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House Bill 5936 (as passed by the House)
Sponsor: Representative Andy Coulouris
House Committee: Banking and Financial Services
Senate Committee: Economic Development and Regulatory Reform

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CONTENT

The bill would amend Article 7 (Public Accounting) of the Occupational Code to do all of the following:

- Allow an individual whose principal place of business was not in Michigan to have all the privileges of licensure as a certified public accountant (CPA) in this State if he or she held a valid CPA license from another licensing jurisdiction that met certain criteria.**
- Require that a person granted CPA practice privileges in Michigan consent to certain regulatory conditions in this State.**
- Modify requirements for CPA firms to reflect services performed by an individual granted practice privileges.**
- Specify that a Michigan CPA licensee offering or rendering services or using the CPA title in another licensing jurisdiction would be subject to disciplinary action in Michigan for a violation committed elsewhere.**
- Exempt an out-of-State CPA granted practice privileges in Michigan from certain title restrictions outlined in Article 7.**
- Subject an out-of-State CPA granted practice privileges in Michigan to licensing sanctions applicable to Michigan-licensed CPAs.**

CPA Practice Privileges

Under Section 727a, which the bill proposes, an individual whose principal place of business was not in Michigan would be considered to have qualifications substantially equivalent to Michigan's requirements, would have all the privileges of licensees of this State, and could practice public accountancy without the need to obtain a certificate, license, or temporary practice permit under Article 7, if the individual met either of the following:

- He or she held a valid license as a CPA from another licensing jurisdiction that required a licensee 1) to have at least 150 semester hours of college education including a baccalaureate or higher degree; 2) to achieve a passing grade on the Uniform Certified Public Accountant Examination; and 3) to possess at least one year of experience including providing any type of service or advice involving the use of accounting, attest, compilation, management advisory, financial advisory, tax, or consulting skills, all of which could be obtained through government, industry, academic, or public practice as verified by a licensee.

-- He or she held a valid license as a CPA from another licensing jurisdiction that did not meet the requirements described above, but the individual's CPA qualifications were substantially equivalent to those requirements.

A person who passed the Uniform CPA Examination and held a valid license issued by another licensing jurisdiction before January 1, 2012, would be exempt from the education requirement noted above.

An individual who offered or rendered professional services under Section 727a would have to be granted practice privileges in Michigan. No notice, fee, or other submission could be required of that individual, but he or she would be subject to the requirements of Section 734a, which the bill proposes.

Under Section 734a, an individual meeting the requirements described above and exercising the practice privilege granted by Section 727a, and the firm employing that individual, simultaneously would consent to all of the following as a condition of the exercise of that privilege:

- The personal and subject matter jurisdiction and disciplinary authority of the State Board of Accountancy and the Department of Labor and Economic Growth (DLEG).
- Comply with the Code and applicable rules.
- If the license from the licensing jurisdiction of the individual's principal place of business were no longer valid, the individual would cease offering or rendering professional services in Michigan both individually and on behalf of a firm.
- The appointment of the state board or other licensing authority issuing his or her license as the agent upon whom process could be served in any action or proceeding by the Michigan board against the individual or the firm employing him or her.

CPA Firms

A firm organized for the practice of public accounting must apply for and obtain a license under Article 7 in order to engage in the practice of public accounting in Michigan. Under the bill, that requirement would apply if the firm established or maintained an office in Michigan or if an individual representing the firm performed any of the following engagements for any client having its home office in Michigan:

- Any audit or other engagement to be performed in accordance with the statements on auditing standards.
- Any examination of prospective financial information to be performed in accordance with the statements on standards for attestation engagements.
- Any engagement to be performed in accordance with the public company accounting oversight board auditing standards.

An individual who met the requirements of Section 727a could perform such an engagement for an entity with its home office in Michigan only through a firm that had obtained a license in Michigan.

Reports produced pursuant to those engagements could be supervised or signed, or the report's signature could be authorized for the firm, by an individual practicing public accounting in Michigan pursuant to Section 727a.

