

Testimony of the Board of Public Accountancy

**Before the
Senate Committee on Commerce, Consumer Protection, and Health
Wednesday, March 11, 2020
9:30 a.m.
State Capitol, Conference Room 229**

**On the following measure:
H.B. 1109, H.D. 1, RELATING TO PUBLIC ACCOUNTANCY**

Chair Baker and Members of the Committee:

My name is Relley Araceley, and I am the Executive Officer of the Board of Public Accountancy (Board). The Board opposes H.D. 1.

The purposes of this bill are to: (1) establish procedures and eligibility criteria for a privilege to practice public accountancy in this state for public accountants and certified public accountants licensed in another state with comparable education, examination, and experience requirements; and (2) subject all holders of a privilege to practice to the regulatory and enforcement jurisdiction of the Board.

The Board discussed H.D. 1 at its meeting on February 13, 2020, and expressed concerns that this bill permits an individual who has been granted practice privileges under this section to practice without an accountancy firm that has a permit issued under Hawaii Revised Statutes section 466-7(d), as long as the individual does not perform a financial statement audit, an examination of prospective financial information, or an engagement performed in accordance with the Public Company Accounting Oversight Board's auditing standards. In these situations, no firm would have a Hawaii firm permit-to-practice to serve as a "safety net" to protect Hawaii consumers.

The Board also noted concerns with the absence of requirements to notify consumers that the work requiring a Hawaii license is being performed by an individual exercising a "practice privilege" in the State without first being licensed by the Board. The Board's primary charge is to protect the consumers and public with respect to the practice of public accounting in Hawaii by certified public accountants. The Board believes that the merits of this bill should be judged with this purpose in mind.

Thank you for the opportunity to testify on this bill.



H S C P A

Hawaii Society of
Certified Public Accountants

Senate Committee on Commerce, Consumer Protection and Health
Wednesday, March 11, 2020
Conference Room 229 – 9:30 a.m.

IN STRONG SUPPORT OF HB 1109, HD1

Dear Chair Baker, Vice Chair Chang, and Committee Members:

I am Darryl Nitta, president of the board of directors of the Hawaii Society of CPAs (HSCPA), the only professional CPA association in Hawaii serving members in business & industry, public practice, government and academia. For over a decade, the HSCPA, its Board of Directors and the vast majority of its 1,500 members have supported CPA mobility.

Mobility is important to Hawaii consumers and Hawaii CPAs because of the increasing need to attract businesses, create and maintain jobs and make small businesses prosper. As services continue to evolve globally and embrace technological innovation, we must help the profession find ways to expand its scope of practice, knowledge and mobility in order to serve the public.

Under current Hawaii law, if a Hawaii consumer is relying on an out-of-state CPA and gets bad advice, the Hawaii Board of Accountancy has no jurisdiction over that out-of-state CPA. Basically, the Hawaii Board has to ask the out-of-state authorities to take some sort of action. **Under this bill, the Hawaii Board would have direct disciplinary power over that out-of-state CPA.**

Most consumers are not with a big firm – most are dealing with small practitioners, the mom-n-pop shop – and they get the same rights and privileges of someone who uses a big firm.

The reality is that there are consumers and businesses in Hawaii who want to use the best-qualified CPA regardless of where he or she may live, and local CPAs who want to bring in subject-matter experts to help perform the best services for their clients.

Please support HB 1109, HD1.

Respectfully submitted,

Darryl K. Nitta, President
Board of Directors

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HAWAII ASSOCIATION OF PUBLIC ACCOUNTANTS

Organized August 7, 1943
P.O. BOX 61043
HONOLULU, HAWAII 96839



Committee on Commerce, Consumer Protection, and Health

Wednesday, March 11, 2020 at 9:30 a.m.

Conference Room 229

State Capitol



Re: Strong Opposition to HB 1109, HD1 Relating to Public Accountancy

Chair Baker, Vice Chair Chang, and Committee Members:

I am a Hawaii CPA and Attorney, the legislative chairperson, State Director and a Past President of the Hawaii Association of Public Accountants. I am a principal for a well-established Maui CPA firm, Niwao & Roberts, CPAs, a P.C. I am also Vice Chair of the Hawaii Council on Revenues, a former Commissioner of the Hawaii Tax Review Commission, and a Past President of the National Society of Accountants. However, I am testifying here solely in my capacity as legislative chairperson for the Hawaii Association of Public Accountants, while drawing upon my knowledge obtained while serving in the above positions.

HAPA strongly opposes HB 1109, HD 1 and “no notice, no fees” CPA mobility legislation for numerous reasons that extend back over 20 years, fighting against the large international CPA firms and their representative organization - the HSCPA - in the Hawaii legislature. HB 1109, HD1 is about outsourcing Hawaii’s CPA services to out-of-state and foreign CPAs with lower standards and no licensing fees, while Hawaii-licensed CPAs are held to higher standards and requirements, such as being subjected to Hawaii’s mandatory peer review engagements for compilation and review reports, and high license fees.

In order to be considered CPA mobility legislation according to those out-of-state and foreign CPA firms advocating for this type of legislation, there are two criteria that must be met: 1) **“no notice”**, where there is absolutely no registration or notice of practice given to the Board of Public Accountancy by an out-of-state or foreign CPA practicing in Hawaii, and 2) **“no fees”**, where absolutely no licensing fees are due for out-of-state or foreign CPAs who would enjoy the privilege of practicing public accountancy in Hawaii. HAPA is supportive of legislation that protects Hawaii consumers by instead amending the statutes for Hawaii’s temporary permit to practice laws governing practice by out-of-state CPAs.

