

# AICPA Takes on IRS and Expands Internationally

NEW YORK (JANUARY 26, 2016)

BY MICHAEL COHN

American Institute of CPAs president and CEO Barry Melancon said the AICPA is pushing the Internal Revenue Service to improve its services for both taxpayers and CPAs while preparing to become a more international organization.



Barry Melancon

During a wide-ranging speech Tuesday in New York at a meeting of the Accountants Club of America, Melancon gave an update on the AICPA and the future of the profession.

“Basically the service levels in the Internal Revenue Service to preparers and taxpayers are at an all-time low,” he said. “To use a South Louisiana French term, it sucks. We do not have a 21st century IRS, and we are not likely to get one in the short term. We’re not going to get one because the Congress absolutely loathes the Internal Revenue Service and the leadership of the Internal Revenue Service.”

Melancon discussed some of the political challenges facing the IRS in Congress, and the \$290 million that Congress earmarked in last month’s tax extenders legislation toward improving taxpayer service and cybersecurity and combating identity theft.

“They refuse to fund the Internal Revenue Service with any additional dollars,” he said. “In the last tax extenders bill, it looked like they funded it, but it was sort of a shell game, moving dollars around. And it is not going to change with this administration and this Congress and this IRS commissioner. On the political side, bridges have been burned and it is just not going to change. We have been big advocates that it needed to change. We have actually been on the Hill advocating for specific, dedicated funding to the IRS only for customer service—which, by the way, the IRS hates because they want just general funding—and even on that, we couldn’t get any traction from Congress.”

Melancon hopes to make some headway this year. “We have called upon Treasury—and we are working with the Department of Treasury, which is the IRS’s boss—to convene a group in 2016 prior to the results of the election, prior to us moving into a new election, to map out a vision of what a 21st century IRS might look like so that when we have new players and a new Congress and a new deal, we’ve got a blueprint to try to get that done,” he said. “Treasury

has not yet been totally receptive to doing that, but we envision a forum in which preparers and not just CPAs, but lawyers and enrolled agents and others, come to the table, with representatives of the Service, representatives of Congress, and try to create a meeting of the minds, a rational way rather than the irrational political way. Hopefully we can be successful with that. No guarantees.”

Melancon pointed out that an identity theft bill currently moving through Congress may provide an opportunity for the AICPA to address some of those concerns. He also discussed the lawsuit that the AICPA has filed against the IRS over the IRS’s Annual Filing Season Program for voluntary tax preparer education and testing, which the IRS introduced after its Registered Tax Return Preparer program for mandatory testing and education was invalidated by the federal courts in 2013 in the case of *Loving v. IRS* (see **AICPA Sues IRS over Voluntary Program for Tax Preparers**).

“We still have a lawsuit pending with the IRS as it relates to their tax preparer registration process, which is effectively their desire to do it,” said Melancon. “They don’t have the authority to do it, but it is their desire to do it, to create a new system of regulation for purposes, frankly, of creating a national brand of tax return preparers that would compete with enrolled agents and CPAs, and maybe to a lesser degree lawyers. It’s got a lot of warts in it. We had entered into an agreement with the IRS. That agreement—not because of what we said, but because of the way the IRS tried to implement it—was thrown out by the courts. Then the new commissioner came in and tried to put in something that was no longer part of our compromise, and we tried to get it back on track and he didn’t want to hear that. So that led us to the situation we have.”

Melancon would like to see Congress pass legislation to reinstate the original program. “We would actually accept a legislative solution that would go back and put into law what we had compromised on,” he said. “That is a tactic we’re trying to do, but the IRS wants blanket authority to do whatever they want, and we cannot support that.”

### **International Expansion**

Melancon also discussed the AICPA’s plans to create an association of international CPAs in partnership with the London-based Chartered Institute of Management Accountants, an expansion of their joint venture in creating the Chartered Global Management Accountant designation (see **AICPA Proposes New Association with CIMA**).

“Our members in business and industry are a growing part of the profession today,” said Melancon. “We have 412,000 members today, the highest number ever at the Institute, and the business and industry group is a very dynamic group. What companies expect of the people they employ is changing dramatically, just like what public accounting firms have to deliver is changing dramatically. We are trying to address that from a skillset perspective with the credential we have today called CGMA, Chartered Global Management Accountant. We created that with a partner in the U.K., as opposed to doing that by ourselves.”

