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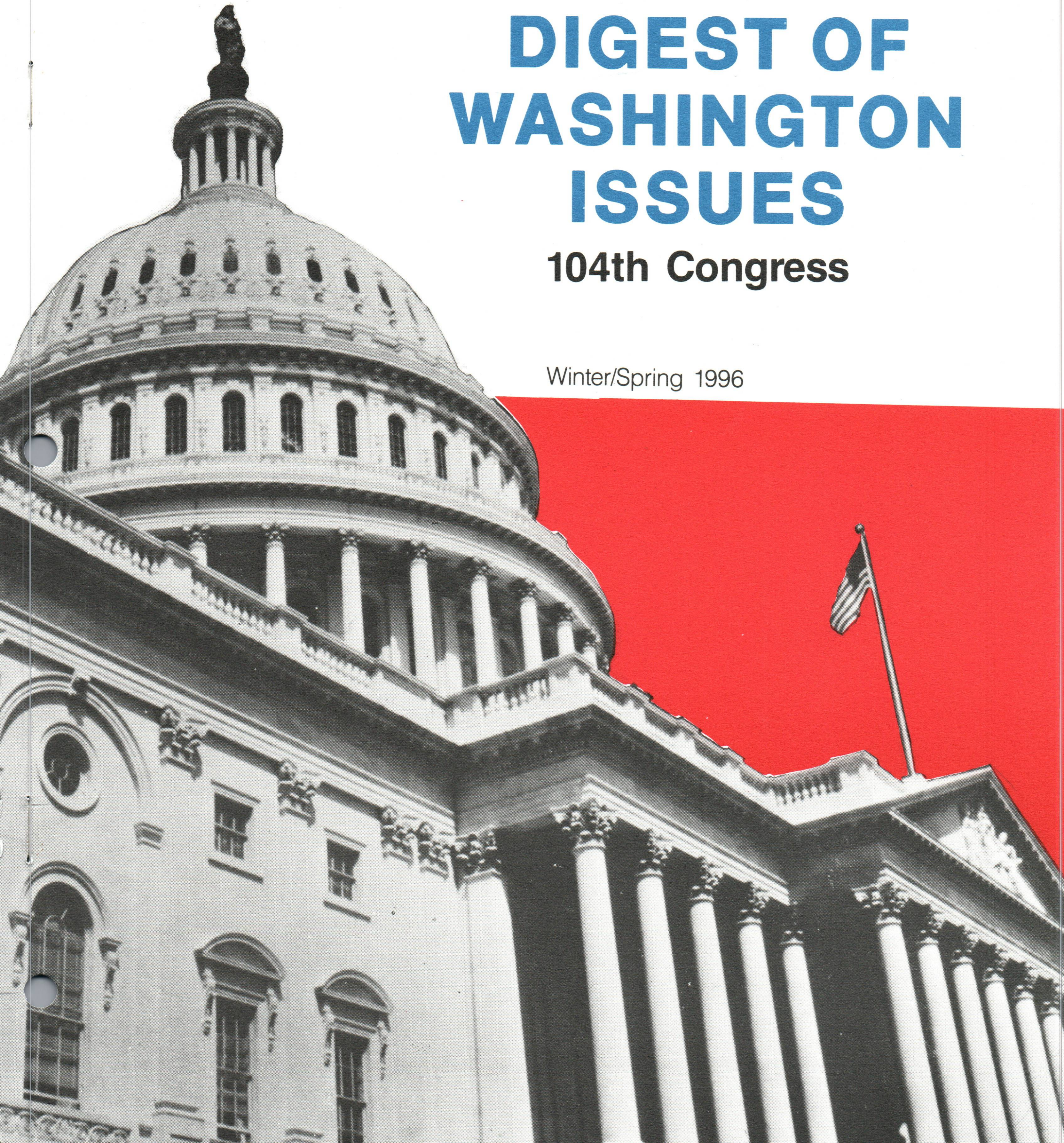
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

DIGEST OF WASHINGTON ISSUES

104th Congress

Winter/Spring 1996



Prepared for its members
and as an information service to the U.S. Congress
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AICPA
DIGEST OF WASHINGTON ISSUES

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Frequent references are made throughout the Digest *to variously numbered Congresses. Each Congress lasts for two years and has two sessions--one for each year. The following list of Congresses shows the corresponding years:*

99th Congress--1985-1986

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101st Congress--1989-1990

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103rd Congress--1993-1994

104th Congress--1995-1996

HIGHLIGHTS OF RECENT ACTION

Significant action occurred on the issues listed below. Please see the appropriate issue page for details.

Workload Problems for CPAs Caused by TRA '86

The House Ways and Means Committee included the concepts of the AICPA's workload relief proposal (H.R. 1661) in its 1995 revenue reconciliation bill. However, House and Senate conferees dropped the proposal from the final reconciliation bill, after the Joint Tax Committee gave the bill a negative revenue estimate. The AICPA is particularly disappointed because the independent revenue estimate it had attained showed the bill to be revenue positive over the seven-year budget period. The AICPA is continuing its battle to have H.R. 1661 enacted.

Flat Tax and Consumption Tax

On January 4, 1996, the AICPA released a comprehensive analysis of the main proposed alternatives to the current federal income tax system. The study, entitled *Flat Taxes and Consumption Taxes: A Guide to the Debate*, is designed to help Americans begin to understand how the impending overhaul of the US income tax system could affect their economic lives, their businesses, and their personal finances. While the Institute does not endorse any proposal and the study is not a policy statement by the profession favoring one alternative over another, neither is it a defense of the status quo. The current system clearly is too complex. The study emphasizes the significant results (many unintended) that could occur if reform is not undertaken in a deliberate and thoughtful manner. On January 17, 1995, the GOP task force headed by former Housing Secretary Jack Kemp released its report. While not offering specific details, the Kemp report advances the flat tax debate by recommending a single, unspecified rate tax with a generous personal exemption but few other deductions.

Tax Provisions in Various Budget Reconciliation Proposals

A variety of tax proposals are being considered as an integral part of the federal budget debate as Congressional and Administration negotiators continue their months-long search for a compromise. In December 1995, the President released tax proposals he wants included in a budget package. AICPA comments on the President's proposals opposed repealing the LCM inventory method, eliminating the components of cost LIFO inventory method and repealing Section 1374 of the Internal Revenue Code for large corporations.

S Corporation Reform

In November 1995, Congress passed some provisions strongly supported by the AICPA--as part of the Revenue Reconciliation Act of 1995--that would make S corporations more available and useful to small business. The Act was vetoed by President Clinton in December. With the budget debate still unresolved, it's uncertain what provisions might be included in the final budget package. In December, President Clinton also released a balanced budget proposal that would amend the Subchapter S built-in gains provisions to make the conversion of a C corporation to an S corporation a taxable event, for corporations with a value of $5 million or more at the time of the conversion. The AICPA has written Congressional leaders expressing strong opposition to the President's proposal.

ERISA Audit Requirements

Legislation supported by the AICPA was introduced in December 1995 that repeals the limited scope audit now permitted under the Employee Retirement Income Security Act of 1974 (ERISA). The bill also speeds up reporting by auditors of serious ERISA violations.

Application of Wage and Hour Laws to Professional Employees

Legislation introduced in the House and Senate would permit more flexible work schedules and compensation systems for private sector employees under the Fair Labor Standards Act. The bills are supported by the AICPA. A House subcommittee's December 1995 approval of a measure that would permit employers to grant hourly employees compensatory time-and-a-half leave in lieu of overtime pay is a positive step, in the AICPA's opinion. Salaried employees' needs are addressed in the other legislation, which would permit unpaid partial-day leaves and permit overtime payment without risk of employers losing their exempt status. The AICPA also is part of a coalition that is drafting a bill that would make it easier to determine which employees should be classified as exempt and non-exempt under the Fair Labor Standards Act.

Regulatory Relief from FDICIA

The recently reported Daiwa bank scandal has increased concerns about banks' internal controls. During a House of Representatives hearing in December 1995--at which the AICPA testified regarding the independent audit function--it was clear that members of the House Banking Committee are reconsidering the repeal of FDICIA's requirement that auditors report on management's assertions on internal controls. In a letter to the Committee following the hearing, the FDIC said it now supports maintaining the required auditor reports on internal controls.

EXECUTIVE SUMMARY

Workload Problems for CPAs Caused by TRA '86

The Tax Reform Act of 1986 (TRA '86) greatly increased the complexity of the Internal Revenue Code and required trusts, partnerships, S corporations, and personal service corporations to adopt a calendar year-end for tax purposes. In 1987, thanks to the efforts of thousands of CPAs, the calendar-year requirement was relaxed with the enactment of Internal Revenue Code section 444, which permitted partnerships, S corporations and PSCs to retain, and allowed new entities to elect, fiscal year-ends. While many of these businesses retained their fiscal year-ends, most did not. The shift of so many clients to calendar years, when combined with the heightened complexity caused by TRA '86, resulted in a tremendous shift of the work performed by CPAs to the first four months of the year. This phenomenon, referred to by CPAs as "workload compression," has ramifications not only for CPAs in tax practice, but also for those performing audit work. Final audit reports are ordinarily due within ninety days after a client's year-end. The calendar-year-end requirement has also proved damaging to those small businesses that have a natural business year that is different from the calendar year. The AICPA has pressed Congress for years to alleviate the workload imbalance. The AICPA's workload compression proposal (developed by the AICPA Workload Compression Task Force) was introduced on May 17, 1995, by Rep. Clay Shaw (R-FL). For revenue neutrality purposes, the bill (H.R. 1661) will link any fiscal year election for a partnership or S corporation with a requirement that the electing entity make estimated tax payments to the government on behalf of its owners. For most entities, the rate will be 34%. For those with average income per owner of at least $250,000 (whose owners are most likely, themselves, to be in the 39.6% bracket) the estimated tax rate will be 39.6%. The owners will take credit for the estimated tax paid on the next 1040 form filed. Finally, H.R. 1661 provides a *de minimis* rule. Those electing businesses with a tax liability of less than $5,000 on the defined income of the business will not be required to make estimated payments. Partnerships and S corporations remaining on a calendar year will not be subject to this requirement. **H.R. 1661 was included in the House's 1995 revenue reconciliation bill, but it was dropped during the conference committee's negotiations and, therefore, was not part of the bill later vetoed by President Clinton. The AICPA is continuing its battle to have H.R. 1661 enacted. The Institute's efforts are now aimed at the Joint Tax Committee, whose negative revenue estimate proved to be the stumbling block to H.R. 1661's inclusion in the revenue reconciliation package. The AICPA is particularly disappointed because the private revenue estimate it had done showed the bill to be revenue positive over the seven-year budget period. As in the past, AICPA members, who have signed up 70 cosponsors on H.R. 1661, will continue to play a critical role in our effort.** For further details see page 9.

