



Virginia Department of Planning and Budget **Economic Impact Analysis**

18 VAC 5-22 Board of Accountancy Regulations

Board of Accountancy

Town Hall Action/Stage: 6318/10121

October 31, 2023

The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with § 2.2-4007.04 of the Code of Virginia (Code) and Executive Order 19. The analysis presented below represents DPB's best estimate of the potential economic impacts as of the date of this analysis.¹

Summary of the Proposed Amendments to Regulation

The Board of Accountancy (Board) seeks to update the education requirements for applicants for the Certified Public Accountants (CPA) examination so that they conform to national standards.

Background

The National Association of State Boards of Accountancy, which administers the CPA exam, has updated subject matter requirements and other guidance for the CPA exam.² The Board seeks to update the education requirements in the regulation so that CPA applicants in Virginia are appropriately prepared, and to maintain equivalency and reciprocity with other states' accountancy programs. The most substantive changes are summarized below.

- Section 60 Determining whether a college or university is an accredited institution. The regulation currently requires the Board to form a task force to determine if an accrediting

¹ Code § 2.2-4007.04 requires that such economic impact analyses determine the public benefits and costs of the proposed amendments. Further the analysis should include but not be limited to: (1) the projected number of businesses or other entities to whom the proposed regulatory action would apply, (2) the identity of any localities and types of businesses or other entities particularly affected, (3) the projected number of persons and employment positions to be affected, (4) the projected costs to affected businesses or entities to implement or comply with the regulation, and (5) the impact on the use and value of private property.

² See <https://www.evolutionofcpa.org/>.

body's accreditation process is "substantially equivalent" to the process used by the major regional accrediting organizations. The proposed change would provide the Board with greater flexibility in determining whether an accreditation organization that is "neither one of the major regional accreditation organizations or their successors, nor an accreditation organization recognized by CHEA [Council on Higher Education Accreditation] or its successor" is substantially equivalent to the accreditation process recognized by the board. Under the proposed language, the Board would be responsible for, "setting requirements and maintaining records of those organizations deemed eligible by the board."

- Section 70 Education.

- To conform with changes in national standards, "management accounting" would be replaced with "accounting information systems" as one of the required subjects for an accounting concentration.
- The proposed changes would allow up to three hours of introductory or foundational accounting courses to be counted towards the 48 semester hours required for an accounting concentration. The current regulation does not allow the introductory accounting course to count towards this requirement; this change is also due to changes in national standards.
- The Board also seeks to specify that, "A person who has passed the CPA examination in a state other than Virginia and who has met the educational requirements of that state will be deemed to have obtained an accounting concentration or equivalent if the requirements of that state are substantially equivalent as defined in § 54.1-4411." Currently, when an applicant is transferring grades to become licensed in Virginia, the Board must conduct another complete education review which takes staff time and requires the applicant to order original transcripts again. The proposed change would allow the applicant to just demonstrate that they have passed the CPA examination and met the education requirements of the state they are transferring from.

- Section 80 Examination. To conform to changes in national standards, a person who passes the first section (of four) of the CPA exam would now have 30 months to pass the

other three sections. This change would increase the time limit from the current 18-month requirement.

Estimated Benefits and Costs

The proposed changes serve to conform the regulation to national standards and would broadly benefit CPA applicants in Virginia by ensuring that they are appropriately prepared for the exam, are competitive with applicants from other states, and that they benefit from the longer time-limit to pass all four sections of the exam. Out-of-state applicants seeking a license in Virginia would benefit from not having to request additional transcripts, and the Board would benefit from not having to go through the full education review process. Some educational institutions offering undergraduate accounting degree programs may face one-time costs to develop curriculum in accounting information systems. However, to the degree that educational institutions will incur new costs, these primarily result from changes in national standards, which the regulatory changes reflect. In addition, educational institutions have incentives to keep their course offerings current so that their graduates can be competitive as CPA applicants and to maintain the reputation of their programs. The Board reports that the new required course is already offered by most educational institutions and that all accounting programs in the state are aware of these changes.

