November 25, 2013

The Honorable Dave Camp  
Chairman  
House Committee on Ways and Means  
Washington, D.C. 20515

The Honorable Sander Levin  
Ranking Member  
House Committee on Ways and Means  
Washington, D.C. 20515

Dear Chairman Camp and Ranking Member Levin:

As Members of the Congressional Caucus on CPAs and Accountants, we are writing to express our strong opposition to a proposal included in the Ways and Means Committee’s tax reform discussion draft for small businesses and pass-through entities, which would require many accounting firms to transition from the cash basis method to the accrual method for tax purposes.

A transition from the cash method to the accrual method requires accounting firms to recognize revenue when the work is performed, not when their clients pay for services. The accrual method would require partners to pay taxes on income that has not yet been received. Because use of the accrual method would do nothing to reduce the expenses of such firms, the end result would be a significant near-term increase in taxable income that would have to be recognized by firm partners.

These individuals would be treated differently from all other individual taxpayers simply because they are operating in a partnership or other group-ownership structure rather than as a sole proprietor – a condition that would be both unwarranted and unfair.

CPAs firms also are subject to state regulation that does not allow them to raise capital from outside investors. If forced to move to the accrual basis, many of the firm partners will need to finance the cost of the conversion. This cash-outflow will adversely affect firm growth and performance. Rather than cash going to support firm growth and hire additional staff, it would have to be redirected to repay the loan required for the increased tax obligation. Newly promoted partners would be especially hard-hit as most rely on personal debt financing to make their capital investments in their firms.

Additionally, mandating the use of the accrual method could have the unintended consequence of driving many of these individuals out of accounting firms. CPAs already have a wide range of career opportunities, and this requirement could cause many to consider other employment options that would not have a similar adverse effect on their personal finances. Thinning the ranks of those accountants who perform public company audits could weaken investor confidence in our capital markets.
Despite the disruptions that this change would cause across the business community, moving from cash to accrual based accounting will not offer any real benefits. It does not simplify the tax code and it should not be used to offset other revenue reductions in tax reform. The proposed change simply shifts a tax burden forward, increasing revenues today, but decreasing revenues in the future. This is no free lunch – revenues collected on income today cannot be collected tomorrow, even if they lie outside the ten-year budget window. This proposal is a timing shift, not a simplification of the Internal Revenue Code.

We also firmly believe that the “exemption” for pass-through entities and personal service corporations (for service businesses such as accounting firms) should remain intact. However, since there is no tax simplification achieved for the resulting financial burden, we are strongly opposed to subjecting personal services firms to the accrual accounting method.

Sincerely,

K. Michael Coraway, TX-11
Brad Sherman, CA-30

John Campbell, CA-45
Bill Flores, TX-17

Patrick E. Murphy, FL-18
Steven Palazzo, MS-04

Collin Peterson, MN-07
Tom Rice, SC-07