Flat Tax

The seeming simplicity of a flat tax has caught the imagination of the public and lawmakers who would like to replace the nation's complex tax system with a simpler system. A flat tax system imposes a single rate of tax on the tax base. The flat tax proposals being advanced are being promoted as "simple" tax systems that offer a flat rate of tax imposed on a tax base that is significantly broadened through offering fewer deductions and exclusions than are presently available. The inclusion of each deduction or exclusion adds complexity. **House Majority Leader Dick Armey (R-TX) and Senator Richard Shelby (R-AL) have introduced legislation (H.R. 2060 and S. 1050) providing for a flat tax with a single rate, a large personal exemption, and few other deductions. Senator Arlen Specter (R-PA) has introduced a similar bill (S. 488). House Minority Leader Richard Gephardt (D-MO) unveiled a proposal for an income tax system that would eliminate most deductions but retain the mortgage interest deduction in order to lower tax rates. Steve Forbes' bid for U.S. President also has escalated the flat tax debate. Despite all the discussion about a flat tax and the resulting media coverage, no legislation restructuring the tax system is likely to be passed until after the 1996 Presidential election. On January 4, 1996, the AICPA released a comprehensive analysis of the main proposed alternatives to the current federal income tax system. Entitled *Flat Taxes and Consumption Taxes: A Guide to the Debate*, it is designed to help Americans begin to understand how the impending overhaul of the US income tax system could affect their economic lives, their businesses, and their personal finances. On January 17, 1996, the GOP task force headed by former Housing Secretary Jack Kemp released its report. While not offering specific details, the report advances the flat tax debate by recommending a single rate tax with a generous personal exemption but few other deductions. While the AICPA study of flat taxes and consumption taxes is neither an AICPA endorsement of any particular proposal, nor a policy statement by the CPA profession favoring one alternative over another, neither is it a defense of the status quo. The current system clearly is too complex. The study emphasizes the significant results (many unintended) that could occur if reform is not undertaken in a deliberate and thoughtful manner. It was widely distributed to Members of Congress and key Administration officials.** For further details see page 10.

Consumption Tax

Consumption tax proposals have been floated before by lawmakers and policymakers, but have never received broad support in Congress. Now, with members of Congress driven by a desire to find a simpler tax system and to raise revenues, a consumption tax is under consideration again. If a consumption tax were adopted, it could be imposed on top of existing taxes or as a substitute for part or all of other taxes (payroll, corporate, or individual). **There are four basic forms of consumption taxes -- retail sales tax, credit-invoice Value Added Tax (VAT), sales-subtraction VAT, and individual consumption tax. During 1995, Members of Congress put forward a variety of proposals. Senators Pete Domenici (R-NM) and Sam Nunn (D-GA) introduced the Unlimited Savings Account (USA) Tax, which would replace the current income tax system with an annual, progressive tax on a consumption base. House Ways and Means Committee Chairman Bill Archer (R-TX) weighed into the debate by expressing support for a broad-based form of consumption tax. Senator Richard Lugar (R-IN) announced a plan to abolish the income tax and the IRS and to replace them with a national retail sales tax to be collected by the states. On January 4, 1996, the AICPA released a comprehensive analysis of the main proposed alternatives to the current federal income tax system. Entitled *Flat Taxes and Consumption Taxes: A Guide to the Debate*, it is designed to help Americans begin to understand how the impending overhaul of the US income tax system could affect their economic lives, their businesses, and their personal finances. While the AICPA study of flat taxes and consumption taxes is neither an AICPA endorsement of any particular proposal, nor a policy statement by the CPA profession favoring one alternative over another, neither is it a defense of the status quo. The current system clearly is too complex. The study emphasizes the significant, unintended results that could occur if reform is not undertaken in a deliberate and thoughtful manner. It was widely distributed to Members of Congress and key Administration officials.** For further details see page 11.

Tax Provisions in Various Budget Reconciliation Proposals

Various tax provisions are being considered by Congress and the Administration as they wrestle to work out a fiscal 1996 budget for the federal government. Among those advanced by Congressional Republicans, and an integral part of the negotiations, are a reduction in the capital gains tax, establishment of expanded IRAs and a family tax credit. The AICPA testified in early 1995 about these proposals as part of its testimony on the House GOP's *Contract with America*. President Clinton released, in December 1995, a list of tax proposals he wants included in a budget deal with Congress. On December 15 and 21, 1995, the AICPA submitted comment letters to Congress and the Administration on the proposals released by the Administration in early December. The AICPA strongly opposed repealing the lower of cost or market inventory method and section 1374, which would make the conversion of a C corporation to an S corporation a taxable event for corporations with a value of $5 million or more at the time of the conversion. The Institute also opposed eliminating components of the cost LIFO inventory method. In addition, the AICPA said the Administration's proposal to require registration of certain confidential corporate tax shelters is overly broad. For further details see page 12.

S Corporation Reform

Following enactment of the Tax Reform Act of 1986, many corporations chose to change their tax status to S corporations. Today, more than 44% of all corporations file as S corporations. However, the law's strictures pertaining to S corporations make them more complicated to use, utilize certain types of financing vehicles, necessitate unnecessarily complex corporate structures to manage liability concerns, and create a number of "traps" that business owners can unwittingly fall into with serious results. The AICPA began collaborating last Congress with representatives of the American Bar Association (ABA) Tax Section and the U.S. Chamber of Commerce to develop a proposal to modernize the rules governing S corporations. The S corporation reform bills introduced in 1995 (S. 758 and H.R. 2039) incorporated many of the proposals developed by the AICPA, ABA, and the Chamber. **Congress passed some of the provisions in S. 758 and H.R. 2039 in November 1995 as part of the Revenue Reconciliation Act of 1995, which was vetoed by the President in December. With the budget debate still unresolved, it's uncertain what provisions might be included in the final budget package. On December 7, 1995, President Clinton released a proposal for a balanced budget that would amend the Subchapter S built-in gains provisions to make the conversion of a C corporation to an S corporation a taxable event, for corporations with a value of $5 million or more at the time of the conversion. The AICPA strongly supports the reforms in S. 758 and H.R. 2039, but strongly opposes the President's proposed revision of the built-in gains provisions and has written to Congressional leaders to let them know of the Institute's opposition.** For further details see page 13.

Relief from Transfer Taxation for Family Businesses

With family businesses numbering between ten to twelve million and representing approximately 50% of the gross national product for the U.S. and 65% of the wages paid, it's clear they are extremely important to the American economy. Unfortunately, family-owned businesses have an alarming failure rate. Among the reasons for these failures is the transfer tax cost of passing the ownership of the business to succeeding generations. This cost results from estate, gift, and generation-skipping transfer taxes. At a January 31, 1995, hearing by the House Small Business Committee, the AICPA urged Congress to adopt a number of technical and procedural rule changes. Several bills were introduced in 1995 that would remove the obstacles the present tax law poses to passing ownership of businesses from one generation to the next. **Congress included several provisions in its 1995 budget reconciliation package, which was vetoed by President Clinton, that would have eased current estate and gift taxes. Because the budget talks remain bogged down, it's unclear what provisions might be included in a final budget package. The AICPA applauds the inclusion of these provisions in the 1995 budget reconciliation bill** and urges Congress, at a minimum, to adopt the technical and procedural rule changes it recommended to the House Small Business Committee. The changes would lighten the transfer tax burden on America's family businesses, simplify our current law, and provide for more equitable treatment of taxpayers. For further details see page 14.

Tax Simplification

The 102nd Congress twice passed legislation supported by the AICPA that contained many simplification proposals; both bills were vetoed by President Bush. In the 103rd Congress, the House passed a package of simplification proposals, but it was not acted on by the Senate. This Congress, House Ways and Means Committee Chairman Bill Archer (R-TX) introduced legislation based on last congress's Tax Simplification and Technical Corrections Act. However, his bill is strictly a technical corrections measure, but simplification provisions could be added. As the most outspoken champion of tax simplification, the AICPA has continued to fight for tax simplification whenever an opportunity occurs. In the spring of 1993, the Institute testified before Congress on President Clinton's tax proposals and focused on the complexity of a number of the provisions and offered simplified alternatives. The final version of the budget bill signed into law by Congress excluded the incremental investment tax credit opposed by the AICPA because of its complexity and included new rules supported by the AICPA concerning the amortization of intangible assets that simplified this area of the law. In February 1995, when the AICPA weighed into the discussion on the tax provisions in the *Contract with America*, it emphasized the need for simplicity. The Institute endorsed many of the tax provisions in the *Contract*, but offered a number of suggestions about how even these proposals could be simplified. Proposals in the *Contract* that got a thumbs down from the AICPA generally did so because of their complexity. **The AICPA continued its campaign for tax simplification last fall by urging the GOP task force examining alternatives to the present income tax system to make simplicity a goal for whatever recommendations it might make. The task force was appointed by Senate Majority Leader Robert Dole (R-KS) and House Speaker Newt Gingrich (R-GA); it is headed by former Housing Secretary Jack Kemp.** For further details see page 15.