After personally reviewing many state accountancy laws in other states and listening to accounting and tax practitioners from other states, it is obvious to me that there is great variation among state accountancy statutes, and no one follows exactly the model Uniform Accountancy Act (UAA) language. Hawaii is unique compared to other states due to its distant location in the middle of the Pacific and the fact that Hawaii is a very popular tourist destination. According to the Hawaii Tourism Authority, over 10.4 million visitors came to Hawaii in 2019. Included

among these many visitors are out-of-state or foreign CPAs who would like to practice public accountancy in Hawaii so that they can write-off their vacation trips to Hawaii. If they can practice with lower standards than what must be met by local Hawaii CPA firms, with no licensing fees, and without being caught or regulated (i.e., it is cost-prohibitive to sanction a CPA living in a foreign country or the mainland, especially when they do not pay any licensing fees), picking up a Hawaii client or two sounds great! But this ultimately results in the following for Hawaii if CPA “no notice, no fees” mobility is passed:

1. **Loss of Hawaii jobs** as accounting and tax work is picked up by vacationing out-of-state or foreign accountants who do not understand or take the time to learn Hawaii laws. In recent years, Hawaii has had a decline in population, with Hawaii’s younger generation seeking higher-paying jobs on the mainland. As tax and accounting jobs are lost due to outsourcing, Hawaii’s younger generation will move to the mainland to enjoy greater career opportunities there. Hawaii’s economy will be affected with more outsourcing of services.
2. **Loss of tax and license fee revenue.** HB 1109, HD1 will result in a significant loss of state tax revenue when casual tourist CPAs decide they want to write-off their vacation trips to Hawaii and perform CPA services in Hawaii for Hawaii consumers. The Hawaii consumer expects that CPAs practicing in Hawaii will be competent, independent, objective, and knowledgeable about Hawaii tax and business laws.

Prior HAPA studies have demonstrated that approximately 70% of out-of-state CPAs who obtained temporary permits worked for firms that did not comply with Hawaii tax laws and pay Hawaii taxes.¹ To help remedy the situation, the Hawaii State Tax Director at the time requested that the Board of Public Accountancy add a requirement that Hawaii GET license numbers be required of all CPA firms practicing in Hawaii. This requirement was added as a minimalist way to inform out-of-state CPA practitioners that Hawaii had a Hawaii General Excise tax law where taxes are due on service income and other types of business income.² Unfortunately, HB 1109, HD1 eliminates many, if not most, firm permits and the Hawaii GET license numbers that are currently required for all out-of-state and foreign CPA firms.

An out-of-state or foreign CPA temporarily practicing in Hawaii would not be familiar with Hawaii’s GET tax, as evidenced by so many cases where HAPA practitioners have observed a failure by out-of-state CPA practitioners to advise owners of Hawaii rental properties on the need to pay Hawaii General Excise taxes, Transient Accommodation taxes, and Hawaii income taxes. This loss of state tax revenue places a heavier burden on Hawaii residents to pay higher state taxes to meet Hawaii’s needs, and Hawaii cannot afford to have uninformed tax practitioners who are here practicing and advising Hawaii consumers about Hawaii laws on a temporary basis.

According to the State of Hawaii Department of Commerce and Consumer Affairs (DCCA), there are a total of 741 out-of-state and foreign CPAs who have obtained Hawaii permanent licenses and permits. Hawaii would lose a significant amount of license and

¹ See HAPA Studies #1 and #2 at HAPA website at <http://hawaiiaassociationofpublicaccountants.com/>

² In comparison, virtually all other states have retail sales taxes on personal property and do not tax service or rental income.

permit fee revenue if HB1109, HD1 is passed. Who would make up the costs of enforcement for out-of-state and foreign CPAs?

3. Loss of consumer protection. Hawaii consumers will be hurt with practitioners who are unfamiliar with Hawaii laws, including tax laws. Hawaii already has sufficient expertise to serve Hawaii consumers, and there are over 25% of Hawaii-licensed CPAs who are based on the mainland or in foreign countries. Anyone wishing to practice public accounting in Hawaii can obtain a temporary Hawaii permit to practice or a Hawaii CPA license and permit.

Without notice and fees, it will be difficult if not practically impossible to attempt to sanction out-of-state or foreign CPAs. Who will pick up the costs for enforcement for someone who lives in a foreign country? What happens to those out-of-state Boards of Accountancy who have stated they have no funds to pursue enforcement action against their own licensees? The Hawaii Board of Public Accountancy cannot remove a license or permit from someone who doesn't have a Hawaii CPA license or permit.

HB 1109, HD1 will also reduce the Board's current control of 741 out-of-state and foreign-based CPAs who are currently licensed in Hawaii because most will no longer need Hawaii CPA licenses and permits.

The bill also allows out-of-state CPA firms to be owned by non-CPAs while Hawaii CPA firms must be owned 100% by CPAs – a practice that would be misleading, confusing, and dangerous to Hawaii's public.

HB 1109, HD1 also delegates legislative authority to two private organizations without legislative oversight and allows those with lower "substantially equivalent" CPA licensing standards to practice in Hawaii.

HB 1109, HD1 adds an "evergreen" model act (Uniform Accountancy Act) to be used as the statutory authority for automatic change to Hawaii's laws every time the AICPA (a private trade organization) and NASBA (another private organization) decide to change model act provisions. No state currently has adopted all of the provisions of the UAA as this is a model act with suggested language in its eighth edition, and it would be dangerous to delegate Hawaii statutory authority to out-of-state private institutions, largely controlled by the large international CPA firms and accountants who do not practice public accounting.

HB 1109, HD1 requires lower UAA "substantially equivalent" licensing standards for out-of-state CPAs (which require only one year of "any kind" of experience) while Hawaii CPAs achieve higher licensing standards of two years of public accounting experience or its equivalent.

