



Virginia Department of Planning and Budget **Economic Impact Analysis**

18 VAC 5-22 Board of Accountancy Regulations

Board of Accountancy

Town Hall Action/Stage: 6697 / 10874

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The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with § 2.2-4007.04 of the Code of Virginia (Code) and Executive Order 19. The analysis presented below represents DPB’s best estimate of the potential economic impacts as of the date of this analysis.¹

Summary of the Proposed Amendments to Regulation

The Board of Accountancy (Board) proposes to (i) remove a fee for processing additional applications to take one or more sections of the CPA [Certified Public Accountant] examination, (ii) update and clarify the factors used to determine whether an individual licensee’s principal place of business is within the Commonwealth or not, (iii) remove unnecessary restrictions regarding how long individuals must wait before retaking a section of the CPA examination, and (iv) update the requirements for firm ownership.

Background

Executive Directive 1 (2022) directs executive branch entities under the authority of the Governor “...to initiate regulatory processes to reduce by at least 25 percent the number of regulations not mandated by federal or state statute, in consultation with the Office of the Attorney General, and in a manner consistent with the laws of the Commonwealth.”² The Board

¹ Code § 2.2-4007.04 requires that such economic impact analyses determine the public benefits and costs of the proposed amendments. Further the analysis should include but not be limited to: (1) the projected number of businesses or other entities to whom the proposed regulatory action would apply, (2) the identity of any localities and types of businesses or other entities particularly affected, (3) the projected number of persons and employment positions to be affected, (4) the projected costs to affected businesses or entities to implement or comply with the regulation, and (5) the impact on the use and value of private property.

² See <https://www.governor.virginia.gov/media/governorvirginiagov/governor-of-virginia/pdf/ed/ED-1-Regulatory-Reduction.pdf>

reports that the fees in this regulation have not been changed since 2013 and that the regulatory requirements have not been significantly revised since 2018. Thus, the proposed changes are intended to update and clarify certain requirements, while removing unnecessary fees and outdated or overly burdensome requirements, as required by Executive Directive 1 (2022).

The most substantive proposed changes are summarized as follows:

- Section 20 (*Fees*) would be amended to remove a \$20 fee for processing additional applications to take one or more sections of the CPA examination. The Board specified that this change is intended to reduce the burden on applicants who are still in the process of meeting licensure requirements, because the cost of enrolling to take the exam has increased significantly since these fees were set. It should also be noted that the initial application fee to apply to take one or more sections of the CPA exam (\$120), the initial individual license application fee (\$75), and the initial license application fee for firms (\$100) would remain the same.
- Section 50 (*Determining whether the principal place of business of a person or of a firm is in Virginia*) would be amended to specify how such determinations are made. The current text requires the person or firm to “use reasonable judgment,” which was deemed overly subjective and difficult to enforce. Under the proposed language, the principal place of business for a CPA firm is deemed to be in Virginia if the firm has one or more offices in Virginia. For individual CPAs, the proposed language seeks to align with the Internal Revenue Service’s (IRS) distinctions between employment and contracting. That is, the principal place of business for CPAs who are (i) owners, partners, or employees of a firm that is located in Virginia, or (ii) are assigned to a firm’s office that is located in Virginia, is deemed to be in Virginia. (The CPAs need not be physically located in Virginia.) On the other hand, independent contractors who are physically located in Virginia would be considered to have their principal place of business in Virginia, even if the firms that contract them are located in other states.
- Section 80 (*Examination*) would be amended to remove a requirement that a person who fails a section of the CPA examination may not retake that section until the next quarter of the calendar year unless otherwise prescribed by the Board. This requirement was considered unnecessary and overly burdensome, and the proposed change is intended to reduce the time taken for applicants to retake sections of the exam.

- Section 130 (*Owners of firms who are not licensees*) would be retitled “Firm ownership” and would be amended to reiterate and clarify the requirements of Code of Virginia § 54.1-4412.1 (D).³ Specifically, the Board seeks to add language clarifying that a CPA firm licensed in Virginia must be at least 51 percent owned by persons who hold an active license or trustees of an eligible employee stock ownership plan. The Board would also require firms to designate an active individual Virginia CPA license holder as the principal licensee who will be responsible for the firm.
- Section 170 (*Communication with the board*) would be amended to require licensees to notify the board of any change that affects the ownership, operating status, or structure of a Virginia CPA firm within 30 calendar days.

Lastly, the Board seeks to make clarifying changes and to remove language that either re-states Virginia statute or has become obsolete.