ERISA Audit Requirements

Most employee pension plans covered under the Employee Retirement Income Security Act of 1974 (ERISA) must have their financial statements audited by independent accountants. Audits of employee benefit plans under ERISA have been of concern since the late 1980s. From 1987-1989 the Department of Labor's Office of Inspector General issued a series of three reports regarding independent audits of private pension plans. These were followed in 1992 by a report by the General Accounting Office recommending several changes in pension plan audits. **On December 20, 1995, Senators Paul Simon (D-IL) and James Jeffords (R-VT) introduced S. 1490, the Pension Audit Improvement Act of 1995. The bill, developed with the DOL, implements recommendations made in the GAO's 1992 report, including repeal of limited scope audits which allow plan administrators, under certain conditions, to instruct independent accountants not to audit assets held by certain government-regulated entities, such as banks. The legislation would also require auditors to report serious ERISA violations to the plan administrator within five business days after the auditor has reason to believe such an irregularity may have occurred. The plan administrator then has five business days to notify the DOL of the irregularities detected by the auditor. If the administrator fails to do so, then the auditor must furnish the DOL with a copy of the notification given to the plan administrator on the next business day after the expiration of the second five-day period. Similar notification requirements apply to the termination of an engagement. Willful and knowing failure to comply with the notification requirements in the bill could subject auditors of fines up to $100,000. Plan auditors would also be required to complete continuing education every two years, a portion of which must relate to employee benefit plan matters. Finally, plan auditors must have undergone an external quality control review, during the three-year period preceding an engagement for an ERISA audit and must have in operation an appropriate internal quality control system. No companion bill has been introduced in the House. The AICPA supports S. 1490, having been an advocate of full scope audits since 1978.** Fur further details see page 16.

Application of Wage and Hour Laws to Professional Employees

The AICPA is focusing its attention on U.S. Department of Labor (DOL) interpretations of the Fair Labor Standards Act (FLSA) in connection with the classification of employees as professional or hourly employees. The DOL is using some common management practices--such as granting unpaid leave to employees for less than a full day (pay docking), maintenance of time sheets to ensure accurate client billing, or paying overtime to salaried employees--as grounds for treating professional employees as hourly employees under the FLSA. Removal of the professional exemption entitles those employees to seek compensation for all the "overtime" worked during the past two years. **Three bills have been introduced that would amend the FLSA. S. 1129, introduced by Sen. John Ashcroft (R-MO), would allow private sector non-exempt (hourly) employees the same flexible work schedules as federal workers. S. 1129 would alter the 40-hour maximum work week requirement to allow employees to work 160 hours in any combination over a four week period before requiring employers to pay overtime compensation. In addition, employees would be able to request -- and employers could provide -- compensatory time-and-a-half leave time in lieu of overtime pay. Currently, employers must pay hourly employees time-and-a-half in wages for all hours worked over 40 in a given week, even if employees prefer time off instead of money. S. 1129 also would provide greater flexibility to salaried employees by permitting employers to provide unpaid partial-day leaves (thereby reversing the DOL's paydocking ruling) and to provide overtime compensation without converting them to hourly employees. H.R. 2391, introduced by Rep. Cass Ballenger (R-NC) would allow employers to offer to pay overtime with time-and-a-half compensatory time. This is similar to the Senate bill's compensatory time provision. H.R. 2391 had several hearings and was approved in December 1995 by the House Workforce Protections Subcommittee. In addition, Rep. Robert Andrews (D-NJ) has reintroduced his bill from the last Congress (H.R. 946) that would reverse DOL's paydocking ruling, and make its coverage retroactive. The AICPA is part of a coalition of businesses and associations that is supporting the passage of these bills as well as drafting a bill that would make it easier to determine which employees should be classified as exempt and non-exempt.** The AICPA wrote the chairmen of the House Economic and Senate Labor Committees to let them know how the AICPA believes the FLSA should be amended; the Institute's letter has been included as part of the hearing record. For further details see page 17.

Pension Reform

Central to the accounting profession's mission is ensuring meaningful financial reporting to help protect the investing public. With this mission in mind, on April 29, 1993, the AICPA issued a set of proposals aimed at providing greater disclosure of information so that American workers are adequately informed about one of their most important investments--their pensions. The collapse of large companies in some of America's major industries has focused the national media spotlight on how those collapses have affected workers, and, in particular, reduced their pensions. However, despite the media attention, many Americans do not know the condition of their pension or how to find out. Furthermore, if they were to undertake the task of assessing the financial health of their pension plan, they would discover some of the critical information necessary to do the analysis is not routinely provided. Adoption of the AICPA's recommendations by the U.S. Congress and Department of Labor would ensure greater disclosure to help Americans find out what their pensions will be when they retire, whether their pensions are fully funded, and whether the government will pay the promised benefits if the employer cannot. The GATT world-trade pact passed by Congress at the end of 1994 included a variety of pension provisions, which helped fund the cost of the trade bill. Among the provisions are disclosure requirements recommended in 1993 by the AICPA that will expand the information available to workers and retirees about the funding of their plans and the limits on the PBGC's guarantee. Unfortunately, the new law will only require such disclosure to participants in underfunded defined benefit plans that are insured by the PBGC. Sponsors of fully-funded plans will not have to comply. Nor will plan sponsors whose plans are not covered by the PBGC. In follow up to its efforts to educate workers about their defined-benefit plans, the AICPA has issued an educational brochure for defined-contribution plan participants. Entitled *Saving for a Secure Retirement: How to Use Your Company's 401(k) Plan*, the brochure is designed as a guide for Americans whose employers offer these plans. The brochure offers step-by-step instructions for workers to calculate how much they need to save today to ensure a comfortable and secure retirement. The AICPA will persist in its campaign to educate workers about their pensions, and supports broad adoption of its 1993 recommendations by the federal government either through regulation or legislation. For further details see page 18.

Federal Regulation of Derivatives

The accounting profession has no direct stake in the question of whether derivatives should be federally regulated. However, the related issue of who will set accounting standards is important to CPAs. The massive losses in Orange County, California, which caused the County to declare bankruptcy and which were tied to derivative instruments, have caused public policymakers to step up their scrutiny of who is using derivatives, how they are being used and whether federal regulation is required to protect the soundness of our financial system. In the Senate, the Banking Committee held hearings on January 5-6, 1995, to examine the Orange County financial crisis, although Committee members and

witnesses seemed intent on determining whether federal legislation was needed and what the federal government's role should be in regulating the over-the-counter derivatives market. Witnesses and most Senate Banking Committee members expressed confidence that federal regulators have enough legal authority to regulate the industry. The chairman of the Senate Banking Committee concluded after the hearings that federal legislation to regulate derivatives is not needed now, which probably means that the Senate will not budget much future time for this issue--barring some new disaster. Accounting standards for derivatives received limited attention during the hearings. The sentiment in the House is different. Broad derivative regulation measures have been introduced by the chairman of the House Banking Committee and the committee's most senior Democrat. H.R. 20, introduced by Chairman Jim Leach (R-IA), includes language that would grant federal agencies the authority to establish accounting guidelines for derivatives activities. The House Banking Committee is expected to hold hearings later this year. The AICPA opposes the language in H.R. 20 that would grant federal agencies the authority to set accounting standards, and supports retaining the responsibility for setting these standards in the private sector. **Institute staff members have talked to House staff about the profession's interests.** The AICPA entered the discussion about derivatives in June 1994 with the issuance of six common-sense questions for boards of directors to ask about their organizations' activities in derivatives. The questions were widely distributed to the media, federal regulatory agencies, all Members of Congress, and other business and financial organizations. In December 1994, the AICPA published the first reference guide to current auditing and accounting literature on derivatives. For further details see page 19.

Regulatory Relief from FDICIA

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) requires, among other things, that management of certain federally insured depository institutions issue audited financial statements, a written assertion about the effectiveness of the institution's internal controls over financial reporting, and a written assertion about the institution's compliance with certain laws and regulations. Congress also included a provision in FDICIA that management's assertions concerning internal controls be attested to by an independent public accountant. The banking industry is seeking relief from what it calls burdensome regulations and paperwork requirements implementing FDICIA through enactment of legislation that would repeal certain reporting provisions of FDICIA. Last Congress, legislation was introduced by Rep. Bereuter (R-NE) and Senator Shelby (R-AL) that would have repealed these requirements. The provisions of Rep. Bereuter's bill were incorporated into the Community Development Bank Bill, which offered the House of Representatives an opportunity to consider whether some of the reporting requirements opposed by the banking community should be repealed. Ultimately, the 103rd Congress passed the Bank Bill without repealing any of the auditor attestation requirements under FDICIA. The battle continues this Congress. **Legislation is pending (H.R. 2520, S. 650) that would remove certain requirements. H.R. 2520, which is awaiting House floor action, would repeal FDICIA's requirements for auditor reports of management's assertions on internal controls and compliance with laws and regulations. However, the recently reported Daiwa bank scandal, which reportedly involved a serious lack of internal controls, has raised congressional concerns. On December 5, 1995, the House Subcommittee on Financial Institutions held a hearing regarding Daiwa, at which the AICPA testified regarding the independent audit function. During the hearing, it became clear that members of the House Banking Committee are concerned about the lack of internal controls at Daiwa, and are reconsidering the repeal of FDICIA's requirement regarding internal control attestation. Also, in a December 13, 1995, letter to the Subcommittee, the FDIC said it now supports maintaining the required auditor reports on internal controls. S. 650, which is awaiting Senate floor action, does not repeal the requirement for internal control attestation. It would however repeal auditor reports relative to compliance with laws and regulations, while retaining the requirement for management reports.** The AICPA continues to support a report by an independent auditor on management's assertion on the effectiveness of the company's internal controls over financial reporting. The internal control system is the main line of defense against fraudulent financial reporting. Without the independent attestation requirement, management would report free from the disciplines imposed by the independent attestation engagement and users would not know if management's assertion is fairly presented. The AICPA believes that whether management and auditors should report on compliance with specified laws and regulations is a policy decision for Congress and the regulators. However, the Institute believes that Congress should not retain management's report on compliance and remove the auditor's attestation. Both should be required or deleted. For further details see page 20.