Hawaii has traditionally kept higher CPA licensing standards than other states for the protection of Hawaii's public. Some states have even allowed individuals to become CPAs even though they did not pass the Uniform CPA Examination, which is required for Hawaii CPA licensees.

HAPA would also like to point out that Hawaii-licensed CPAs cannot practice freely with other states' CPA mobility laws, and the term is misleading

Due to the complexity of different CPA mobility laws in all the states, it is misleading to think that Hawaii CPAs can practice freely as CPAs in other states since they have adopted CPA mobility laws. For example, for CPAs practicing in taxes, although California has technically qualified as a "CPA Mobility" state, Hawaii CPAs cannot physically set foot in California and prepare tax returns or provide tax consulting advice while in California temporarily. Instead, they must register under California's tax preparer registration law (CTEC), which does not exempt out-of-state CPAs and attorneys. To first qualify as a California CTEC tax professional, Hawaii CPAs must 1) complete 60 hours (45 hours federal, 15 hours California) of qualifying tax education from a CTEC approved provider, purchase a \$5,000 tax preparer bond, and pay a registration fee.³ Otherwise, the Hawaii CPA must obtain a California CPA license. In addition, California also requires out-of-state CPA firm registration.

The number of states adopting state tax preparer registration laws has been increasing as states seek to have more competent tax practitioners in their states. This has led to increased tax compliance in states such as Oregon, California, Maryland, and New York.

Please protect Hawaii's jobs, taxes and fee revenues, and protect Hawaii's consumers by voting NO to HB 1109, HD1 for the above and many more reasons. The members of the Hawaii Association of Public Accountants ask that they be allowed to practice in Hawaii on the same playing field as out-of-state CPAs.

Please do not hesitate to contact us with any questions or concerns at (808) 242-4600, ext. 224. Thank you for considering the above.

Respectfully submitted,



Marilyn M. Niwao, M.S.P.H., J.D., CPA, CGMA

Legislative Committee Chairperson, Hawaii Association of Public Accountants
niwao@mauicpa.com

³ See <https://www.ctec.org/tax-professionals/what-is-crtp>



MAUI
CHAMBER OF COMMERCE
VOICE OF BUSINESS

LATE

**HEARING BEFORE THE HOUSE COMMITTEE ON
WATER, LAND & HAWAIIAN AFFAIRS
HAWAII STATE CAPITOL, HOUSE CONFERENCE ROOM 325
WEDNESDAY, MARCH 11, 2020 AT 9:00 A.M.**

To The Honorable Ryan I. Yamane, Chair;
The Honorable Chris Todd, Vice Chair; and
Members of the Committee on Water, Land & Hawaiian Affairs,

TESTIMONY IN OPPOSITION TO HB 1109 RELATING TO PUBLIC ACCOUNTANCY

Aloha, my name is Pamela Tumpap and I am the President of the Maui Chamber of Commerce with approximately 650 businesses. I am writing share our opposition to HB1109.

We are constantly promoting buy local products and services first and while we recognize that we are in an era of global economy, where that is the case we believe there should be a level playing field. As there is already a standard in place for out of state and international accounting firms to practice in Hawaii (which we support), there should be no need for this bill to change that. Therefore, we oppose this bill

Mahalo for your consideration of our testimony and ask that you please defer this bill.

Sincerely,

Pamela Tumpap

Pamela Tumpap
President

To advance and promote a healthy economic environment for business, advocating for a responsive government and quality education, while preserving Maui's unique community characteristics.

TO: Chair Rosalyn H. Baker, Vice Chair Stanley Chang, and Committee

FROM: Adrian Hong, President of Island Plastic Bags, Inc.

RE: HB 1109 HD1 RELATING TO PUBLIC ACCOUNTING

POSITION: STRONGLY SUPPORT

Thank you for the opportunity to submit testimony in support of HB 1109 HD1. My name is Adrian Hong and I am president of Island Plastic Bags Inc., a second-generation, family business in Halawa Valley. As a CPA (not in public practice) and an owner of a local business I think it is important that Hawaii allow for CPA mobility.

Mobility would allow my company to bring in experts on valuation of manufacturing businesses. Mobility would allow us to bring in experts on manufacturing to audit my business. Without mobility it would be very difficult to find a Hawaii firm with the necessary expertise in manufacturing to help provide the services needed in Hawaii.

Mobility provides companies and organizations (ex. not-for-profits) the ability to use the services of professionals with expertise in industries and transactions that are not normally found on Hawaii. That is why CPA mobility should be allowed. Thank you for the opportunity to testify. I humbly ask for your support of HB 1109 HD1.

Sincerely,

Adrian K. Hong, CPA*

President

Island Plastic Bags, Inc.

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Frederick W. Gundlach, Esq., CPA

Igodai 1009-1 #221

Narita, Chiba Prefecture

Japan 286-0035

March 7, 2020

To the Hawaii Senate Committee on Commerce, Consumer Protection and Health
Re: Opposition to HB 1109-HD1, Relating to Public Accountancy

Chair Baker, Vice Chair Chang, and Committee Members:

In the past two years, I have previously written committees of both the House and Senate¹ to oppose earlier proposals for a “no notice, no fees” CPA license mobility bill for Hawaii, and I would again like to write this committee to OPPOSE House Bill 1109-HD1, and the similar bill HB2626, which has yet to reach the Senate. (HB 2626’s hearing was suddenly cancelled in the House in early February.) The excuses presented in the preamble for each bill change, but the consistent theme is that there is some supposed urgent need for a licensing change in Hawaii that would essentially wipe out actual state regulation of accountants practicing in the state.