A firm applying for licensure under Article 7 must meet certain criteria. These include a requirement that at least a simple majority of the equity and voting rights of the firm be held directly or beneficially by individuals who are licensed in good standing as CPAs of Michigan or another state or the equivalent in another licensing jurisdiction. The bill specifies that owners who were not CPAs would have to be active individual participants in

the firm or its affiliated entities. An individual with practice privileges under Section 727a who performed services for which a firm permit was required under Article 7 would not be required to obtain a certificate, registration, or license under Article 7. The bill also would require that a firm applying for licensure have filed the required certificate of authority with DLEG pursuant to the Business Corporations Act, if applicable.

The bill specifies that a firm not required to obtain a Michigan license could perform a review engagement in accordance with the Statements on Standards for Accounting and Review Services or a compilation for a client having its office in Michigan, could use the title "CPA" or "CPA firm", and could practice public accountancy without a Michigan license only if it met both of the following conditions:

- It had met the current requirements for a firm applying for licensure in Michigan, and peer review requirements of Article 7 for licensed firms and sole practitioners that perform attest services, including audits, reviews, and compilations relied upon by third parties.
- It performed services through an individual with practice privileges under Section 727a.

A firm that was not required to obtain a Michigan license and that was not seeking to perform a review engagement described above, could perform other professional services within the practice of public accountancy while using the title "CPA" or "CPA firm" in Michigan without a license issued under Article 7 only if it met both of the following conditions:

- It performed the services through an individual with practice privileges under Section 727a.
- It could lawfully do so in the licensing jurisdiction where the individuals with practice privileges had their principal place of business.

Prohibitions & Sanctions

Article 7 provides that each licensed or registered individual holder of a certificate as a CPA must be known as a certified public accountant and a person may not use that title or the abbreviation "CPA" or any other word, words, letters, or figures to indicate that he or she is a CPA unless the use is specifically approved by the Board of Accountancy. Under the bill, each person having complied with the article's requirements under the definition of "certified public accountant", including an individual whose principal place of business was not in Michigan and who satisfied the requirements of Section 727a, would be known as a certified public accountant and could use the title.

In addition, except as otherwise provided, a person may not engage in the practice of public accounting either in his or her own name, under an assumed name, or as a member of a firm or as an employee, unless he or she holds a certificate as a CPA and a license as a CPA issued under the Article 7. The bill would refer to a person holding a Michigan license as a CPA or practicing public accounting in Michigan pursuant to Section 727a.

Each licensed firm may use the designation "certified public accountants" in connection with the firm name, or the singular form of that title if the firm has only one member. An unlicensed firm may not use that designation or "certified accountants", "chartered accountants", "public accountants", or "registered accountants" or the abbreviations "C.P.A.", "CPA", "CPAs", "C.A.", "P.A.", or "R.A." in connection with the firm name. The bill would provide an exception to that prohibition for a firm licensed under the laws of another licensing jurisdiction that was permitted to practice in Michigan without obtaining a license pursuant to Section 727a.

Under Article 7, a holder of a certificate, registration, or license as a CPA is subject to penalties under Section 602 of the Code for certain actions. The bill would extend that provision to an individual exercising the practice privilege granted under Section 727a and the firm employing that individual. (Section 602 specifies administrative sanctions for a person, school, or institution that violates the Code or a rule or order promulgated or issued under it.)

Under the bill, a Michigan licensee offering or rendering services or using the CPA title in another licensing jurisdiction, or before a state or Federal agency, would be subject to disciplinary action in Michigan for an act committed in another licensing jurisdiction or before a state or Federal agency. The Department would have to examine any complaint made by the state board or other licensing jurisdictional authority and could accept, as prima facie evidence of a violation of the Code, the final order of violation issued by another state board or other licensing jurisdictional authority.

MCL 339.720 et al.

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

The bill would reduce the responsibilities and license revenue to the Department of Labor and Economic Growth by a minimal amount. The bill would have no fiscal impact on local government.

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.