Single Audit Act

In December 1995, a revised discussion draft of a bill that would amend the Single Audit Act of 1984 was distributed for informal comment. How much attention such a bill might receive from the Republican-controlled Congress is unclear. The amendments proposed to the Single Audit Act are important to CPAs because CPAs conduct audits under the Act, and the amendments would impose new responsibilities on the auditor. The AICPA was an active player during Congressional consideration of the Single Audit Act of 1984. The AICPA has no objections to updating the Act, but it opposes some provisions in the draft bill. The Institute will strive to modify the provisions it opposes so that they are acceptable to the accounting profession. For further details see page 21.

Regulation of Financial Planners

During the last two Congresses, the House of Representatives passed legislation to regulate financial planners. A collaborative effort between the AICPA and the sponsors of the legislation led to amendment of early versions of the legislation to such an extent that the AICPA was able to endorse the bills. The AICPA initially opposed the legislation because it included a private right of action that would have expanded the adviser's liability and because the SEC would have been granted the authority to make rules interpreting provisions of the Investment Advisers Act of 1940 (Act). The version of the bill passed by the House during the 102nd and 103rd Congresses preserved the original accountants' exclusion provided under the Act, and did not include a provision establishing a private right of action. The AICPA's negotiations on this issue were bolstered by AICPA Key Person Contacts and members of the AICPA Personal Financial Planning Division. In the Senate, narrower legislation was twice passed that would have authorized the SEC to increase its registration fees for investment advisers to help pay for more SEC examiners. In both Congresses, members of the House and Senate could not agree about how much more regulation should be imposed on financial planners, and the bills died. This Congress, S. 148 was introduced by Sen. Phil Gramm (R-TX); it directs the SEC to target its resources to enforce the Investment Advisers Act of 1940. It does not broaden or alter the definition of an investment adviser under the Act. Nor does S. 148 address the issue of who should register as a financial planner. The AICPA has no objections to S. 148. No legislation to regulate financial planners has been introduced in the House. **However, H.R. 2131, introduced by Rep. Jack Fields (R-TX), contains a provision that would preempt state law with respect to the regulation of investment advisers. Several hearings were held on H.R. 2131 in the fall of 1995 and Rep. Fields has made it clear that the bill is just a starting point for a complete review of the securities laws. The AICPA does not expect this preemption provision to survive as the legislation progresses. While we do not believe any legislation to regulate financial planners will be considered in this Congress,** the AICPA believes any new regulation should focus on those who engage in the type of activities that most frequently lead to fraud and abuse, which is the approach embodied in bills passed in previous Congresses by the House. Documented abuses involve individuals who sell investment products and who control client funds. No need has been demonstrated to regulate CPA financial planners who do not receive commissions for recommending investment products, sell investment products, or take custody of client funds. For further details see page 22.

WORKLOAD PROBLEMS FOR CPAs CAUSED BY TRA '86

ISSUE: Should Congress modify the tax law to ease the workload imbalance that the accounting profession is experiencing as a result of the Tax Reform Act of 1986 (TRA '86) and the switch from fiscal years to calendar years for certain business entities?

WHY IT'S IMPORTANT TO CPAs: TRA '86 required trusts, partnerships, S corporations and personal service corporations (PSCs) to adopt a calendar year-end. In 1987, thanks to the efforts of thousands of CPAs, the calendar-year requirement was relaxed with the enactment of Internal Revenue Code section 444, which permitted partnerships, S corporations and PSCs to retain, and allowed new entities to elect, fiscal year-ends. While many of these businesses retained their fiscal year-ends, most did not. The shift of so many clients to calendar years, when combined with the heightened complexity caused by TRA '86, resulted in a tremendous shift of the work performed by CPAs to the first four months of the year. Further, the workload of CPAs and their employees became unacceptably light for the remaining seven months of the year. This phenomenon, referred to by CPAs as "workload compression," has ramifications not only for CPAs in tax practice, but also those performing audit work. Final audit reports are ordinarily due within ninety days after a client's year-end. The calendar-year-end requirement has also proved damaging to those small businesses that have a natural business year that is different from the calendar year.

BACKGROUND: In 1992, Congress twice passed an AICPA proposal to further relax the calendar-year-end requirement as part of large tax bills that were vetoed by President Bush. The proposal would have allowed all partnerships, S corporations, and PSCs to elect any fiscal year-end, so long as a deposit were made by the business. This deposit requirement was designed to ensure the proposal's revenue neutrality. (Following the 1990 budget agreement between Congress and the President, all tax bills must be revenue neutral.) In 1993, when President Clinton proposed increasing personal tax rates, the AICPA recognized that its legislative proposal would become unworkable and asked Congress not to include it in any of its current tax bills. Congress honored the AICPA's request and did not include the 1992 proposal in the Revenue Reconciliation Act of 1993.

Enactment of the Omnibus Budget Reconciliation Act of 1993 has made the workload situation even worse. The law raised the top individual tax rate to 39.6%, which in turn increased the deposit (from 32% to 40.6%) required under section 444 to be paid by companies who still use fiscal years. Many companies are unwilling to pay such a large deposit and are now shifting to calendar years.

In May 1995, Rep. Clay Shaw (R-FL) introduced the workload compression proposal developed by the AICPA Workload Compression Task Force. For revenue neutrality purposes, the bill will link any fiscal year election for a partnership or S corporation with a requirement that the electing entity make estimated tax payments to the government on behalf of its owners. For most entities, the rate will be 34%. For those with average income per owner of at least $250,000 (whose owners are most likely, themselves, to be in the 39.6% bracket) the estimated tax rate will be 39.6%. The owners will take credit for the estimated tax paid on the next 1040 form filed. Finally, H.R. 1661 provides a *de minimis* rule. Those electing businesses with a tax liability of less than $5,000 on the defined income of the business will not be required to make estimated payments. Partnerships and S corporations remaining on a calendar year will not be subject to this requirement.

RECENT ACTION: **H.R. 1661 was included in the House's 1995 revenue reconciliation bill, but it was dropped during the conference committee's negotiations and, therefore, was not part of the bill later vetoed by President Clinton.**

AICPA POSITION: **The AICPA is continuing its battle to have H.R. 1661 enacted. The Institute's efforts are now aimed at the Joint Tax Committee, whose negative revenue estimate proved to be the stumbling block to H.R. 1661's inclusion in the revenue reconciliation package. The AICPA is particularly disappointed because the private revenue estimate it had done showed the bill to be revenue positive over the seven-year budget period. As in the past, AICPA members, who have signed up 70 cosponsors on H.R. 1661, will continue to play a critical role in our effort.**

JURISDICTION: House Ways and Means. Senate Finance.

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FLAT TAX

ISSUE: Should Congress replace the current income tax system with a flat rate tax system with few, if any, exclusions and deductions?

WHY IT'S IMPORTANT TO CPAs: If adopted, a flat rate tax system would have significant impact on the economy. Most, if not all, market segments, businesses, and industries would be affected, including CPA tax practice.

BACKGROUND: The complexity of the current law has raised questions about the law's basic fairness. As a result, some lawmakers are rethinking the entire tax structure. One of the possibilities being considered is a flat rate tax system. Such a system has also sparked the public's imagination and the idea is receiving considerable media attention.

A flat tax system imposes a single rate of tax on the tax base. It treats all taxpayers the same, whether similarly situated or not. It is generally recognized that a flat tax underestimates the many different elements that go into a tax system. Such a system is viewed by many as disruptive to the economy and unfair to many taxpayers. The flat tax alternatives currently being advanced in Congress are being promoted as "simple" tax systems that offer a flat rate of tax imposed on a tax base that is significantly broadened through offering fewer deductions and exclusions than are presently available. The inclusion of each deduction or exclusion adds complexity.

During 1995, the Senate Finance Committee, the House Ways and Means Committee, the Joint Economic Committee, and the House Small Business Taxation panel held hearings examining flat taxes. A staff report released in April 1995 by the Joint Committee on Taxation (JCT) cautioned that replacing the current federal income tax with a flat-rate tax may not result in either a simple tax code or an equitable economic impact. The JCT report highlights longstanding difficulties associated with a flat tax. Tax filing for businesses would remain complex, the report said, because decisions still would have to be made about which assets are depreciable, and under what method, which assets qualify for expensing, the basis of assets, the extent to which interest on debt is deductible, and which employee benefits are qualifying tax exempt benefits and which are taxable compensation. As for individuals, the report concluded that eliminating itemized deductions under a flat tax is not likely to benefit the majority of Americans, since the JCT staff found that only 21.1 million taxpayers out of 107 million individual returns claimed one or more of the deductions for mortgage interest, state and local taxes, and charitable contributions.

House Majority Leader Dick Armey (R-TX) and Senator Richard Shelby (R-AL) have introduced legislation (H.R. 2060 and S. 1050) providing for a flat tax with a single rate, a large personal exemption, and few other deductions. Senator Arlen Specter (R-PA) has introduced a similar bill (S. 488). House Minority Leader Richard Gephardt (D-MO) unveiled a proposal for an income tax system that would eliminate most deductions but retain the mortgage interest deduction in order to lower tax rates. Steve Forbes' bid for US President also has escalated the flat tax debate. Despite all the discussion about a flat tax and the resulting media coverage, no legislation restructuring the tax system is likely to be passed until after the 1996 Presidential election.

RECENT ACTION: **On January 4, 1996, the AICPA released a comprehensive analysis of the main proposed alternatives to the current federal income tax system. Entitled *Flat Taxes and Consumption Taxes: A Guide to the Debate*, it is designed to help Americans begin to understand how the impending overhaul of the US income tax system could affect their economic lives, their businesses, and their personal finances. On January 17, 1996, the GOP task force headed by former Housing Secretary Jack Kemp released its report. While not offering specific details, the report advances the flat tax debate by recommending a single rate tax with a generous personal exemption but few other deductions.**

AICPA POSITION: **While the AICPA study of flat taxes and consumption taxes is neither an AICPA endorsement of any particular proposal, nor a policy statement by the CPA profession favoring one alternative over another, neither is it a defense of the status quo. The current system clearly is too complex. The study emphasizes the significant results (many unintended) that could occur if reform is not undertaken in a deliberate and thoughtful manner. It was widely distributed to Members of Congress and key Administration officials.**

JURISDICTION: House Ways and Means. Senate Finance.

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CONSUMPTION TAX

ISSUE: Should Congress enact a consumption tax system?