Businesses and Other Entities Affected

This regulation primarily affects Virginia CPA applicants and Virginia educational institutions that offer undergraduate accounting degrees. There are 34 such educational institutions, and roughly 1,200 new candidates for the CPA exam each year. The Board reports that all educational institutions are aware of the changes in national standards and that most of them have already changed their curriculum in order to prepare their students for the changes to the CPA examination. Lastly, the Board may experience greater efficiency as a result of the changes to sections 60 and 70, since they will reduce the administrative burden on staff.

The Code of Virginia requires DPB to assess whether an adverse impact may result from the proposed regulation.³ An adverse impact is indicated if there is any increase in net cost or reduction in net revenue for any entity, even if the benefits exceed the costs for all entities combined. To the degree that educational institutions will incur new costs, these primarily result from changes in national standards, which the regulatory changes reflect. Because the proposed changes would not create any new costs for educational institutions that are not required for conformity with national standards, and because such costs have likely already been incurred, an adverse impact is not indicated.

Small Businesses⁴ Affected:⁵

The proposed amendments would not create any new costs for small businesses.

Localities⁶ Affected⁷

The proposed changes would not disproportionately affect any particular localities and would not affect costs for local governments.

Projected Impact on Employment

The proposed amendments are not likely to have a substantive impact on total employment. However, the proposed changes, and the changes in national standards they derive from, are likely to increase the number of licensed CPAs in the long term. As mentioned

³ Pursuant to Code § 2.2-4007.04(D): In the event this economic impact analysis reveals that the proposed regulation would have an adverse economic impact on businesses or would impose a significant adverse economic impact on a locality, business, or entity particularly affected, the Department of Planning and Budget shall advise the Joint Commission on Administrative Rules, the House Committee on Appropriations, and the Senate Committee on Finance. Statute does not define “adverse impact,” state whether only Virginia entities should be considered, nor indicate whether an adverse impact results from regulatory requirements mandated by legislation.

⁴ Pursuant to § 2.2-4007.04 of the Code of Virginia, small business is defined as “a business entity, including its affiliates, that (i) is independently owned and operated and (ii) employs fewer than 500 full-time employees or has gross annual sales of less than \$6 million.”

⁵ If the proposed regulatory action may have an adverse effect on small businesses, Code § 2.2-4007.04 requires that such economic impact analyses include: (1) an identification and estimate of the number of small businesses subject to the proposed regulation, (2) the projected reporting, recordkeeping, and other administrative costs required for small businesses to comply with the proposed regulation, including the type of professional skills necessary for preparing required reports and other documents, (3) a statement of the probable effect of the proposed regulation on affected small businesses, and (4) a description of any less intrusive or less costly alternative methods of achieving the purpose of the proposed regulation. Additionally, pursuant to Code § 2.2-4007.1, if there is a finding that a proposed regulation may have an adverse impact on small business, the Joint Commission on Administrative Rules shall be notified.

⁶ “Locality” can refer to either local governments or the locations in the Commonwealth where the activities relevant to the regulatory change are most likely to occur.

⁷ Code of Virginia § 2.2-4007.04 defines “particularly affected” as bearing disproportionate material impact.

previously, the Board reports that roughly 1,200 new candidates start the process of taking the CPA exam each year. Students currently have 18 months to pass all four sections of the CPA exam; the Board reports that there are roughly 4,000 candidates in the process of taking the exam at any given time. Under the 30-month timeframe, candidates are likely to take more time to prepare for each section and will have more time to re-take the specific section(s) they did not pass without having to start over. As a result, the overall pass rate on the CPA exam is likely to increase. As students become aware of the longer timeframe and higher pass rate, some students who may have been on the fence about attempting the CPA exam may decide to register for it, which would also increase the number of new candidates. Even modest increases in the pass rate and in the number of new candidates would expand the labor pool of licensed CPAs.

Effects on the Use and Value of Private Property

To the extent that the proposed amendments serve to expand the labor pool as described above, private firms that employ or contract licensed CPAs would experience a decrease in their hiring costs, which would result in a corresponding increase in the value of those firms. The proposed amendments would not affect real estate development costs.