

## **BILL ANALYSIS**

C.S.H.B. 2144

By: Flores

Licensing & Administrative Procedures  
Committee Report (Substituted)

### **BACKGROUND AND PURPOSE**

Most states, including Texas, have substantially equivalent education, experience and testing requirements that must be met before a certificate as a certified public accountant is awarded to an individual and all states have state regulatory requirements for practicing CPAs. With the increased mobility of the business community and the continuing development of electronic commerce, the public users of accounting and auditing services frequently require their CPA and CPA firm to provide services in more than one state.

Currently each state, including Texas, has different requirements for licensure, registration or temporary permits for out-of-state CPAs that practice temporarily in the state. These many and varied requirements frequently interfere with the public's need to ask the CPA or CPA firm to provide professional services on short notice in various states. The amendments to Chapter 901, Occupations Code, will allow out-of-state CPAs and CPA firms to respond to the public's needs while continuing to ensure their appropriate regulation and discipline, regardless of the state of original licensure.

C.S.H.B. 2144 makes it clear that the Texas State Board of Public Accountancy (board) may discipline CPA and CPA firm licensees from other states that practice in Texas. C.S.H.B. 2144 provides that a CPA firm must be licensed in Texas to provide audit services to any entity with its home office in Texas. For all other public accounting services, the substitute grants a practice privilege to individual CPAs and CPA firms that are licensees of another state and that do not maintain an office in Texas. C.S.H.B. 2144 eliminates any notice requirement to exercise the practice privilege and makes the out-of-state licensee subject to the jurisdiction and disciplinary authority of the board upon exercise of the practice privilege. If the out-of-state firm performs any attest service for an entity with its home office in Texas, the firm must comply with the ownership provisions of the Occupations Code and must be subject to a peer review program. The practice privilege is revoked if the CPA or CPA firm fails to maintain an active license in their home state.

### **RULEMAKING AUTHORITY**

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

### **ANALYSIS**

SECTION 1: Changes the definition of "certified public accountant" and "certified public accountancy firm" to include CPAs and CPA firms licensed in states other than Texas that are entitled to practice accountancy in Texas on a temporary basis.

SECTION 2: Allows a CPA licensed in another state to practice accountancy in this state by complying with new Section 901.462.

SECTION 3: Requires an out-of-state CPA firm to be licensed in Texas if the firm establishes or maintains an office in Texas. Requires an out-of-state CPA firm to be licensed in Texas if the firm antato perform an audit on an entity with its principal office in this state.

SECTION 4: Requires an out-of-state CPA firm that is licensed in this state to designate an out-of-state license holder that is qualified under Section 901.462 to be the individual responsible for the firm's license and the supervision of the firm.

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SECTION 5: Clarifies that only CPA firms with offices in Texas or out-of-state firms performing audits for entities with Texas home offices must be licensed in Texas.

SECTION 6: Makes it clear that a CPA who was licensed in Texas, moved to another state and allowed the Texas license to be revoked under Section 901.502 (3) or (4), may obtain a new Texas license provided they are currently licensed in another state and have been practicing public accountancy in that state for the two years preceding the new license application by paying a fee that is equal to two times the normally required renewal fee without being subject to the additional fees required by Section 901.408(a).

SECTION 7: Makes it clear that a person eligible for a new license application under Section 901.405(f) is not subject to the provisions of Section 901.408(a).

SECTION 8: Changes the heading of Subchapter J, Chapter 901, Occupations Code to read "PRACTICE OF PUBLIC ACCOUNTANCY."

SECTION 9: Allows an out-of-state CPA firm to perform attest services in Texas pursuant to Section 901.461.

SECTION 10: Allows an out-of-state CPA firm or individual CPA to hold out to the public as an "accountant" or "auditor" if the CPA firm or individual CPA qualifies to practice under Sections 901.461 or 901.462 respectively.

SECTION 11: Allows an out-of-state CPA firm or individual CPA that qualifies for a practice privilege under Sections 901.461 or 901.462 respectively to use the CPA title the firm or individual is allowed to use in the home state.

SECTION 12: Requires an out-of-state CPA firm that exercises a practice privilege in this state under Section 901.461 to use the same name in this state it is licensed under in its home state.

SECTION 13: Allows out-of-state CPA firms or an individual CPA to issue reports on financial statements of another person and offer to perform attest services when practicing under Sections 901.461 or 901.462 respectively. Also provides that an individual out-of-state CPA performing attest services under Section 901.462 must provide those services in accordance with standards adopted by the American Institute of Certified Public Accountants or another national accountancy organization recognized by the board.