Additionally, important voices within the state are again ignored in the crafting of any modifications. Especially, the modifications in SB2059-1, a compromise bill crafted in your committee two years ago, are entirely ignored.

Like this year’s new cousin bill in the House, the carryover HB 1109-HD1 does not materially address any of the serious flaws pointed out by the concerned citizens, groups, state agencies and well-known accounting professionals from throughout the state. These constituents have opposed “no notice, no fees” mobility initiatives, (which have been proposed for the better part of a dozen years now), as bad for Hawaii. The bill is no improvement on what has been proposed time and again.

As I shared last year in testimony, a number of esteemed accountants of long standing, on both Oahu and Neighbor Islands, have given significant, detailed reasons why mainland mobility initiatives won’t work in Hawaii. They are right. I won’t repeat what they have to say, but offer new considerations. I do believe the House should take their concerns seriously.

About this carryover bill and the other new bill in the House:

In the revised preamble of the new bill, the drafter no longer asserts that AICPA mobility was prompted by innovations in technology, but simply puts forth the

¹ My previous testimony is included at the Hawaii State Legislature online portal at the PDF downloads listed as HB 1109 2/5/19; HB1109 HD1 2/20/19; and SB2059 2/20/18. Text from this testimony never appeared at the House site when the hearing on HB 2626 was cancelled.

proposition that it is “increasingly common” for “licensed professionals” (which includes certified public accountants) to practice across state lines. I don’t think that is true. I think it is more common that very large corporations *do* do business, not only across state lines, but on an international or so-called “global” basis. But most of the accounting profession in Hawaii probably still serves the public in-state. In fact, even in the continental United States, the so-called “mobility states”, most of the accountants who face the public serve mostly people who are in their own state.

The fact that the other forty-nine states have enacted some kind of AICPA-sponsored mobility initiative, then, doesn’t mean that such mobility is right for Hawaii. And the fact that the preamble to 2020’s version of this recurring, big-corporate push has this change should not be overlooked. Mobility began in 1997² as a convenience proposal. It was inconvenient for accountants who were regulated by a state right next door to have, potentially, to sit for the exam again, meet the various neighboring state’s other requirements, and the like, to service a potential client who was just across the line or the river.

In all these “no notice, no fees” initiatives, the inconvenience of the state line or a river has been transformed into the inconvenience of the Pacific Ocean. “It’s awfully inconvenient that we can’t just go to Hawaii and do business whenever we want.” **That is what the people on the pro-bill side are thinking.** They are not concerned that Hawaii won’t be able to find just the right accountant for their specific need at any given moment. This is the “skills gap” jargon or lingo from the early 2010s, which was recently debunked in academia and reported on in mainstream press.³ It’s not that the talent is not or was not there, it was that the employers didn’t want to do the hiring. So they asked for things they really didn’t need.

So similarly, it is not that the state of Hawaii does not have accounting talent among the--at last count--2,939 actually licensed CPAs.⁴ This number includes 2,160 individuals in Hawaii, 761 on the mainland, and 18 listed as foreign, BUT it does not include persons who passed the CPA and, for whatever reason, didn’t renew their permits to practice and pay their fees.

² From the AICPA’s article, “CPA profession’s push for full mobility continues.” March 22, 2018. (<https://www.aicpa.org/advocacy/cpaadvocate/2018/cpa-professions-push-for-full-mobility-continues.html>, accessed February 3, 2020.)

³ See <https://www.vox.com/2019/1/7/18166951/skills-gap-modestino-shoag-ballance>

⁴ https://cca.hawaii.gov/pvl/files/2020/02/WebGeo_020320.pdf

There is plenty of accounting talent in Hawaii, and a sizeable number of CPAs, including myself, who did the things that the public in Hawaii asks for in order to be licensed in the state.

When potential employers don't want to hire, they can make all sorts of excuses. Likewise, when CPAs don't really believe in strong regulation, or are corner-cutters, the following sorts of statements have some pleasant sound to them.

"I'd like to hire my longtime friend in Nebraska, who's a CPA, and looking for more work. But what a hassle. They have to get at least a temporary license here."

"My auditing division would really like to hire these \$8.00-an-hour accountants in Bangalore, India, but they aren't US citizens and, heck, I can't even just fly them into Hawaii under some international reciprocity rule. What a hassle, I have to pay local kids out of school \$50,000 a year."

"What a hassle it is to have to pay the biennial dues, sit for CPE, and keep my license current. Why don't I just hold myself out as a CPA? After all, I passed the test 33 years ago. I have better use for my license fee money than the state does." (See anecdote in footnote below.)⁵

All this kind of thinking degrades the profession. Frankly, it is offensive to the many of the rest of us who respect the regulated accounting profession, and take pride in our work and take seriously our responsibilities to the community, to the Public of the acronym CPA. What license mobility, outside of a convenience feature between bordering states, does it encourages a race to the bottom.

⁵ I am inspired by a real life example, which I read in Hawaii Board of Public Accountancy minutes from last spring (May 24, 2019 meeting), where it was alleged that a Hawaii elected official, sitting in the other Chamber, held themselves out as a CPA ("single act of evidence of practice", HRS 466-11.5. In Pennsylvania, 63 P.S. §9.15; New Jersey NJ Rev Stat § 45:2B-62), even though that official did not hold a Hawaii permit to practice. It follows, that the official did not pay the permit to practice fee. In Pennsylvania, this would be a third-degree misdemeanor. I am not certain how Hawaii treats it, or if it even takes it as seriously, because apparently the Board of Accounting must refer such instances to the Regulated Industries Complaints Office (RICO), an unspecialized enforcement arm of the Department of Commerce and Consumer Affairs (DCCA). RICO can't assess the gravity of the violation appropriately.