WHY IT'S IMPORTANT TO CPAs: If adopted, a consumption tax would have significant impact on the economy. Most, if not all, market segments, businesses, and industries would be affected, including CPA tax practice.

BACKGROUND: Basically defined, a consumption tax is imposed on the consumption of goods and services, rather than on income or savings. A consumption tax is an option that lawmakers and other policy makers have floated in the past, but such a tax has never had broad support in Congress. Now, with Members of Congress driven by a desire to find a simpler tax system and to raise revenues, a consumption tax is under consideration again. Still, debate will be protracted--particularly if the proposal is to replace our current system. No legislation restructuring the tax system is likely to be passed until after the next Presidential election. If a consumption tax were adopted, it could be imposed on top of existing taxes or as a substitute for part or all of other taxes (payroll, corporate, or individual). Consumption taxes take various forms (Even the flat tax proposal of House Majority Leader Richard Armey (R-TX) or the Kemp Commission would be considered a tax on consumption.). The four basic forms of consumption taxes are:

- Retail Sales Tax: imposes a tax on the consumer for sales of broad categories of commodities or services at the point of sale. A national sales tax would generate funds from what has traditionally been a source of revenue for states.

- Credit-Invoice Value Added Tax (VAT): a variation of sales tax most common in Europe. VAT is imposed on the value added to a particular commodity by businesses engaged in the various stages of the manufacturing process. The tax paid by a business on its purchases or inputs is credited against, or subtracted from, the tax the business charges on its output or sales. The "cost" of the tax is ultimately borne by the consumer of the good, who gets no credit for prior VAT paid.

- Sales-Subtraction Value Added Tax: a VAT variation. The tax base is calculated by the business by reporting all taxable sales and deducting all taxable purchases. A sales-subtraction VAT is imposed on value added in each accounting period, rather than by transaction. The tax is generally buried in the prices of taxable goods and services.

- Individual Consumption Tax: a consumption-based income tax system under which taxes are collected from individuals rather than businesses. This form of consumption tax exempts savings and investment from taxation.

During 1995, Members of Congress put forward a variety of proposals. Senators Pete Domenici (R-NM) and Sam Nunn (D-GA) introduced the Unlimited Savings Account (USA) Tax, which would replace the current income tax system with an annual, progressive tax on a consumption base. House Ways and Means Committee Chairman Bill Archer (R-TX) weighed into the debate by expressing support for a broad-based form of consumption tax. Senator Richard Lugar (R-IN) announced a plan to abolish the income tax and the IRS and to replace them with a national retail sales tax to be collected by the states.

RECENT ACTION: **On January 4, 1996, the AICPA released a comprehensive analysis of the main proposed alternatives to the current federal income tax system. Entitled *Flat Taxes and Consumption Taxes: A Guide to the Debate*, it is designed to help Americans begin to understand how the impending overhaul of the US income tax system could affect their economic lives, their businesses, and their personal finances.**

AICPA POSITION: **While the AICPA study of flat taxes and consumption taxes is neither an AICPA endorsement of any particular proposal, nor a policy statement by the CPA profession favoring one alternative over another, neither is it a defense of the status quo. The current system clearly is too complex. The study emphasizes the significant, unintended results that could occur if reform is not undertaken in a deliberate and thoughtful manner. It was widely distributed to Members of Congress and key Administration officials.**

JURISDICTION: House Ways and Means. Senate Finance.

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TAX PROVISIONS IN VARIOUS BUDGET RECONCILIATION PROPOSALS

ISSUE: **Should the various tax provisions being considered by Congress and the Administration as part of the budget reconciliation process be enacted?**

WHY IT'S IMPORTANT TO CPAs: CPAs have a stake in whether Congress enacts these tax provisions because some of the provisions would add still more complexity to the nation's tax system while others are contrary to established business practices.

BACKGROUND: Congress and the Administration have tried unsuccessfully for months to agree on a fiscal 1996 budget for the federal government. As part of the ongoing negotiations, tax cuts of different sizes have been discussed. Numerous tax proposals, including those from the House GOP's *Contract with America* (such as a reduction in the capital gains tax, establishment of expanded IRAs and a family tax credit), have been an integral part of these negotiations.

RECENT ACTION: At the beginning of December 1995, the Administration released a list of tax proposals it wants included in a budget deal with Congress.

AICPA POSITION: The AICPA endorsed many of the tax provisions in the *Contract* when it testified before the Ways and Means Committee in early 1995. The message of the testimony was "keep it simple." Provisions that got a thumbs down from the AICPA generally did so because of their complexity. Even on those proposals it supported, the Institute offered alternatives and suggestions about how they could be simplified.

The AICPA submitted additional comments in October 1995 supporting a number of other proposals, including Taxpayer Bill of Rights provisions. Also, the Institute called for clarification on the denial of the deduction for stock redemption expenses and recommended that the definition of "excess assets" be revised in the provision modifying the transfer of excess pension assets.

On December 15 and 21, 1995, the AICPA submitted comment letters to Congress and the Administration on the proposals released by the Administration in early December. Outlined below are the positions taken by the AICPA on some of those higher profile tax provisions:

- Lower of Cost or Market (LCM)--The AICPA strongly opposes the repeal of the LCM inventory method, and we believe the process by which this major policy change has been initiated is a particularly unfortunate illustration of how tax policy should not be developed.

- Components of Cost LIFO--The AICPA opposes the elimination of the components of cost LIFO inventory method, particularly where the elimination is not accompanied by both a liberalization of inventory price index computations and adequate transition rules.

- Registration of Certain Confidential Corporate Tax Shelters--The AICPA does not support or encourage abusive tax behavior. Further, we do not disagree with the goal of stopping transactions that are clearly abusive. Nevertheless, we believe that the proposal is overly broad, as it would require, in our view, the registration of tax planning ideas that are legitimate, as well as those that may be abusive.

- Repeal Section 1374 for Large Corporations--The AICPA strongly opposes this proposal. We believe this proposal constitutes a major change in corporate tax law, and one that would be contrary to sound tax policy; any significant change affecting Subchapter S should only be undertaken pursuant to a comprehensive review and not be the subject of piecemeal changes designed primarily to attain revenue goals.

- Limit Dividends-Received Deduction--The AICPA is concerned about the adverse impact these proposals may have on business activity generally; and more specifically, the impact on capital formation, economic growth, retirement security and job creation.

JURISDICTION: House Ways and Means. Senate Finance.

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S CORPORATION REFORM

ISSUE:	Should Congress update Subchapter S of the Internal Revenue Code to make S corporations more available and more useful for small business?
WHY IT'S IMPORTANT TO CPAs:	Following enactment of the Tax Reform Act of 1986, many corporate clients opted to change their tax status from the traditional two-tier system of corporate taxation to the single-level tax permitted by Subchapter S. Currently, almost 1,900,000 corporations file as S corporations. This is more than 44% of all corporations that file tax returns and represents a significant portion of a typical CPA's business tax practice. Only corporations that can meet certain sharply defined requirements such as having a maximum number of shareholders, a single class of stock, and only certain types of shareholders can be organized as S corporations. These strictures make it more complicated to operate as an S corporation, utilize certain types of financing vehicles, necessitate overly complex corporate structures to manage liability concerns, and create a number of "traps" that business owners can unwittingly fall into with serious tax consequences. These problems make it less useful for small businesses to be formed as S corporations. Also, in advising clients, CPAs find that the rules governing S corporations are unnecessarily complicated.
BACKGROUND:	The AICPA collaborated during the last Congress with, among others, representatives of the American Bar Association's Tax Section (ABA) and the U.S. Chamber of Commerce to develop a proposal to modernize S corporations' tax laws. The S Corporation Reform Act introduced last Congress in the Senate and House of Representatives incorporated many of the proposals developed by the AICPA, the ABA, and the Chamber. The legislation received broad, bi-partisan support, but was not passed before the 103rd Congress adjourned. On May 4, 1995, the S Corporation Reform Act of 1995 (S.758) was introduced; this bill was a slightly revised version of the legislation that had been introduced in the last Congress. Among S. 758's provisions are the following: 1) Increase the allowable number of shareholders; 2) Aggregate members of one family as one shareholder; 3) Permit tax-exempt organizations to own shares of S corporation stock; 4) Expand "safe harbor debt" to permit convertible debt, and permit venture capitalists and lending institutions to hold safe harbor debt; 5) Expand the types of trusts that can own S corporation stock; 6) Remove tax traps by permitting the Secretary of the Treasury to treat invalid elections as effective and by providing for automatic waivers of certain inadvertent terminations; 7) Permit an S corporation to issue "plain vanilla" preferred stock; 8) Permit an S corporation to own up to 100% of a C corporation; and 9) Permit an S corporation to own 100% of an S corporation. A hearing on S. 758 was held in June; the AICPA testified at that hearing.
RECENT ACTION:	**Congress passed some of the provisions in S. 758 and a similar House bill (H.R. 2039, which was introduced in the U.S. House of Representatives in July 1995) in November 1995 as part of the Revenue Reconciliation Act of 1995, which was vetoed by the President in December. With the budget debate still unresolved, it's uncertain what provisions might be included in the final budget package.** **On December 7, 1995, President Clinton released a proposal for a balanced budget that would amend the Subchapter S built-in gains provisions to make the conversion of a C corporation to an S corporation a taxable event, for corporations with a value of $5 million or more at the time of the conversion.**
AICPA POSITION:	The AICPA strongly supports the reforms in S. 758 and H.R. 2039 discussed above, **but strongly opposes the President's proposed revision of the built-in gains provisions and has written to Congressional leaders to let them know of the Institute's opposition. The AICPA is calling on its Key Persons to help build support for these positions.**
JURISDICTION:	House Ways and Means. Senate Finance.
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RELIEF FROM TRANSFER TAXATION FOR FAMILY BUSINESSES

ISSUE: Should Congress pass legislation to relieve the burden current tax law imposes on owners of family-owned businesses when the business is transferred from one generation to another?

