



RELEASE DATE: May 30, 2014

TOPIC: THIRD-PARTY VERIFICATION REQUESTS (also known as “comfort letters”)

This release outlines the position of the American Institute of CPAs (AICPA)<sup>1</sup> on the matter of verifying financial information to bank lenders and brokers. Bank lenders and brokers often seek to assess a borrower’s creditworthiness and verify the accuracy of information provided to them by requesting that the borrower’s CPA corroborate certain financial information presented on a tax return. In most cases, the CPA is asked to corroborate tax return information by providing:

- a confirmation letter containing specific language;
- a verification statement certifying certain information presented on the tax return; or
- certain information on a designated form.

While the CPA is precluded from providing any assurance on matters related to solvency, he/she can substantiate financial information to third parties by performing procedures that can range from rigorous examinations that result in reports about whether the CPA believes the information to be free of material misstatement, to less rigorous procedures that result in lower levels of assurance. However, tax returns are prepared by a CPA based on the client’s information and representations, which are neither audited nor verified by the CPA. Tax return preparation standards for due diligence under both Treasury Department Circular No. 230 and the AICPA’s Statements on Standards for Tax Services generally allow the CPA to rely on information furnished by the taxpayer. However, these standards are NOT sufficient if the CPA is being asked by a lender or broker to validate the information furnished by the taxpayer, or to provide confidence in the accuracy or sufficiency of the information provided by the taxpayer for reporting on the tax return. **For a CPA to validate or certify information reported on a tax return without performing additional procedures would constitute a violation of professional standards, resulting in licensure implications for the CPA.**

A CPA can provide tax return information, or copies of income tax returns, to a third party but, to do so, he or she must first obtain signed, written consent from the client in a format specified by the IRS in Rev. Proc. 2013-14<sup>2</sup>. In these situations, we suggest the CPA respond, in writing, to clarify that he or she is merely submitting the requested information, but offers no level of assurance on the accuracy or validity of the information.

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<sup>1</sup> The AICPA is the world’s largest member association representing the accounting profession, with more than 394,000 members in 128 countries and a 125-year heritage of serving the public interest. The AICPA sets ethical standards for the profession and U.S. auditing standards for audits of private companies, nonprofit organizations, federal, state and local governments. Members of the AICPA have to adhere to the AICPA Code of Professional Conduct, which sets forth certain standards of professional conduct. Our members advise clients on federal, state and international tax matters and prepare income and other tax returns for millions of Americans. Our members provide services to individuals, not-for-profit organizations, small and medium-sized businesses, as well as America’s largest businesses.

<sup>2</sup> Internal Revenue Code [section 7216](#) and [Treas. Reg. section 301.7216-3](#) actually makes it a crime for a tax preparer to disclose client tax return information to a third party without signed written consent from the client in a format specified by the IRS in [Rev. Proc. 2013-14](#). More information and details regarding the specific wording and format can be found on the [Section 7216 Information Center](#) on the IRS website.

Here is an example of a cover or transmittal letter that a CPA might use when sending tax information on behalf of the client to a third party:

*Date*

*ABC Company Address City, State Zip*

*Dear Mr./ Ms. \_\_\_\_\_:*

*I am writing to you at the request of Mr./ Ms. \_\_\_\_\_.*

*The purpose of this letter is to confirm to you that I prepared the 20XX federal income tax return of Mr./ Ms. \_\_\_\_\_ and delivered this return to them for filing with the IRS. At their request, I have attached a copy of the tax return and related schedules provided to them for filing.*

*This return was prepared from information furnished to me by Mr./Ms. \_\_\_\_\_. This information was neither audited nor verified by me, and I make no representation, nor do I provide any assurance regarding the accuracy of this information or the sufficiency of this tax return for your credit decision-making purposes.*

*I prepared Mr./ Ms. \_\_\_\_\_ tax return in accordance with the applicable IRS rules and regulations solely for filing with the IRS. As a result, the tax return does not represent any assessment on my part regarding creditworthiness and does not include any statement of their financial position or income and expense for the year 20XX, in accordance with accounting principles generally accepted in the United States of America, and should not be construed to do so.*

*As you know, a credit decision should be based on a lender's exercise of due diligence in obtaining and considering multiple factors and information. Any use by you of Mr./ Ms.*

*\_\_\_\_\_ 20XX federal income tax return and this letter is solely a matter of your responsibility and judgment. This letter is not intended to establish a client relationship with you, nor is it intended to establish any obligation on my part to provide any future information to you with regard to Mr./ Ms. \_\_\_\_\_.*

*Sincerely,*

*\_\_\_\_\_ (Firm Name)*

*cc: Mr./ Ms. \_\_\_\_\_ (Client)*

**In order for a CPA to verify the financial information in a tax return, the CPA is required to perform additional procedures to determine that the information is accurate.** Examples of professional services the CPA may provide that comprise such additional procedures include:

- An audit or a review of personal financial statements; or
- An agreed-upon procedures report, as long as the agreed-upon procedures do not provide any assurance on matters related to solvency.

In addition, CPAs are not precluded from providing lenders with responses based on factual information they have obtained (with signed, written consent) from a client.