I am writing this, having just months ago paid for the permit to practice in Hawaii, *and* having paid a *firm permit to practice fee* on top of that, for my sole-member Pennsylvania LLC. And having done more than the 80 hours of continuing professional education, including 4 hours of ethics. We're like the fools that actually follow the rules, I start to wonder.

In New Jersey, which shares a common constitutional source--the Model State Constitution--the same as Hawaii, the CPA profession is regulated *directly* by Attorney General, through the Division of Consumer Affairs' Board of Public Accountancy. When a New Jersey licensed CPA gets notices, the sender's return address is the Attorney General.

It isn't "I know where there is this excellent out-of-state accountant", it's "I want to hire my crony." It is about big corporations with loyalty to no individual community wanting to squeeze some accountants, anywhere, for the lowest price. It is about professionals who want to change the CPA license into a thing where you just pass the test, once, and then hold out. Even if in some places it's a misdemeanor crime to do that.

In my mainland association as a member of the Pennsylvania Society of Tax and Accounting Professionals (PSTAP), a National Society of Accountants affiliate the same as the Hawaii Association of Accounting Professionals (HAPA), I have mentioned about the mobility "battle" going on in Hawaii. My colleagues are small-to-medium size tax preparers and general accounting firms (not the Big Four). It was absolutely no issue to anyone that they would have to go into Hawaii "the old way". They weren't even aware there was an issue, and very few had more than a handful New Jersey, Delaware or Maryland clients. They appreciated mobility for those instances, of course, but 50-state mobility wasn't even the least concern to them.

Mobility works on the mainland because it is hardly invoked.

Mobility would function considerably differently in Hawaii, especially with the expanded use of the internet. Anyone could practice in the state, with no notice, and paying no fees. As I said last year, some renegade CPA, operating virtually over the internet is:

"in" Hawaii

but--presto!--not in Hawaii,

how are you going to reach that person?

I gave an example last year of a California-based online company that promises to process payroll cheaply, because they are using the internet. When the various states finally catch up with the fact that that company's clients are having 1099s⁶ being filed with the IRS, instead of W-2s with the resultant payroll taxes, unemployment taxes, state disability taxes, that are not collected, what state other than California can really lower the boom on that processor? Maybe a New York. Maybe. If they are aware. So California has the incentive to make sure its brick-

⁶ Form 1099s are independent contractor "information returns" reporting money paid to a non-employee. They are filed with the IRS. As I say, cheaters favor these because the employer skips out of payroll taxes. Online 1099 processors have no serious incentive to catch the cheating.

and-mortar company plays by California's tax rules, but no incentive to make sure that that company isn't helping cheat other states. (The "1099 employees" are often happy to be in there, cheating on the social security taxes as well.)

There is a great risk when you remove the human contact from the actual accounting or tax reporting transaction.

I see this all the time with U.S. tax preparation in Japan. The Treasury doesn't do anything to ask for a tax return. So a large number of Americans here in Japan simply don't file. The ones that do, some use the internet. You can say anything over the internet. Pilots, for example. When they are in international waters, they are technically not in a foreign country. They have a CPA in California filing the returns. Are they claiming foreign earned income exclusion on the money? Does the CPA know, or just go by what's said over the internet? Japan gets told that the person isn't in Japan when they are earning the money (so no Japan tax). The US gets told it is income earned in a foreign land (not US taxable income *earned while having a residence in a foreign land*).

A Hawaiian company who contracts out pilots competes here in Narita with a firm out of the Isle of Mann. The Manx firm doesn't withhold any US taxes, obviously, and there are some odds that their US citizen employees/contractors in Japan zero it all out. The Hawaiian firm is at a disadvantage—they have to withhold taxes. Some real human beings back home are watching them.

Hawaii may check its driver license database against its state tax return database. (Maybe not?) But how do you catch Hawaii domiciliaries living in Japan? Unlike those states that follow a type of "New York rule", there is no out-of-state exemption for Hawaiians who leave the state and go live and earn income in another country. It's taxable. The human, checking element is removed, and enforcement sinks.

If you open Hawaii to a bunch of internet CPA business, the kind of major enforcement gaps that I catch wind of in the breeze, as an expat tax preparer in Japan, become a more regular occurrence in Hawaii with your own taxes. The internet is a little fraud machine, it's turning out. Distance between people and money transactions make it more likely that things that are supposed to be filed, and things that are supposed to be paid, don't happen.

Then, HB 1109 falsely states that: “[w]ithout a mobility law, the state board of public accountancy has no jurisdiction⁷ over these out-of-state licensed certified public accountants.”

I think what is meant here is that this bill somehow gives Hawaii more “control” over an out-of-state licensed CPA. But it doesn’t. It makes it much harder for the state to know what is going on.

The rest of the bill seems to focus on the need for temporary practice reforms, which would allow the out-of-state accountant to come in, in the short term, and practice.

I note that there has been a previous compromise bill offered in the Senate, in 2018 (as SB 2059 SD 1, I believe), which had reformed the temporary permit to practice regulatory scheme but did not commit the state to the “no notice, no fees”, accountants-from-anywhere initiative. As a result, the Dash 1 compromise bill was opposed by the so-called Big Four auditing firms, their professional liaison the AICPA, and hired Honolulu lobbyists who are arguing just for pay.

In this year’s push for an accountancy reform bill that can actually survive a veto by the Governor, address the very real potential for revenue loss, and satisfy the Administration’s concern about enforcement, why not start with the 2018 compromise bill, rather than the one which clearly needed improvement and did not pass last year?