WHY IT'S IMPORTANT TO CPAs: In serving their clients, CPAs regularly encounter the problems current law poses to family business owners in shifting ownership to other family members. Particularly vexing are the complex rules governing the valuation of a business (Chapter 14 of the Internal Revenue Code). Chapter 14 is intended to prevent business owners from undervaluing assets in order to escape transfer taxes, but the tax rates it imposes when the business is passed to succeeding generations are confiscatory and its rules are far too complicated for businesses with assets under $5 million.

BACKGROUND: Family businesses are extremely important to the American economy. There are approximately ten to twelve million private businesses. These businesses account for approximately 50% of the U.S. gross national product and 65% of the wages paid. Typically, they are small and mid-size businesses. However, even some of the largest companies in the Fortune 500 are family-owned and family-controlled.

Unfortunately, family-owned businesses have an alarming failure rate. There are a number of reasons for business failures, including family dynamics, death or disability of the founder, competition, and financing. But one of the major concerns is the transfer tax cost of passing the ownership of the business to succeeding generations. This cost results from estate, gift, and generation-skipping transfer taxes.

The highest marginal rate for these taxes is between 55% and 60%. The basis of taxation is the fair market of the property being transferred. For the family business, the property is the deceased owner's share of the business itself. These taxes cause a tremendous financial strain on the company. The surviving owners may pay a tax of up to 60% of the fair market value of the share of the property being transferred. The survivors must take out loans or use current earnings from the business to pay the tax bill. Moreover, the timing cannot possibly be worse, as the payment of this tax is caused by the death of a key owner. Therefore, a change in management occurs at the same time that the tax liability arises.

Several bills have been introduced this Congress in the U.S. House of Representatives and Senate that would remove the obstacles the present tax law poses to passing ownership of businesses from one generation to the next. H.R. 784, introduced by Rep. Christopher Cox (R-CA), would repeal the federal estate and gift taxes, as well as the tax on generation-skipping transfers. S. 161, introduced by Senator Patty Murray (D-WA), would reduce the 55% estate tax rate to 15% as long as the heirs continue to operate the business, or to a maximum of 20% if the heirs retain ownership but have it managed by someone outside the family. S. 161 also would index the unified estate and gift tax credit for inflation.

The House Small Business Committee held a hearing on the family business and estate tax reform on January 31, 1995. The AICPA testified at the hearing and recommended a number of technical and procedural rule changes. The tax writing committees in Congress have not held hearings on this issue.

RECENT ACTION: **Congress included several provisions in its 1995 budget reconciliation package, which was vetoed by President Clinton, that would have eased current estate and gift taxes. Because the budget talks remain bogged down, it's unclear what provisions might be included in a final budget package.**

AICPA POSITION: **The AICPA applauds the inclusion of these provisions in the 1995 budget reconciliation bill** and urges Congress, at a minimum, to adopt the technical and procedural rule changes it recommended to the House Small Business Committee in January 1995. The changes would lighten the transfer tax burden on America's family businesses, simplify our current law, and provide for more equitable treatment of taxpayers.

JURISDICTION: House Ways and Means. Senate Finance.

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TAX SIMPLIFICATION

ISSUE: Are tax laws, the Internal Revenue Code, and regulations written in the simplest fashion?

WHY IT'S IMPORTANT TO CPAs: The tax law has become so complex it is in danger of eroding our system of voluntary tax compliance. Taxpayers and tax practitioners are increasingly frustrated with the burden of trying to understand and comply with the law. In addition, the IRS finds it increasingly difficult to administer the law.

BACKGROUND: The 102nd Congress twice passed legislation supported by the AICPA that contained many tax simplification provisions; both bills were vetoed by President Bush.

In the 103rd Congress, a tax simplification package supported by the AICPA passed the U.S. House of Representatives, but was not considered by the Senate. If was similar to the bills passed by the 102nd Congress. Also last Congress, the AICPA testified before Congress on President Clinton's tax proposals focusing on the complexity of a number of the provisions and offering simplified alternatives. The final version of the budget bill signed into law by Congress excluded the incremental investment tax credit opposed by the AICPA because of its complexity and included new rules supported by the AICPA concerning the amortization of intangible assets that simplified this area of the law.

In April 1993, the AICPA issued a "Tax Complexity Index," which is designed to enable lawmakers and others to measure the degree of complexity--and, therefore, the potential for taxpayer confusion--contained in any tax proposal under consideration. The AICPA "Index" was sent to all members of the Ways and Means and Finance Committees, appropriate Congressional staff, and key officials at the IRS and Treasury Department.

House Ways and Means Committee Chairman Bill Archer (R-TX) introduced legislation based on last Congress's Tax Simplification and Technical Corrections Act. His bill, H.R. 1121, is strictly a technical corrections bill, but simplification provisions could be added.

When the AICPA last year weighed into the discussion on the tax provisions in the *Contract with America*, it emphasized the need for simplicity. The Institute endorsed many of the tax provisions in the *Contract* during its testimony before the House Ways and Means Committee on February 1, 1995, but offered a number of suggestions about how even these proposals could be simplified. Proposals in the *Contract* that got a thumbs down from the AICPA generally did so because of their complexity.

RECENT ACTION: **The AICPA's campaign for tax simplification continues. Last fall, the Institute urged the GOP task force examining alternatives to the present income tax system (see pp. 10 and 11) to make simplicity a goal for whatever recommendations it might make. The task force was appointed by Senate Majority Leader Robert Dole (R-KS) and House Speaker Newt Gingrich (R-GA); it is headed by former Housing Secretary Jack Kemp.**

AICPA POSITION: The AICPA has for years been the most outspoken champion of tax simplification. During 1989 and 1990, the AICPA Tax Simplification Committee promoted the need to consider simplification in future tax legislative and regulatory activity, identified specific areas in existing tax law in need of simplification, and worked with Congress and the Treasury on the implementation of simplification proposals. In the fall of 1991, the AICPA Council adopted a resolution encouraging the federal government to do "all that is necessary for tax simplification." In 1993, the AICPA approved a proposal to significantly reform the alternative minimum tax; it was submitted to Congress and the Treasury Department. AICPA Congressional testimony has consistently stressed the need to simplify the tax code in order to preserve our voluntary compliance tax system. In previous Congresses the Institute has supported the following provisions as examples of what would help taxpayers: a simplified method of applying the uniform capitalization rules; restoring an estimated tax safe harbor for smaller corporations if no tax was paid in the prior year; simplifying the earned income credit; the creation of a safe harbor for determination of a principal residence in a divorce or separation, and broad changes to the pension area.

JURISDICTION: House Ways and Means. Senate Finance.

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ERISA AUDIT REQUIREMENTS

ISSUE: Should audit requirements under the Employee Retirement Income Security Act of 1974 (ERISA) be changed? Should accountants who audit ERISA plans be subject to continuing education and peer review requirements?

WHY IT'S IMPORTANT TO CPAs: Under ERISA, plan administrators under certain conditions can instruct independent accountants not to audit assets held by certain government regulated entities, such as banks. Such audits are known as limited scope audits. At present, this authority is exercised in about half of the required ERISA audits. Currently, there are no peer review or continuing education requirements for accountants who perform ERISA audits

BACKGROUND: The Department of Labor's (DOL) Office of Inspector General (OIG) issued three reports concerning independent audits of private pension plans from 1987-89. In December 1987, based on a review of information of selected ERISA plans, the DOL OIG identified some audit and reporting deficiencies. In the second report, issued in the spring of 1989, the DOL OIG advocated stricter standards and expanded responsibilities for independent accountants and questioned the adequacy of audit reports. The report also questioned the adequacy of the DOL's oversight of pension plan assets and said that an unknown portion of those assets may be at risk. The third report, released in November 1989, found some of the audits reviewed did not comply with one or more auditing standards.

In April 1992, a General Accounting Office (GAO) report was released recommending several changes in pension plan audits including: 1) requiring full scope audits; 2) requiring auditors to report fraud and serious ERISA violations promptly to the DOL if plan administrators do not do so; and 3) requiring auditors to participate in a peer review program.

RECENT ACTION: **On December 20, 1995, Senators Paul Simon (D-IL) and James Jeffords (R-VT) introduced S. 1490, the Pension Audit Improvement Act of 1995. The bill, developed with the DOL, implements recommendations made in the GAO's 1992 report noted above, including the repeal of the limited scope audit. The legislation would also require auditors to report serious ERISA violations to the plan administrator within five business days after the auditor has reason to believe such an irregularity may have occurred. The plan administrator then has 5 business days to notify the DOL of the irregularities detected by the auditor. If the administrator fails to do so, then the auditor must furnish the DOL with a copy of the notification given to the plan administrator on the next business day after the expiration of the second 5-day period. Similar notification requirements apply to the termination of an engagement. Willful and knowing failure to comply with the notification requirements in the bill could subject auditors of fines up to $100,000. Plan auditors would also be required to complete continuing education every two years, a portion of which must relate to employee benefit plan matters. Finally, plan auditors must have undergone an external quality control review, during the 3-year period preceding an engagement for an ERISA audit and must have in operation an appropriate internal quality control system.**

No companion legislation has been introduced in the House.

AICPA POSITION: **The AICPA supports the legislation, having been an advocate of full scope audits since 1978.**

JURISDICTION: House Economic and Educational Opportunities. Senate Labor and Human Resources.

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APPLICATION OF WAGE AND HOUR LAWS TO PROFESSIONAL EMPLOYEES

ISSUE: Should legislation be enacted reversing a U.S. Department of Labor (DOL) ruling which limits workplace flexibility for professionals?

WHY IT'S IMPORTANT TO CPAs: How the Fair Labor Standards Act (FLSA) is interpreted by the DOL is important to CPAs because it impacts the management of their practice, as well as how many of their clients conduct their businesses. Accountants and certain of their employees are exempt from the FLSA under the Act's professional exemption provision. Some common management practices--such as granting unpaid leave (pay docking) to salaried employees for less than a full day, maintaining time sheets to ensure accurate client billing, or paying overtime to salaried employees--are being used by the DOL as grounds for treating those employees as hourly employees. Removal of the professional exemption entitles those employees to seek compensation for all the "overtime" worked during the past two years.

