4-1993

Capitol Account, Volume 5, Number 2, April 1993

American Institute of Certified Public Accountants (AICPA)

AICPA "The Measure of Excellence"

CAPITOL ACCOUNT

A Monthly Report on Federal Legislative Matters Affecting CPAs

APRIL 1993

New Tax Policy Statement Takes Aim at Complexity

The AICPA has a new weapon to fight needless tax complexity—a policy statement mandating bolder AICPA stands against unnecessarily complex proposals. Congressional tax writers are already feeling its effects.

First, the AICPA notified the House Ways and Means and Senate Finance Committees that it no longer supports the section 444 revisions it endorsed last Congress as a means of easing the workload compression problem. Second, simplicity was the theme of AICPA testimony before the Ways and Means Committee on President Clinton's economic proposals. The testimony singled out as particularly complex the investment tax credit, especially the incremental credit, and recommended a direct credit instead.

The new tax policy statement, approved by the Tax Executive Committee, calls for change in the legislative process to produce less complex tax laws. The statement pledges the AICPA to help Congress eliminate "back door" revenue raisers and develop more straightforward revenue-raising proposals.

The statement also outlines how the AICPA's resolve to oppose complexity may play out. Gone are the days when the AICPA will let itself be drawn into trying to fix a proposal with needless complexities so that it is "less bad." Gone, too, are the days when the AICPA will hesitate to publicly withdraw its support, or even oppose, a measure it has supported if it becomes needlessly complex after Congressional compromise and modification.

The fiscal year issue is a perfect case study. AICPA members and their clients have suffered the problems associated with the switch from fiscal years to calendar years ever since the Tax Reform Act of 1986 was implemented. Workload compression is still the number one tax problem named by AICPA members.

The genesis of this beast? It was added in the Senate at the 11th hour without hearings or discussion as a means of funding a low-cost housing proposal.

Modification of section 444, which was spearheaded by the AICPA with the help of thousands of CPAs nationwide, provided only minor relief. Since then the AICPA has relentlessly

continued on page 2

Inside Focus

Wyden Bill Approved with AICPA Support; Represents Important Advance

The AICPA's persistent campaign to ensure that the private sector retain the responsibility for setting auditing standards under the provisions of the "Financial Fraud Detection and Disclosure Act," H.R. 574, scored a significant victory on March 18. The House Telemarketing and Finance Subcommittee approved the measure with the auditing standards language suggested by the AICPA, which cleared the way for the AICPA to declare its support for the bill.

The successful negotiation on H.R. 574 also helps lead us out of the impasse at which the accounting profession and federal legislators found themselves. Congressional critics believe the profession should be doing more to protect the investing public. The profession, for years, has replied to its Capitol Hill critics that audits have a limited purpose not clearly understood by the public, which has led to an "expectation gap." This argument by the profession and its opposition to H.R. 574, and similar bills in years past, helped foster the Congressional and public perception that the profession is "dug in" and resistant to change. It was evident by the end of the last Congress that this perception blocked action in other areas important to CPAs, such as liability reform.

Therefore, to move our legislative program forward, the AICPA Board of Directors authorized us to find a solution to H.R. 574. The profession worked closely with Reps. Billy Tauzin (D-LA), Ed Markey (D-MA) and Ron Wyden (D-OR), as well as Republican leaders, to come up with language acceptable

continued on page 3

Complexity from page 1

pursued a solution, without success. The goal seemed near last year. Ultimately, however, the original proposal developed by the AICPA last Congress was modified by Congress to such an extent that if it had been signed into law it would have made the problem worse.

This Congress, President Clinton's proposed increase in personal rates makes such a proposal even less desirable because the increase in personal rates to 36 percent would mean a rise to a 38 percent rate (as opposed to the 29 percent required when the section 444 changes were first enacted) in the deposit to the IRS required for pass-through entities making a "new" section 444 election. Not only do CPAs believe that pass-through entities would refuse to make "new" section 444 elections under these circumstances, but also that taxpayers would revoke their present section 444 elections and go back to a calendar year.

So not only have we told Congress we now oppose this approach, we've asked that it not be included in any tax bills considered by this Congress.

Unfortunately, this does not solve the workload compression problem. What is needed (and we have begun communicating this to Congress) is for businesses to be allowed to use a natural business year for tax purposes, without being penalized by required interest-free loans to the government. In today's fiscal and budgetary environment, where tax provisions must—by law—be revenue neutral, we are facing a long and uphill battle to get this accomplished.

A copy of the AICPA's testimony is available by writing Ways and Means Testimony, AICPA, 1455 Pennsylvania Avenue, N.W., Washington, D.C. 20004-1081 or by calling 202/434-9220. ■

FINANCIAL PLANNING BILL ADVANCES

The financial planning bill began its move through the U.S. House of Representatives when it was reported to the House Energy and Commerce Committee from its Subcommittee on Telecommunications and Finance. The measure, H.R. 578, preserves the professional exclusion the AICPA fought for last Congress with the help of Key Persons and members of the Personal Financial Planning Division. The AICPA supports H.R. 578 as it is now written. We'll keep you updated as more action occurs.