Respectfully submitted,



Frederick W. (Rick) Gundlach, Esq., CPA
Narita City, Chiba Prefecture, Japan

Member of Bar, Pennsylvania and New Jersey (inactive)
Certified Public Accountant, Hawaii, Pennsylvania
and New Jersey

⁷ In law, I think we use jurisdiction to mean the power of the state to impose its laws within its borders and on actions that occurred in its borders. As a state, Hawaii has always had that since 1959. The pro-bill people keep saying, “this bill will give the state the jurisdiction!”. I think they are confused. They seem to be saying that they feel the bill will give the state more control over an out-of-state accountant. But how? I give you several examples where the internet, and distance, put a taxing authority in a position of less control (certainly less knowledge). HB 1109 seems to make you give up the control you already have, because Hawaii has the jurisdiction to make specific laws about practicing accounting in Hawaii.

Committee on Commerce, Consumer Protection, and Health

Wednesday, March 11, 2020 at 9:30 a.m.
Conference Room 229
State Capitol

Re: Strong Opposition to HB 1109 HD1 Relating to Public Accountancy

Chair Baker, Vice Chair Chang, and Committee Members:

The Hawaii Association of Public Accountants (HAPA) is the only statewide public accounting organization with active chapters on Oahu, Maui, Big Island, and Kauai. It has over 600 members, consisting primarily of small to mid-sized CPA firm owners and employees who are in active practice of public accountancy.

My name is Brian M. Iwata, CPA, and I am State President of the Hawaii Association of Public Accountants.

Currently Hawaii already has a law that is working extremely well. It allows for inter-state mobility to practice public accounting. The law allows anyone who desires to practice public accounting the Hawaii must meet the standards established in the law. The law includes obtaining a Hawaii license and give notice if you are an out-of-state practitioner practicing in the state of Hawaii. This is fair for all CPAs. Whatever law applies to the local CPAs should apply to all CPAs. This provides accountability to Hawaii consumers, board of public accountancy and the state of Hawaii. To the consumers should there be a compliant who to contact, to the board of public accountancy for practice standards and to the state of Hawaii most importantly to insure that all taxes are paid.

Compare what we have now as the law, to HB 1109 HD1 which will allow for “**No Notice and No Fees**” **CPA practice privileges** for out-of-state and foreign CPAs and grants them the right to practice public accountancy in Hawaii 1) without obtaining a temporary permit to practice, 2) without providing notice, and 3) without paying any Hawaii license fees. HAPA has over the years conducted multiple surveys on CPA mobility, and over 70% of our membership have opposed CPA “no notice, no fees” CPA legislation.

HB 1109 HD1 only deals with out-of-state or foreign CPAs practicing in Hawaii and does not deal with the rights of Hawaii CPAs to practice in other states or countries. In other words, this is not about CPA reciprocity. HB 1109 HD1 benefits primarily the large international CPA firms (who have set up regional and international offices, such as in India) and out-of-state and foreign CPAs.

This bill also focuses on audit services provided by out-of-state CPAs, it ignores the regulation of tax and consulting CPA practitioners and those performing other types of CPA financial services by eliminating the need for out-of-state and foreign CPAs to obtain Hawaii CPA firm permits and provide their Hawaii General Excise Tax (GET) license number. Currently, the Hawaii CPA firm application form requests the GET license number for all CPA firms practicing in Hawaii when it was discovered that out-of-state CPA firms were not paying Hawaii GET.

This bill also exempts the Hawaii mandatory peer requirement for **only out-of-state and foreign CPA firms** performing compilations or reviews of financial statements in accordance with Statements on Standards for Accounting and Review services of the AICPA by eliminating the need for these firms to obtain a Hawaii CPA firm permit. In contrast, Hawaii CPA firms performing this very same work must go through Hawaii's mandatory peer review process, which is both very expensive, time-consuming, and frustrating, given that the Hawaii Society of Certified Public Accountants (HSCPA) gave up administering the mandatory peer review process once they were successful in having a mandatory peer review law passed in Hawaii. Instead, Hawaii CPAs must now deal long-distance with the Oregon Society of CPAs as the administrator of Hawaii's mandatory peer review law, with additional costs compared to the past.

HAPA strongly objects to HB 1109 HD1 because it will result in 1) a loss of jobs for our younger generation of Hawaii CPAs since those jobs will go to mainland and foreign CPAs, 2) a loss of tax revenue and licensing fees and 3) a loss of consumer protection.

HAPA is not against out-of-state CPAs practicing temporarily in Hawaii if a limited need arises, and is receptive to expedited individual CPA mobility on a temporary basis for out-of-state CPAs, but with notice and fees and meeting Hawaii's higher CPA licensing standards. Hawaii already has temporary permits available for out-of-state CPAs. In addition, out-of-state CPAs can also obtain Hawaii CPA licenses without having to retake the CPA exam.

HAPA is disappointed that this latest and extreme version of CPA "no notice, no fees" mobility legislation was introduced. HAPA has been open to having all local CPAs stakeholders collaborating together to come up with a bill that will be agreeable to all. Hopefully this can be accomplished in the future.

Please vote "NO" to HB1109 HD1 for the reasons stated above.

Thank you for considering the above.

Respectfully submitted, Brian M. Iwata, CPA

HB-1109-HD-1

Submitted on: 3/8/2020 1:01:03 PM

Testimony for CPH on 3/11/2020 9:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Dylan P. Armstrong	Individual	Oppose	No

Comments:

Aloha Chair Baker, Vice Chair Chang, and Esteemed Members of the Committee,

I write in opposition to House Bill 1109, House Draft 1.

What a sad day, when my friends in the legislature advance bills that harm local small business and confound our regulators!