Estimated Benefits and Costs

Individuals applying to take the CPA exam would benefit from (i) not having to pay additional fees to retake sections of the exam, and (ii) not having to wait until the next quarter to retake a section of the exam. The Board reports that it receives approximately 4,415 re-exam applications per year; thus, eliminating the \$20 fee for this application would result in approximately \$88,300 in savings for prospective CPAs each year. In addition, obtaining a CPA license is likely associated with increased job opportunities at CPA firms, eligibility for promotions, higher salaries, and the option to be self-employed or a proprietor of a CPA firm. Thus, aspiring CPAs who take less time to pass the exams would benefit from having more time to accrue the financial and non-financial benefits of being licensed in the profession. Taken together, these changes would marginally reduce barriers to entry into the profession.

Individuals and firms licensed in Virginia or seeking to relocate to or operate in Virginia would benefit from greater clarity in Section 50, with regard to determining the principal place of business. Some individuals may find that they either need to obtain a Virginia license or no longer need to maintain a Virginia license. However, to the extent that the proposed changes implement a policy that aligns with IRS designations and may already be followed in practice, few such changes are expected.

³ See <https://law.lis.virginia.gov/vacode/title54.1/chapter44/section54.1-4412.1/>.

The changes to Section 130 regarding ownership are intended to protect small and/or sole-proprietor accounting firms in Virginia from efforts to acquire and consolidate these businesses by larger financial companies. This in turn would benefit the various small businesses throughout the Commonwealth that rely on small accounting firms or individual contractors/sole proprietors to pay their taxes. Some CPA firms may incur a cost to reorganize and designate an active individual Virginia CPA license holder as the principal licensee who will be responsible for the firm, which would be a new requirement.

Businesses and Other Entities Affected

The Board reports that the proposed changes are expected to directly benefit the applicants who currently submit roughly 4,415 requests per year to take additional sections of the CPA exam. Current and future individual CPAs and CPA firms would benefit from having clear and accurate regulations.

The Code of Virginia requires DPB to assess whether an adverse impact may result from the proposed regulation.⁴ An adverse impact is indicated if there is any increase in net cost or reduction in net benefit for any entity, even if the benefits exceed the costs for all entities combined.⁵ Since the proposed changes does not increase net costs or reduce net benefits, an adverse impact is not indicated.

Small Businesses⁶ Affected:⁷

The Board reports that the vast majority of CPA firms licensed in Virginia would meet the statutory definition of a small business. The proposed amendments would not adversely affect small CPA firms.

⁴ Pursuant to Code § 2.2-4007.04(D): In the event this economic impact analysis reveals that the proposed regulation would have an adverse economic impact on businesses or would impose a significant adverse economic impact on a locality, business, or entity particularly affected, the Department of Planning and Budget shall advise the Joint Commission on Administrative Rules, the House Committee on Appropriations, and the Senate Committee on Finance.

⁵ Statute does not define “adverse impact,” state whether only Virginia entities should be considered, nor indicate whether an adverse impact results from regulatory requirements mandated by legislation. As a result, DPB has adopted a definition of adverse impact that assesses changes in net costs and benefits for each affected Virginia entity that directly results from discretionary changes to the regulation.

⁶ Pursuant to § 2.2-4007.04 of the Code of Virginia, small business is defined as “a business entity, including its affiliates, that (i) is independently owned and operated and (ii) employs fewer than 500 full-time employees or has gross annual sales of less than \$6 million.”

⁷ If the proposed regulatory action may have an adverse effect on small businesses, Code § 2.2-4007.04 requires that such economic impact analyses include: (1) an identification and estimate of the number of small businesses subject to the proposed regulation, (2) the projected reporting, recordkeeping, and other administrative costs required for

Localities⁸ Affected⁹

The proposed amendments do not disproportionately affect particular localities or affect costs for local governments.

Projected Impact on Employment

Although, as described previously, the proposed amendments would reduce the barriers to entry for CPAs, the proposed amendments are unlikely to have a significant impact on total employment.

Effects on the Use and Value of Private Property

The proposed fees are not expected to affect the value of CPA firms. Real estate development costs would not be affected.

small businesses to comply with the proposed regulation, including the type of professional skills necessary for preparing required reports and other documents, (3) a statement of the probable effect of the proposed regulation on affected small businesses, and (4) a description of any less intrusive or less costly alternative methods of achieving the purpose of the proposed regulation. Additionally, pursuant to Code § 2.2-4007.1, if there is a finding that a proposed regulation may have an adverse impact on small business, the Joint Commission on Administrative Rules shall be notified.

⁸ “Locality” can refer to either local governments or the locations in the Commonwealth where the activities relevant to the regulatory change are most likely to occur.

⁹ § 2.2-4007.04 defines “particularly affected” as bearing disproportionate material impact.