Liability Reform Bill Continues to Gather Momentum

Rep. Billy Tauzin (D-LA) heralded his commitment to reforming the nation's liability system by introducing a securities litigation reform bill on the first day of the 103rd Congress. Seven other members of the U.S. House of Representatives displayed their support by joining him as original co-sponsors of H.R. 417. The bill, which is identical to the legislation Rep. Tauzin introduced in the last Congress, continues to gather momentum. Seventeen more Democrats and Republicans have signed on as co-sponsors.

You can help build support in Congress for this effort. Please write or call your representative in the U.S. House of Representatives and ask him or her to become a co-sponsor of H.R. 417.

The co-sponsors to date are:

Dan Burton (R-IN)
Ralph Hall (D-TX)*
Dennis Hastert (R-IL)
Paul Henry (R-MI)
Jon Kyl (R-AZ)
John Linder (R-GA)
Ronald Machtley (R-RI)*
Alex McMillan (R-NC)
Michael McNulty (D-NY)
G.V. (Sonny) Montgomery (D-MS)*
James Moran (D-VA)*
Stephen Neal (D-NC)
Frank Pallone (D-NJ)
Mike Parker (D-MS)*
Bill Paxon (R-NY)
Collin Peterson (D-MN)
John Porter (R-IL)
Roy Rowland (D-GA)*
Bobby Rush (D-IL)
Dan Schaefer (R-CO)
E. Clay Shaw (R-FL)*
Don Sundquist (R-TN)
Edolphus Towns (D-NY)
Frederick Upton (R-MI)

*Denotes original co-sponsor.

Toni Smiley, president of the D.C. Institute of CPAs, at left, and Ellen McCreery, CPA, at right, with U.S. Treasury Secretary Lloyd Bentsen. They attended a recent luncheon address by Secretary Bentsen at the National Press Club. The Secretary spoke about President Clinton's economic proposals.

Capitol Account, April 1993, Volume 5, Number 2. Editorial offices at 1455 Pennsylvania Avenue, N.W., Washington, D.C. 20004-1081. Opinions of the authors are their own and do not necessarily reflect policies of the Institute. **Editor: Shirley Twillman**

Inside Focus from page 1

to all parties. The revised language leaves the principal responsibility for setting auditing standards in the private sector—where the expertise is—and grants the Securities and Exchange Commission the authority to modify or supplement the standards in certain areas.

Earlier disclosure of possible fraud and other illegal activities perpetrated by corporate management is required by H.R. 574, as is an assessment by the auditor of a company's survivability. Neither we, nor the public, should be misled into thinking this bill is a guarantee that all fraudulent acts, especially those perpetrated by a coordinated and collusive effort among management, will be detected. It is, however, one step to making financial reporting more relevant and useful to the American public.

We've already seen some dividends from the Wyden bill negotiation. At the markup session on H.R. 574, Rep. Markey, the chairman of the Finance Subcommittee, announced that a hearing on liability reform will be held later this spring. And Reps. Tauzin and Jim Slattery (D-KS) spoke about accountants' need to have our liability system reformed. Happily, H.R. 574 also includes language worked out last year by the AICPA and the bill's sponsors to protect auditors from unwarranted liability exposure.

The measure must still work its way through major legislative steps; its next stop is the full House Energy and Commerce Committee. After that, it faces a floor vote by the full U.S. House of Representatives, where it is apt to be approved. The Senate is an unknown; this is the first time in the seven years the House has considered such legislation that the Senate has shown any interest. Senator John Kerry (D-MA) introduced S. 630 on March 23; it is identical to the version of H.R. 574 endorsed by the AICPA. S. 630 also must run the full gamut of subcommittee, committee and floor consideration.

We will be with it every step of the way. And, we may ask you, as Key Persons, to be there too—talking, writing, or visiting with your legislators to ensure that the careful compromise we've negotiated doesn't come undone. ■

John E. Hunnicutt
Group Vice President—
Government Affaris

Key Person Program Ranked Effective by Survey

The Key Person Program received high ratings according to the results of the Key Person survey done last fall. Over 95 percent of the respondents ranked the AICPA Key Person Program as effective. "Just keep it up," one respondent wrote. "The more we work, the better it gets."

Key Persons take their leadership role for the profession seriously—81 percent of the Key Persons responding wrote or called their members of Congress when asked to do so in an Action Alert.

Liability, calendar year-end, and estimated tax payment rules are identified as the three most important issues by respondents.