I humbly plead that you consider the following:

1. *The opposing testimony of Ms. Daria Loy-Goto, Complaints and Enforcement Officer of the Department and Commerce and Consumer Affairs 'Regulated Industries Complaints Office (RICO), to the Intra-State Commerce and Affairs (IAC) Committee on 5 February 2019.*

This bill didn't exactly start off on a good foot, and its minimal amendments did not change the original language criticized by RICO, or add to the bill's length.

2. *The testimony of CPA-businesswoman Ms. Carol Uhl to the Commerce and Consumer Protection Committee (CPC) on 20 February 2019 for the current draft.*

"No Notice, No Fees" change to the law is antithetical to the work of the Hawaii State Board of Accountancy. Ms. Uhl reasonably contends that this bill will result in job loss here, and a loss of "\$270,000 in Hawaii individual licensing fees plus firm permit fees ranging from \$121 to \$345 per firm every two years."

3. *The testimony of CPA-businessman Mr. John W. Roberts to the Commerce and Consumer Protection Committee (CPC) on 20 February 2019 for the current draft.*

Roberts reports that 25% of regular CPA-licensed business holders are licensed outside of Hawaii. Critically, this bill will advantage those out-of-state practices by waiving their licensing fees while doing nothing to mitigate the cost of enforcement action against them. This measure is predicated on the need to bring in 'outside' CPAs who will report their income and spend more of their

money elsewhere, while implying that we lack enough competent CPAs here. The latter notion is deemed "unsupported" and "outrageously offensive" by Roberts.

4. *Testimony of Ms. Colleen Takamura, CPA (Maui), from the same CPC hearing.*

She asks: "Is it in the best interest of Hawaii residents that foreign and out-of-state CPAs do not have to meet the same standards set for Hawaii CPAs?"

5. *Opposing testimony from Ms. Ann Hayashi, Maui CPA, and the Maui Chamber of Commerce, from the same CPC hearing.*

Look: I very rarely put in testimony in opposition to a bill, as many of you should have noticed. But good gracious, this bill offends me. Are we supposed to be state with no sectors of employment other than hospitality, real estate and government bureaucracies? Where is the added value for our economy?

The bill's introducer and friends defy every problem with this bill, promising in true Trumpian fashion that HB1109 will no, somehow lure back our college-graduates! I stand in awe of their *sheer audacity* in exploiting our emotions, dangling the carrot of luring back college graduates with a bill that disadvantages local business.

'Geographic arbitrage' dictates that if you can live on the mainland and derive part-time income from Hawaii, you will tend do so rather than live here. Not only is this common sense, this is literally what multi-national professional services firms--like I've worked for--already do. Where are all the staff for the Big 5 successor companies going? Los Angeles.

The reason why we have different regulation than the mainland is that we're not the mainland. We can't throw Hawaii white-collar workers, including CPAs, into the wind and act like they're competing on a level-playing field with CPAs in New York, San Francisco, and everywhere in-between. They're not, and you own that field.

My deceased parents made an honest living as book-keepers. Hundreds of accounting and book-keepers careers stand to be assaulted for the benefit of a few mainland financial services behemoths, the kind of firms for which the introducer, Mr. Dale T. Kobayashi, and his friends, worked. In summary, please correct course on a ship pointed in the wrong direction.

Please vote no on HB1109 HD1. Thank you for your consideration.

Best,
Dylan P. Armstrong, individual

TO: Members of the Committee on Commerce, Consumer Protection and Health

FROM: Natalie Iwasa, CPA, CFE
808-395-3233

HEARING: 9:30 a.m. Wednesday, March 11, 2020

SUBJECT: HB1109, HD1 CPA Mobility - **OPPOSED**

Aloha Chair and Committee Members,

Thank you for allowing me the opportunity to provide testimony on HB1109, HD1, which would allow out-of-state CPAs to practice in the state under certain circumstances.

As a CPA licensed in Hawaii, I pay \$307 for my license and permit to practice. My firm is also required to have a permit, and the state charges me \$230 for it. These fees are due bi-annually.

I have no employees, and permit and license fees for me to practice as a CPA in Hawaii is over \$500 every two years. Why should CPAs from outside of Hawaii be allowed to practice here, even temporarily, without obtaining a permit to practice and paying fees?

I urge you to vote "no" on this bill.

Ronald I. Heller

260 Kailua Road
Kailua, Hawaii 96734

phone 808 523 6000 fax 808 523 6001
e-mail: rheller@Hawaii.edu

Before the Senate Committee on
COMMERCE, CONSUMER PROTECTION, AND HEALTH

Wednesday, March 11, 2020 at 9:30 am
Conference Room 229

Testimony of Ronald I. Heller

**In Support of HB1109 HD1
Relating to Public Accountancy**

Chair Baker, Vice Chair Chang, and Members of the Committee:

I'm here to ask you to vote in favor of House Bill 1109 HD1. This bill would give the Hawaii State Board of Accountancy jurisdiction over out-of-state CPAs practicing in Hawaii, while allowing local businesses more flexibility in choosing the CPA who best meets their needs.

This legislation is necessary due to the increasing frequency of CPAs practicing across state lines on a temporary basis. It is not unusual for a CPA to have clients with investments in multiple states, requiring multiple state tax returns. Many states used to require lengthy applications and fees, which were a barrier to serving clients. Every other state in the country has eliminated these requirements. This bill also ensures that the Hawaii State Board of Public Accountancy would have the ability to discipline a CPA from another state, if necessary.

In order for CPAs to offer fast and efficient service to clients nationwide, barriers to interstate practice for CPAs should be eliminated. At the same time, we need to ensure that the public is adequately protected. This legislation will do both. Mobility legislation has already been passed in 49 U.S. states – Hawaii is the **only** state without CPA mobility legislation.

I would be happy to respond to any questions you might have.