SECTION 14: Requires an out-of-state CPA practicing in this state pursuant to Section 901.462 to perform any attest services in accordance with the standards adopted by the American Institute of Certified Public Accountants or another national accountancy organization recognized by the board.

SECTION 15: Adds two new Sections to the Occupations Code. Section 901.461 sets out the practice privileges and requirements for out-of-state CPA firms that are allowed to practice in this state without a firm license. The provision allows a CPA firm that is licensed in another state to practice in Texas provided the individual CPAs doing the work are qualified under Sec. 901.462. Such firm may perform any professional service except audits of entities with principal offices in this state without a firm license or notice to the board. The firm may perform attest services other than audits for entities with home offices in this state only if the firm meets the ownership requirements of Section 901.354 (a) and (b) and complies with the board's Peer Review program pursuant to Section 901.159. As a condition of practicing under this section, the firm is subject to the Texas accountancy laws, board rules and board jurisdiction. The firm must promptly cease practicing in this state if its license in its home state is no longer valid. Section 901.462 sets out the practice privileges and requirements for individual CPAs licensed in another state that are allowed to practice in this state. It allows a CPA that is licensed in another state that has substantially equivalent qualifications for certification or licensure as this state, or that individually meets those requirements, to practice in this state without a Texas certificate, license, registration or notification to the board and subjects that CPA to the Texas accountancy laws, board rules and board jurisdiction. Such out-of-state CPA is required to provide audit

services to an entity with its home office in Texas through a Texas licensed CPA firm. The individual may practice in Texas only as long as a valid license is maintained in another state.

SECTION 16: Repeals Sections 901.356 and 901.412, Occupations Code.

SECTION 17: Effective Date. September 1, 2007.

### **EFFECTIVE DATE**

September 1, 2007.

### **COMPARISON OF ORIGINAL TO SUBSTITUTE**

SECTION 1 of CSHB 2144 is the same except it includes CPAs licensed in other states. SECTION 2 is essentially the same with a slight change in wording for clarification. SECTION 3 is essentially the same with some wording change for clarification. The terminology “an entity that maintains headquarters in this state” was replaced with “an entity with its home office in this state.” Subsection (a-1)(2)(B) was eliminated because it was redundant to Subsection (a-1)(2)(A), and subsequent subsections are appropriately renumbered. SECTION 4 is a new section requiring an out-of-state CPA firm that is licensed in Texas or practices under Section 401.461 to designate an individual CPA that is qualified under Section 401.462 to be responsible for the firm’s license and supervision. SECTION 5 is the same as the previous SECTION 4 renumbered. SECTION 6 is the same as the previous SECTION 5 renumbered. SECTION 7 is the same as the previous SECTION 6 renumbered. SECTION 8 is the same as the previous SECTION 7 renumbered. SECTION 9 is essentially the same as the previous SECTION 8 renumbered with a slight change in wording for clarification. SECTION 10 is a new section allowing an out-of-state CPA firm or individual CPA practicing under Sections 901.461 or 901.462 respectively to hold out to the public as an “accountant” or “auditor.” SECTION 11 is essentially the same as previous SECTION 9 renumbered with a slight change in wording for clarification. SECTION 12 is a new section requiring an out-of-state CPA firm practicing under Section 901.461 to use the same name in this state it is licensed under in its home state. SECTION 13 is a new section allowing out-of-state CPA firms or an individual CPA to issue reports on financial statements of another person and offer to perform attest services when practicing under Sections 901.461 or 901.462 respectively. It also provides that an individual out-of-state CPA performing attest services under Section 901.462 must provide those services in accordance with standards adopted by the American Institute of Certified Public Accountants or another national accountancy organization recognized by the board. SECTION 14 is a new section that requires an out-of-state CPA practicing in this state pursuant to Section 901.462 to perform any attest services in accordance with the standards adopted by the American Institute of Certified Public Accountants or another national accountancy organization recognized by the board. SECTION 15 replaces previous SECTION 10. It is very similar to the original section but adds requirements that an out-of-state CPA firm that provides review or compilation services as defined in Section 901.002(a)(1)(B) and (D) must meet the firm ownership requirements in Section 901.354(a) and (b), participate in a peer review program and perform those services through individuals licensed in Texas or privileged to practice in Texas under Section 901.462. Language is added to Section 901.462 to make it clear that an individual out-of-state CPA practicing under this section may do so without notice to the board and is not required to obtain an individual certificate or license in this state when performing audit services for an entity with its home office in this state. Other slight changes in wording are made for clarification. SECTION 16 is identical to previous SECTION 11 renumbered. SECTION 17 is identical to previous SECTION 12 renumbered.