Highlights from the survey include:

- ☑ Sixty-one percent of the respondents are friends with the member of Congress, 16 percent are the member's personal CPA, and 12 percent serve as the campaign treasurer for their Congressional contact.
- ☑ These men and women are a politically active bunch—74 percent said that either they or a member of their family had worked in a political campaign and 77 percent said that they had made contributions to their member of Congress' campaign; the median contribution was $262. Republicans comprise 57 percent of the respondents, 28 percent are Democrats, and 15 percent are Independents.
- ☑ Eighty percent of the respondents are in public practice, and 64 percent have been a CPA for more than 20 years. Furthermore, the smaller the size of the firm, the more likely that one would be a Key Person—59 percent practice alone or with a small firm (2–20 professionals); 28 percent practice with a medium firm (21–100 professionals); and 13 percent practice with a large firm (over 100 professionals).
- ☑ Eighty-three percent participate in the program to assist the profession and 40 percent were asked to do so by the state society.

Projects for the future

The survey turned up some good suggestions about how we can help you, too. In response to requests for information to be communicated in different formats, we are exploring audio and video tapes. Computer software for campaign treasurers was a hot topic for a number of respondents. We are looking at what is already available commercially and exploring whether we should develop our own product.

Copies of the survey results are available by writing Key Person Survey Results, AICPA, 1455 Pennsylvania Avenue, N.W., Washington, D.C. 20004-1081, or by calling 202/434-9264. ■

Constituents Influence Votes, Gallup Poll Finds

"Your ultimate goal is to move votes," Jack Bonner of Bonner & Associates told participants at the AICPA Key Person Coordinators' Conference held in Washington, D.C. in late January.

What's the best way to do that?

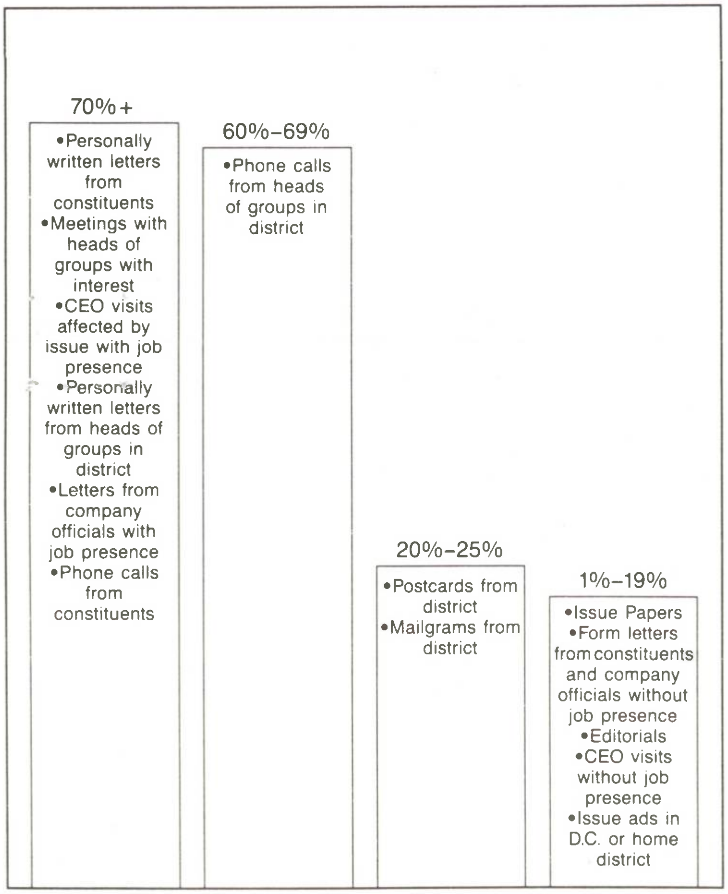
"Constituents!" say members of Congress interviewed by The Gallup Organization in a poll commissioned by Bonner & Associates. More than 70 percent of the 149 new and returning members of the 103rd Congress interviewed during the poll said personal letters and phone calls from constituents and constituent meetings are what influence them when it's time to cast their votes. **Furthermore, 77 percent of the members of Congress surveyed said they call back letter writers "often" or "sometimes" to find out how much the writers know about the issue upon which they have written.**

The results affirm the AICPA Key Person Program's founding principle—the interests of the profession are best represented by CPAs with close personal ties to their elected members of Congress.

Bonner emphasized, to the more than 160 Key Person Coordinators and Contacts, State Society Presidents, Executive Directors, and state society legislative staff who attended the conference, that grassroots participation works—because it's individuals telling members of Congress what matters to them.

The chart to the right illustrates the importance members of Congress attach to constituents and their opinions.

What Members Say They Pay a Great Deal of Attention to When Deciding How to Vote



Bonner & Associates/Gallup Poll

AICPA
American Institute of Certified Public Accountants
1455 Pennsylvania Avenue, NW
Washington, DC 20004-1007

FIRST CLASS MAIL