with their public accounting clients. This proposed amendment would likely produce a net economic benefit since CPAs will be permitted to conduct additional types of profit-making business without substantially producing a conflict of interest risk.

The pre-emergency regulations required only professional corporations and professional limited liability companies to register with the board and pay $40 for an original registration and $30 to renew. Registrations lasted for two years. The proposed regulations require all firms that are based in the Commonwealth which practice public accounting or use the term “Certified Public Accountant(s)” or the designation “CPA” register with the board. Thus, all CPA firms are now required to register and pay a $24 fee every two years. For professional corporations and professional limited liability companies the biennial fee is down from $30, while it is increased from $0 for other firms. The proposed change does seem to be more equitable and is unlikely to create a significant burden to any firm.

Under the proposed regulations, all firms that practice public accounting or compile financial statements in accordance with American Institute of Certified Pubic Accountants' standards, must undergo and pass a formal peer review every three years. The peer review must be performed pursuant to standards no less stringent than those of the AICPA (American Institute of Certified Pubic Accountants). When an organization requests approval to conduct peer reviews, the Board will examine the program and decide on a case-by-case basis whether the program meets or exceeds the AICPA standards. The AICPA and the VSCPA (Virginia Society of Certified Public Accountants) are currently the only two approved (by the board) providers of peer reviews in the Commonwealth.

The benefit of the required peer review is presumably to help ensure that CPA firms based in Virginia provide competent service to their clients. There is insufficient information to determine to what extent that peer reviews help accomplish this goal. In the proposed regulation, CPA firms are free to choose which fellow CPA (who belongs to one of the approved organizations, but is not a member of the firm) conducts their peer review. Allowing firms to handpick their reviewer may reduce the likelihood that borderline questionable practices result in a negative peer review. Thus, allowing firms to choose their own reviewer may reduce the value of mandatory peer reviews.

According to DPOR, the cost of peer review varies depending on whether the work performed by the CPA firm requires an on-site review or an off-site review, as well as the size and nature of the firm's practice. The AICPA states that the cost of an on-site review varies between $1,500 and $3,500 for an average firm, while an off-site review costs between $400 and $800. In order to obtain a peer review by the AICPA, you must belong to the AICPA. The VSCPA states that an on-site review will cost between $1,300 and $2,700, while an off-site review will cost between $300 and $800. The VSCPA provides peer reviews for non-members, but at a 10% higher cost than the member rate. Since only members may be reviewed by the AICPA, and the VSCPA offers a discount to its members, the proposed regulations clearly encourage CPAs to join one of these two private organizations.

Since no accurate estimate is available for the potential benefits of the proposed peer review requirement, it cannot be determined whether the potential benefits exceed the substantial costs.

Businesses and Entities Affected

The proposed changes to the regulation affect all certified public accountants in Virginia, all individuals desiring to become certified public accountants in the Commonwealth, certified public accountants that are licensed in other states who desire to serve clients based in Virginia, and all firms based in the Commonwealth which practice public accounting or use the term "Certified Public Accountant(s)" or the designation "CPA." Prior to the implementation of the emergency regulations, there were 7,186 licensed CPAs and 6,708 CPA certificate of maintenance holders in Virginia. As of April 30, 2000, there were 13,997 CPA certificate holders in the Commonwealth. Prior to the implementation of the emergency regulations, there were 431 professional corporations and 40 professional limited liability companies registered to practice public accountancy in Virginia. As of April 30, 2000, there were 1,000 firms registered with the board.

Localities Particularly Affected

The proposed changes to the regulation affect localities throughout the Commonwealth.

Projected Impact on Employment

The proposed changes to this regulation are not expected to affect employment.

Effects on the Use and Value of Private Property

The elimination of the certificate of maintenance will increase costs for individuals that do not practice public accounting, but wish to maintain their CPA designation. The increased costs may decrease the value of their practice and may prompt some individuals to drop their certification. The elimination of the certificate of licensure and the introduction of the new certificate reduce costs for individuals that practice public accounting and may increase the value of their practice. The elimination of a continuing professional education requirement for an original CPA certificate/license and the less restrictive definition of what constitutes acceptable coursework for the continuing professional education requirement may reduce costs for some CPAs, potentially increasing the value of their practice. The quintupling of the ceiling for examination fees may lead to a large enough increase in cost to produce a barrier to entry into the profession. The provision allowing CPAs to charge commissions to non-public accounting clients has the potential to significantly increase the value of some firms. The implementation of mandatory peer reviews will increase costs for CPA firms, potentially decreasing the value of firms by a small amount. But the implementation of mandatory peer reviews will also very likely increase the membership and revenues of the AICPA and the VSCPA.