Hawaii Association of Public Accountants

P.O. Box 61043
Honolulu, HI 96839

Dear HAPA Member or Fellow CPAs:

Below is a brief summary of some of HAPA's objections to SB 543 and HB 243, which are CPA mobility bills introduced for the HSCPA and Coalition (large international CPA firms). CPA mobility is about temporary practice in Hawaii by out-of-state CPAs whose principal business is not in Hawaii.

The Hawaii Association of Public Accountants (HAPA**) STRONGLY OPPOSES SB 543 and HB 243.** HAPA is a statewide organization consisting primarily of small to mid-sized Hawaii CPA firm owners and managers located throughout Hawaii.

HAPA opposes this extreme version of "no notice, no fees" CPA mobility legislation, and these bills enable not only individual CPA mobility, but also firm CPA mobility. Only 17 states have passed CPA firm mobility in one form or another.

Hawaii already has temporary CPA permits for out-of-state CPAs, but the Accountants Coalition (i.e., big international CPA firms) has been trying for years to pass "no notice, no fees" CPA mobility legislation in Hawaii to accommodate their business plans, which includes outsourcing U.S. accounting jobs overseas (such as to India), and insourcing labor when feasible. Nationwide efforts at changing and controlling CPA licensing legislation have been made by the Accountants Coalition, since cheap foreign labor results in potentially huge profits for these international CPA firms.

HAPA strongly opposes this extreme version of CPA mobility for the following reasons:

1. **Outsourcing and Loss of Hawaii jobs.**
   Over the years, there has been a huge loss of accounting jobs to non-residents. The huge international CPA firms (one of the Big Four has left Hawaii) now all have out-of-state regional offices, where U.S. accounting and tax work is being sent. To facilitate easy personnel movement into Hawaii from their large regional offices and overseas, these huge international CPA firms want "no notice, no fees" CPA mobility.

2. **Loss of Hawaii Tax Revenue and Fees and less Board of Public Accountancy (BOPA) control.** HAPA conducted a two-year study of temporary CPA permit holders in Hawaii in 2007 and 2008 and found out that **over 70% of temporary CPA permit holders from out-of-state were from CPA firms which had not obtained Hawaii General Excise Tax (GET) license numbers and had not filed the required Hawaii Business Registration forms**. Without Hawaii GET numbers, these firms would not have paid their Hawaii GET and income taxes on Hawaii service income. These out-of-state CPAs were either 1) not knowledgeable of Hawaii laws or 2) chose to ignore Hawaii tax and business laws (which raises questions concerning their competency and professional ethics).

a. **These bills eliminate CPA firm permits and the reporting of GET numbers for most out-of-state CPA firms.** Current BOPA rules now require all CPA firms who do business in Hawaii to provide Hawaii General Excise tax (GET) numbers when CPA firms obtain their Hawaii firm permits to practice, which helps with tax compliance.

b. **The Board will have less control and jurisdiction for over 600 CPAs from out-of-state who already have Hawaii CPA licenses, and Hawaii will lose roughly $200,000 in fees every two years from current out-of-state Hawaii CPA license holders who no longer may need Hawaii licenses under these bills.** Currently 22% (605) of the total 2,750 Hawaii-licensed CPAs consist of CPAs with an out-of-state address. This percentage has been slowly growing over the years. Will remaining Hawaii CPAs have to make up the license fee shortfall which will occur since the State needs so much in fees to administer CPA licensing and enforcement activities?

3. Lack of Consumer Protection and Lower CPA Licensing Standards for Hawaii Consumers.

a. **Lower CPA licensing standards for out-of-state CPAs under these bills.** These bills provide that out-of-state CPAs who practice in this state must meet the AICPA/NASBA UAA Standards, which are **lower licensing standards than Hawaii CPA licensing standards**. Under the UAA, one year of "any kind" of experience is acceptable to be a substantially-equivalent CPA, whereas in Hawaii, two years of public accounting experience or its equivalent is required for Hawaii CPAs and for the protection of Hawaii consumers.

b. **The bills eliminate the requirement that all CPA firms must obtain a firm permit to practice and report their Hawaii GET number to insure all taxes are paid**. How would Hawaii businesses and consumers benefit from out-of-state CPAs who are not knowledgeable about Hawaii tax and business laws or who choose not to follow these laws?

c. **Whether due to lack of personnel, money, or the "hassle factor", Hawaii has failed to pursue out-of-state CPAs who did not file and pay Hawaii taxes.** In January 2010, HAPA filed a complaint with the Board of Public Accountancy regarding non-filing of tax returns by CPA firms of out-of-state CPAs who received a temporary permit. After 5 years, no sanctions have been taken by the BOPA against these out-of-state CPAs. Allowing out-of-state CPAs or CPA firms to practice without providing notice is like putting your head into the sand to avoid facing the obvious problems and turning Hawaii into a tax haven for out-of-state CPAs and likely their Hawaii clients.

d. **These bills seek to circumvent Hawaii's new peer review laws for many, if not most, out-of-state CPA firms.** The new peer review law, effective January 1, 2015, was passed to ensure a higher level of competency by CPAs practicing in Hawaii. No firm permits = no firm peer review according to Hawaii peer review laws.

e. **CPA mobility laws around the nation are quite complex, and SB543 and HB243 are incomplete, inadequate, and fail to consider Hawaii's unique operating environment and its unique tax laws**:

- placing both Hawaii businesses and other consumers at risk,

- placing local Hawaii CPAs at a competitive **<u>disadvantage</u>** as compared to out-of-state CPA firms and **<u>discriminating against Hawaii CPAs</u>** by its provisions,

- reducing Hawaii tax compliance and collection efforts (i.e., no tax audit trail and no reporting of GET number),

and leaving too many other questions unanswered.

Thank you for your consideration of the above.

For Questions Concerning CPA Mobility Legislation,
Please Contact:

Eric H. Matsuda, CPA, ATA, ABA, HAPA State President,
Email: hapapresident@aol.com

or one of HAPA's legislative committee co-chairs:

Marilyn M. Niwao, J.D., CPA, ATA, CGMA
Email: mniwao@aol.com

Brian M. Iwata, CPA
Email: brian@tihcpa.com

John W. Roberts, MBA, CPA, CGMA
Email: powerten@aol.com.