He explained how the two organizations are taking their partnership to a new level. “We’re actually engaging our membership right now to integrate AICPA and CIMA from a strategy, operations and management perspective so that we would create a different type of voice on a global stage, a 600,000-member global organization to speak about the profession,” said Melancon. “It’s not a merger per se. In associations, you don’t typically do true mergers like you would in a corporate. It’s an integration of strategy, operations and management. Our members will be asked to vote on that in the spring after tax season. It’s got a lot of support. In fact, as we stand here, 45 different states have passed resolutions of support, and I expect it to be 49 by the end of this week. That is a big evolution.”

Melancon explained that the new association would be a plus, particularly for younger accountants. "It is important for the next generation," he said. "About 36 percent of next-generation accountants believe that they should have the opportunity and want to have the opportunity to work overseas for some part of their career. It is also important from the footprint perspective as it relates to business and industry versus public practice."

### **Accounting Standards**

Melancon was asked by Accounting Today about the readiness of CPAs for the new accounting standards that the Financial Accounting Standards Board and the International Accounting Standards Board are rolling out in areas such as leasing and financial instruments.

"There are a lot of people in the profession who are not going to like the leasing standard when it comes out," he responded. "I think they are unaware of the changes that are coming out. The IASB is passing international standards and the FASB's U.S. standards are not exactly the same. I will say in this case, the FASB has listened to the business input on practicality a bit more than the IASB. It's going to take a huge amount of work from the corporate perspective to implement this, so it's going to be a change that I think the profession is going to have to ramp up on."

Melancon sees an even bigger impact from the revenue recognition standard that was issued by FASB and the IASB last year, whose effective date has been deferred by both boards for a year.

"For the revenue recognition standard, which is an even bigger change as relates to certain industries, the FASB has already delayed the implementation date one year," he said. "I think that's a message to the profession there's a lot of work to be done. I hope it isn't taken by the profession as a notion that you can just wait another year to even focus on it. The concept is to be focusing on it in order to get it done. Those are very big standards. I think the financial instruments standard is a little narrower, and it is controversial because there's a debate in Washington. It's how you measure reserves, loan losses, etc. ... All three of those combined are a pretty significant change in accounting standards, and we're doing a lot of awareness work to try to make that happen, but there is a way to go."

Melancon also responded to another question from Accounting Today about a proposal from SEC chief accountant James Schnurr to allow supplemental use of some International Financial Reporting Standards by U.S. companies while still requiring use of U.S. GAAP.

"The chief accountant said we're not going to adopt IFRS, we're not going to allow IFRS in the United States, basically under his watch while he's there with [SEC chair] Mary Jo White," said Melancon. "But he does support implementing a process where a U.S.-based company can put IFRS information in their financial statements basically as supplemental information, which they previously could not do without certain provisions associated with it. They're loosening that up so a company could apply that. I think this SEC understands the importance of the U.S. as a player in the IFRS world. After all, investors in the U.S. invest in foreign companies that use IFRS and foreign companies that are dual-listed in the United States use IFRS in the United States. I think it's important for the American regulatory system and the American profession that we play in the IFRS space, even though it is not going to be something that we get done as a total switch in the short term. Whether in the long term it happens, it could, but in the short term it's not going to happen. And I think what Jim Schnurr and Mary Jo White are doing is they're trying to tell the rest of the world that we want to play in this space. We don't want to be just off on an island. They want to show some degree of some support. I think that's important. I think it's bad if the United States is not a player in the IFRS

space because if in fact we ever get there, we're going to loathe the day that we weren't a player in that particular space. It's a small step, but at least it's a step, and I think it can be used on the international stage."

### **War for Talent and Diversity**

During the speech and a later Q&A period, Melancon covered a wide range of topics, including the need for greater diversity in the profession and the expanding number of young CPAs.

"Speaking about the younger generation, we continue to have record enrollments in accounting," he said. "Beginning in 2005 until today, we had record enrollment in accounting, with the exception of one year when it was flat, and beginning in 2008 until today we had record graduates in accounting, except for one year when it was flat. That's good news. We are in a war for talent. Every business in this room, every business in this city, every industry, every profession is in a tremendous war for talent. There are some pretty big changes happening demographically."

But he emphasized the need for greater diversity among accountants. "We are not as diverse as we need to be," he said. "We have incredibly talented role models in our profession from a diverse perspective, but we do not have sufficient numbers to reflect what society as a whole is reflecting. It's about business. The economic reality is our profession serves entrepreneurial capital, whether we work for a company or are doing an audit or tax work, we're serving entrepreneurial capital. Entrepreneurial capital is increasingly diverse in this country. It is not a trend. It is a certainty that will continue."