BACKGROUND: The FLSA was enacted by Congress in 1938 to protect hourly employees; under the FLSA employers are required to pay a minimum wage per hour and also to pay overtime for any hours over 40 worked in a pay period, unless they are exempt. Exempted from the law by Congress were executive, administrative, and professional employees. However, recent interpretations of the regulations implementing the FLSA by DOL personnel and the courts have eroded the exemption for professionals. Courts have held that pay docking for salaried employees violates the FLSA, despite the fact that many employees view the ability to take unpaid leave to meet family obligations as a benefit.

Other practices that put the employer at risk of losing the exempt status for employees include: use of vacation or sick leave in partial day increments; payment of straight time to professionals who work more than 40 hours per week; maintenance of time sheets, although public and private clients require such records to ensure accurate billing; meeting of some government contractual requirements stipulating that employees account for their work on an hourly basis and that the employees be paid overtime for more than 40 hours a week; and requirements by employers that employees be on site for established hours of operation.

RECENT ACTION: **Three bills have been introduced that would amend the FLSA. S. 1129, introduced by Sen. John Ashcroft (R-MO), would allow private sector non-exempt (hourly) employees the same flexible work schedules as federal workers. S. 1129 would alter the 40-hour maximum work week requirement to allow employees to work 160 hours in any combination over a four week period before requiring employers to pay overtime compensation. In addition, employees would be able to request – and employers could provide – compensatory time-and-a-half leave time in lieu of overtime pay. Currently, employers must pay hourly employees time-and-a-half in wages for all hours worked over 40 in a given week, even if employees prefer time off instead of money. S. 1129 also would provide greater flexibility to salaried employees by permitting employers to provide unpaid partial-day leaves (thereby reversing the DOL's paydocking ruling) and to provide overtime compensation without converting them to hourly employees. H.R. 2391, introduced by Rep. Cass Ballenger (R-NC) would allow employers to offer to pay overtime with time-and-a-half compensatory time. This is similar to the Senate bill's compensatory time provision. H.R. 2391 had several hearings and was approved in December 1995 by the House Workforce Protections Subcommittee. In addition, Rep. Robert Andrews (D-NJ) has reintroduced his bill from the last Congress (H.R. 946) that would reverse DOL's paydocking ruling, and make its coverage retroactive.**

AICPA POSITION: **The AICPA is part of a coalition of businesses and associations that is supporting the passage of these bills as well as drafting a bill that would make it easier to determine which employees should be classified as exempt and non-exempt.** The AICPA wrote the chairmen of the House Economic and Senate Labor Committees to let them know how the AICPA believes the FLSA should be amended; the Institute's letter has been included as part of the hearing record.

JURISDICTION: House Economic and Educational Opportunities. Senate Labor and Human Resources.

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PENSION REFORM

ISSUE: Do present Employee Retirement Income Security Act of 1974 (ERISA) requirements ensure that an adequate amount of information is available to workers to assess the financial position of their pension plans?

WHY IT'S IMPORTANT TO CPAs: Central to the accounting profession's mission is ensuring meaningful financial reporting to help protect the investing public. With this mission in mind, the AICPA issued a set of proposals aimed at providing greater disclosure of information so that American workers are adequately informed about one of their most important investments--their pensions.

BACKGROUND: The collapse of large companies in some of America's major industries has focused the national media spotlight on how those collapses have affected workers, and in particular their pensions. Related horror stories of shattered dreams and reduced circumstances are told. However, despite the media attention and the personal identification that all workers can feel with those who have had their pension income cut, many Americans do not know the condition of their pension or how to find out. Furthermore, if they were to undertake the task of assessing the financial health of their pension plan, they would discover some of the critical information necessary to do the analysis is not routinely provided.

On April 29, 1993, the AICPA called on the U.S. Congress and Department of Labor (DOL) to adopt its recommendations, which would ensure greater disclosure to help Americans find out what their pensions will be when they retire, whether their pensions are fully funded, and whether the government will pay the promised benefits if the employer cannot. Among the recommendations are the following:

- Audits of pension plan financial statements by independent CPAs should be full-scope in nature to make sure all plan investments are audited. Currently, ERISA requirements permit plan administrators to instruct independent accountants not to audit assets held in certain government regulated entities, such as banks. At present, this authority is exercised in about half of the required ERISA audits. (See p. 16.)

- The DOL should enhance and expand the information required in the Summary Annual Report (SAR) to include such fundamentals as how much the plan has promised to pay participants, whether the plan is currently funded to make good on those commitments, and whether plan benefits are insured by the government's Pension Benefit Guaranty Corporation (PBGC). The SAR is the one document required by law to be furnished to employees annually by most pension plans and does not now contain this information.

At the end of 1994, Congress passed the GATT world-trade pact; it included a variety of pension law changes, which helped fund the cost of the trade bill. Among them are disclosure requirements recommended in 1993 by the AICPA that will expand the information available to workers and retirees about the funding of their plans and the limits on the PBGC's guarantee. Unfortunately, the new law will only require such disclosure to participants in underfunded defined benefit plans that are insured by the PBGC. Sponsors of fully-funded plans will not have to comply. Nor will plan sponsors whose plans are not covered by the PBGC.

RECENT ACTION: The AICPA has followed up its 1993 effort by issuing an educational brochure for defined contribution plan participants. Entitled *Saving for a Secure Retirement: How to Use Your Company's 401(k) Plan*, the brochure is designed as a guide for Americans whose employers offer these plans. The brochure offers step-by-step instructions for workers to calculate how much they need to save today to ensure a comfortable and secure retirement.

AICPA POSITION: The AICPA will persist in its campaign to educate workers about their pensions, and supports broader adoption of its 1993 recommendations by the federal government either through regulation or legislation.

JURISDICTION: House Economic and Educational Opportunities. Senate Labor and Human Resources.

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FEDERAL REGULATION OF DERIVATIVES

ISSUE: Should Congress grant a federal government entity the authority to establish accounting guidelines as part of a legislative package to regulate derivative financial instruments (derivatives)?

WHY IT'S IMPORTANT TO CPAs: The accounting profession has no direct stake in the question of whether derivatives should be federally regulated. It's the related issue of who will set accounting standards that is important to CPAs.

BACKGROUND: The massive losses in Orange County, California, which caused the County to declare bankruptcy and which were tied to derivative instruments, have caused public policymakers to step up their scrutiny of who is using derivatives, how they are being used and whether federal regulation is required to protect the soundness of our financial system. Concern was further heightened by the dramatic $1 billion derivatives loss that brought down Barings PLC of Great Britain earlier this spring. (Derivatives are generally used to manage risk; their value is derived from an underlying asset, such as stocks, interest rates, commodities, and foreign currencies.) In 1994, the General Accounting Office released a report advocating federal regulation of all major derivatives dealers. In October 1994, the Financial Accounting Standards Board (FASB) issued a rule (Statement 119) requiring all types of entities to disclose more information about amounts, nature and terms of certain derivatives.

The AICPA entered the public discussion in June 1994 when it widely issued six common-sense questions for boards of directors to ask about their organizations' activities in derivatives. The questions were developed by the AICPA in the public interest as a starting point for a necessary dialog among all decision-makers in organizations that use derivatives. The questions build on the corporate governance aspects of two key reports on derivatives--a study by the Group of Thirty (an international financial policy organization) and the GAO report.

In December 1994, the AICPA published the first reference guide to current auditing and accounting literature on derivatives. The guide describes existing literature and related projects underway by FASB and the AICPA's Accounting Standards Executive Committee. It was distributed to the media, federal regulatory agencies, and other business and financial organizations.

RECENT ACTION: In the Senate, the Banking Committee held hearings on January 5-6, 1995 to examine the Orange County financial crisis, although Committee members and witnesses seemed intent on determining whether federal legislation was needed and what the federal government's role should be in regulating the over-the-counter derivatives market. Witnesses and most Senate Banking Committee members expressed confidence that federal regulators have enough legal authority to regulate the industry. The chairman of the Senate Banking Committee concluded after the hearings that federal legislation to regulate derivatives is not needed now, which probably means that the Senate will not budget much future time for this issue--barring some new disaster. Accounting standards for derivatives received limited attention during the hearings.

The sentiment in the House is different. Broad derivative regulation measures have been introduced by the chairman of the House Banking Committee and the committee's most senior Democrat. H.R. 20, introduced by Chairman Jim Leach (R-IA), includes language that would grant federal agencies the authority to establish accounting guidelines for derivatives activities. Following Barings' collapse, legislation was introduced in the House that would require derivatives dealers to register with the Securities and Exchange Commission. The House Banking Committee is expected to hold hearings on derivatives later this year.

AICPA POSITION: The AICPA opposes the language in H.R. 20 that would grant federal agencies the authority to set accounting standards, and supports retaining the responsibility for setting these standards in the private sector. **Institute staff members have talked to House staff about the profession's interests.**

JURISDICTION: House Banking. House Commerce. Senate Banking.

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REGULATORY RELIEF FROM FDICIA

ISSUE: Should Congress enact legislation to repeal certain reporting provisions of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA)?

WHY IT'S IMPORTANT TO CPAs: In addition to audited financial statements, FDICIA requires management and auditors of certain large institutions to report on internal controls over financial reporting and compliance with specified laws and regulations. Legislative proposals would delete some or all of the additional reporting requirements.

BACKGROUND: FDICIA requires, among other things, that management of certain federally insured depository institutions issue audited financial statements, a written assertion about the effectiveness of the institution's internal controls over financial reporting, and a written assertion about the institution's compliance with certain laws and regulations. Congress also included a provision in FDICIA that an independent public accountant attest to management's assertions concerning internal controls and perform certain procedures relative to management's assertions about compliance.

The banking industry is seeking relief from what it calls burdensome regulations and paperwork requirements implementing FDICIA through enactment of legislation that would repeal certain reporting provisions of FDICIA. Last Congress, bills were introduced by Rep. Doug Bereuter (R-NE) and Senator Richard Shelby (R-AL) that would have repealed these regulations. Although they gained wide bi-partisan support within Congress, the bills died without final resolution.

RECENT ACTION: **The battle continues this Congress. Legislation is pending (H.R. 2520, S. 650) that would remove certain requirements. H.R. 2520, which is awaiting House floor action, would repeal FDICIA's requirements for auditor reports of management's assertions on internal controls and compliance with laws and regulations. However, the recently reported Daiwa bank scandal, which reportedly involved a serious lack of internal controls, has raised congressional concerns. On December 5, 1995, the House Subcommittee on Financial Institutions held a hearing regarding Daiwa, at which the AICPA testified regarding the independent audit function. During the hearing, it became clear that members of the House Banking Committee are concerned about the lack of internal controls at Daiwa, and are reconsidering the repeal of FDICIA's requirement regarding internal control attestation. Also, in a December 13, 1995, letter to the Subcommittee, the FDIC said it now supports maintaining the required auditor reports on internal controls. S. 650, which is awaiting Senate floor action, does not repeal the requirement for internal control attestation. It would however repeal auditor reports relative to compliance with laws and regulations, while retaining the requirement for management reports.**

AICPA POSITION: The AICPA continues to support a report by an independent auditor on management's assertion on the effectiveness of the company's internal controls over financial reporting. The internal control system is the main line of defense against fraudulent financial reporting. The AICPA urged the Securities and Exchange Commission to establish such a requirement in the set of initiatives it issued in June 1993 entitled *Meeting the Financial Reporting Needs of the Future: A Public Commitment From the Public Accounting Profession.* Without the independent attestation requirement, management would report free from the disciplines imposed by the independent attestation engagement and users would not know if management's assertion is fairly presented.

The AICPA believes that whether management and auditors should report on compliance with specified laws and regulations is a policy decision for Congress and the regulators. However, the Institute believes that Congress should not retain management's report on compliance and remove the auditor's attestation. Both should be required or deleted.

JURISDICTION: House Banking. Senate Banking.

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SINGLE AUDIT ACT

ISSUE: Should Congress amend the Single Audit Act of 1984?

WHY IT'S IMPORTANT TO CPAs: The amendments proposed to the Single Audit Act are important to CPAs because CPAs conduct audits under the Act, and the amendments would impose new responsibilities on the auditor.

BACKGROUND: In 1984, Congress passed the Single Audit Act, which set uniform audit requirements for state and local governments receiving federal financial assistance.

RECENT ACTION: **In mid-December 1995, a revised discussion draft of a bill that would amend the Single Audit Act of 1984 was distributed for informal comments. How much attention such a bill might receive from the Republican-controlled Congress is unclear. The proposal would make the following changes of interest to the accounting profession:**

- **Change the "major program" definition to require auditors to use a risk-based approach in selecting programs for testing. The Act now requires auditors to select programs for testing solely on dollar-based criteria. The largest programs, known as "major programs," are now required to be tested by the Act. The AICPA supports in concept a risk-based approach for selecting programs for testing, but the proposed approach should be revised and "field tested" before it is implemented. One aspect of the risk-based approach that the AICPA strongly opposes is making the auditor responsible for performing the program risk assessment. Instead, the AICPA believes that the cognizant agency should have that responsibility.**

- **Expand the scope of the Act to include not-for-profit organizations that currently receive organization-wide audits under Office of Management and Budget Circular A-133. The AICPA supports this proposal because it will result in more consistency in the audit requirements for state and local governments and non-profit organizations that receive federal financial assistance.**

- **Increase the threshold from $100,000 to $300,000 for determining whether entities are required to have a single audit. The AICPA supports increasing the audit threshold, but has no means of determining whether the proposed threshold is the optimum. OMB should periodically evaluate the threshold and revise it as necessary.**

AICPA POSITION: The AICPA was an active player during Congressional consideration of the Single Audit Act of 1984. The AICPA has no objections to updating the Act. However, the Institute will continue to monitor the progress of the draft legislation and will strive to modify any troublesome provisions, so that they are acceptable to the accounting profession.

JURISDICTION: House Government Reform and Oversight. Senate Governmental Affairs.

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REGULATION OF FINANCIAL PLANNERS

ISSUE: As a means of providing greater protection to the public from unscrupulous financial planners, should the Investment Advisers Act of 1940 (Act) be amended to limit the professional's (attorney, accountant, engineer, teacher) incidental activity exemption, require all who hold themselves out as "financial planners" to register as investment advisers, create a private right of action which would expand liability, and increase administrative sanctions and penalties for the entire financial planner/investment adviser community?

WHY IT'S IMPORTANT TO CPAs: Financial planning is one of the traditional services long provided by CPAs to their clients. As trusted financial advisers and professionals, CPAs are looked to by their clients to provide financial planning advice. CPAs are already regulated by respective state boards of accountancy for the services they provide the public. Generally, CPAs do not render specific investment advice as part of their financial planning activities. The existing Act provides an exception for accountants who provide investment advice as an incidental part of other services. Requiring all financial planners to register as investment advisers would increase the regulatory burden on CPAs. This would increase the cost of financial planning services with no demonstrated benefit to the public.

BACKGROUND: During the last two Congresses, the House of Representatives passed legislation to regulate financial planners. A collaborative effort between the AICPA and the sponsors of the legislation led to amendment of early versions of the legislation to such an extent that the AICPA was able to endorse the bills. The AICPA initially opposed the legislation because it included a private right of action that would have expanded the adviser's liability and because the SEC would have been granted the authority to make rules interpreting provisions of the Act. The version of the bill passed by the House during the 102nd and 103rd Congresses preserved the present accountants' exclusion provided under the Act, and did not include a provision establishing a private right of action. The AICPA's negotiations on this issue were bolstered by AICPA Key Person Contacts and members of the AICPA Personal Financial Planning Division. In the Senate, narrower legislation was twice passed that would have authorized the SEC to increase its registration fees for investment advisers to help pay for more SEC examiners. In both Congresses, members of the House and Senate could not agree about how much more regulation should be imposed on financial planners, and the bills died.

RECENT ACTION: In the Senate, S. 148 was introduced by Sen. Phil Gramm (R-TX) and directs the SEC to target its resources to enforce the Investment Advisers Act of 1940. It does not broaden or alter the definition of an investment adviser under the Act. Nor does S. 148 address the issue of who should register as a financial planner.

Legislation to regulate financial planners has not been introduced in the House. **However, H.R. 2131, The Capital Markets Deregulation and Liberalization Reform Act, introduced by Rep. Jack Fields (R-TX), contains a provision that would preempt state law with respect to the regulation of investment advisers. Several hearings were held on H.R. 2131 in the fall of 1995, and Rep. Fields has made it clear that the bill is just a starting point for a complete review of the securities laws. The AICPA does not expect this preemption provision to survive as the legislation progresses. We do not believe any legislation to regulate financial planners will be considered in this Congress.**

AICPA POSITION: The AICPA has no objections to S. 148. The AICPA believes any new regulation should focus on those who engage in the type of activities that most frequently lead to fraud and abuse, which is the approach that was embodied in the bills passed in previous Congresses by the House. Documented abuses involve individuals who sell investment products and who control client funds. No need has been demonstrated to regulate CPA financial planners who do not receive commissions for recommending investment products, sell investment products, or take custody of client funds. Therefore, efforts to curb fraud and abuse in the investment advisory marketplace should be directed at the services the individual provides to the public, rather than how the services are advertised or what they are called.

JURISDICTION: House Commerce. Senate Banking.

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OTHER ISSUES

Some of the other legislative, regulatory, and tax issues that the AICPA is monitoring include:

Tax Issues

- Limited Liability Company regulatory consistency
- Tax options for revenue enhancement

Auditing and Accounting Issues

- Quality of audits of federal financial assistance
- GAAP/RAP issues
- Improving federal financial management practices
- Federal regulation of insurance audits

Regulatory Issues

- Real estate appraisal legislation and regulation

Professional/Human Resource Issues

- Tax incentives for the creation of affordable, quality child care options
- Minority education incentives

If you would like additional details on any of these issues, please contact our office.

AICPA PROFILE

HISTORY

The American Institute of Certified Public Accountants (AICPA) was founded in 1887. Its creation marked the emergence of accountancy as a profession, distinguished by its rigorous educational requirements, high professional standards, strict code of professional ethics, licensing status, and commitment to serving the public interest.

The AICPA is the national professional association for all certified public accountants in the United States. Members are CPAs from every state and territory of the United States, and the District of Columbia. Currently, there are more than 328,000 members. Approximately 45 percent of those members are in public practice, and the other 55 percent include members working in industry, education, government, and other various categories.

MISSION AND OBJECTIVES

The mission of the AICPA is to provide members with the resources, information, and leadership that enable them to provide valuable services in the highest professional manner to benefit the public as well as employers and clients. In fulfilling its mission, the AICPA works with state CPA organizations and gives priority to those areas where public reliance on CPA skills is most significant. To achieve its mission, the AICPA:

- Advocacy—Serves as the national representative of CPAs before governments, regulatory bodies and other organizations in protecting and promoting members' interests.
- Certification and Licensing—Seeks the highest possible level of uniform certification and licensing standards and promotes and protects the CPA designation.
- Communications—Promotes public awareness and confidence in the integrity, objectivity, competence and professionalism of CPAs and monitors the needs and views of CPAs.
- Recruiting and Education—Encourages highly qualified individuals to become CPAs and supports the development of outstanding academic programs.
- Standards and Performance—Establishes professional standards; assists members in continually improving their professional conduct, performance, and expertise; and monitors such performance to enforce current standards and requirements.

LEADERSHIP

The Chairman of the AICPA Board of Directors is elected from the membership and serves a one-year term. Ronald S. Cohen, CPA, of South Bend, Indiana is Chairman of the AICPA.

Barry C. Melancon, CPA, is the President of the AICPA.

The AICPA Council is the association's policy-making governing body. Its 262 members represent every state and U.S. territory. The Council meets twice a year.

The Board of Directors acts as the executive committee of Council, directing Institute activities between Council meetings. The 23-member Board of Directors includes 3 public members. The Board meets seven times a year.

The AICPA has a permanent staff of approximately 700 and a budget of $123 million. The work of the AICPA is done primarily by its volunteer members serving on approximately 130 boards, committees, and subcommittees.