Respectfully submitted,

Ron Heller

Ronald I. Heller

HB-1109-HD-1

Submitted on: 3/9/2020 2:31:50 PM

Testimony for CPH on 3/11/2020 9:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
G Tom	Individual	Support	Yes

Comments:

Dear Chair Baker, Vice Chair Chang, and Committee Members:

Thank you for the opportunity to submit testimony in strong support of HB1109 HD1. My name is Gordon Tom and I am a local CPA who was born and raised here in Hawaii and received my bachelors and masters degree in Accounting from the University of Hawaii, and have worked in public accounting my entire career here in Hawaii, spending the last 15 years with a locally-owned small firm.

Mobility is important to allow local businesses and nonprofits the flexibility to bring in the right professional when needed on a temporary basis. As a local CPA who has worked here in Hawaii for 20+ years, I have also had the opportunity to travel to serve our local clients' interests on the mainland, and without mobility, my ability to service my local clients may be impacted as other states may prohibit Hawaii CPAs from entering their state because we are the ONLY jurisdiction in the United States without mobility. HB1109 grants automatic jurisdiction by the Hawaii State Board of Public Accountancy to pursue and discipline out-of-state CPAs, under a framework that has been applied and tested by many other states. Other states' Boards may start to limit Hawaii CPAs practice privileges in their jurisdictions because of this lack of reciprocity by Hawaii.

As a local CPA employed by locally-owned firm, I am not afraid of losing my job or my clients to mainland CPAs or outsourcing. If a client is willing to hire a mainland CPA who is unknown in the local Hawaii marketplace because of price, that's a client I don't want to have.

Thank you in advance for your consideration and I humbly ask for your support in moving this bill forward.

Sincerely,

Gordon Tom, CPA

Senate District 9

House District 17

HB-1109-HD-1

Submitted on: 3/10/2020 6:32:10 AM

Testimony for CPH on 3/11/2020 9:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Rhea R. Lee-Moku	Individual	Oppose	No

Comments:

Thank you for the opportunity to submit testimony in opposition to this bill. I oppose the outsourcing of jobs in Hawaii. The legislature should work on creating more opportunities for in-state job creation which in turn will stimulate the economy and provide job growth and reduce the export of our locally skilled and talented professionals. Thank you.

ERIC H. MATSUDA
CERTIFIED PUBLIC ACCOUNTANT
1481 S. King Street, Suite 540
Honolulu, Hawaii 96814
(808) 949-7651

Committee on Commerce, Consumer Protection and Health

**Wednesday, March 11, 2020 at 9:30 a.m.
Conference Room 229
State Capitol**

Re: Opposition to HB 1109, HD1 Relating to Public Accountancy

Chair BAKER, Vice Chair Chang and Committee Members:

I am a CPA and practice public accounting on Oahu. I am the owner of Eric H. Matsuda, CPA and have been a CPA for 30 years in the State of Hawaii.

I strongly oppose HB 2626 which provides for "No Notice, No fees" CPA mobility for out-of-state and foreign CPAs practicing in Hawaii. Passing this bill will result in:

- exporting of local jobs to the mainland and overseas, and reducing the number of Hawaii accounting jobs available for the younger generation of Hawaii accountants;
- less consumer protection for Hawaii businesses and individuals by allowing out-of-state and foreign CPAs to practice in Hawaii without a Hawaii license or permit;
- removes requirement that all out-of-state CPA firms doing business in Hawaii must provide their Hawaii General Excise Tax (GET) license numbers, as is currently required for in-state CPA firms;
- discriminates against local Hawaii CPAs by failing to provide a fair and level playing field as compared to out-of-state CPAs.

Please protect Hawaii's jobs, taxes and fee revenues, and protect Hawaii's consumers by voting NO to HB 2626 for the above and many more reasons.

Respectfully submitted,

Eric H. Matsuda, CPA

Committee on Commerce, Consumer Protection, and Health

Tuesday, March 11, 2020

Conference Room 229

State Capital

Re: Strong Opposition to HB1109 HD1 Related to Public Accountancy

Chairman Baker and Vice Chair Chang and Committee Members:

My name is Shannon Wibberley, I am a young accountant on the Big Island and currently pursuing my CPA license. **I strongly oppose HB1109 HD1** for the following reasons:

- **IT WILL OUTSOURCE JOBS FOR OUR YOUTH FORCING THEM TO MOVE TO THE MAINLAND.**
- **IT WILL LEAD TO A LOSS OF TAX REVENUE.**
- **IT WILL LEAD TO A LOSS OF LICENSING FEES.**

Please protect Hawaii's jobs, opportunities for our youth, and taxes and fee revenues by voting NO to HB 1109 HD1 for the above reasons. Vote NO on HB 1109 HD1.

Please do not hesitate to contact me with any questions or concerns.

Respectfully submitted,

Shannon Wibberley
shannon@tihcpa.com

**Colleen M. Takamura
41 Keapua Street
Wailuku, Hawaii 96793
(808) 243-9826**

Committee on Commerce, Consumer Protection, and Health

Wednesday, March 11, 2020 at 9:30 a.m.
Conference Room 229
State Capitol

RE: Opposition to HB1109, HD1
Relating to Public Accountancy

Testimony of Colleen Takamura

March 10, 2020

Chair Ohno, Vice-Chair Kobayashi and Committee Members:

I strongly oppose HB1109, HD1

I am a CPA in public practice. I am a manager for a CPA firm on Maui. I have been working in public practice for 35 years. In addition to this, I worked for my father, who was also a CPA, during high school and college summers and Christmas breaks.

I strongly oppose the “no notice, no fees” CPA mobility legislation for the following reasons:

HB1109, HD1 allows for lower CPA licensing standards for foreign and out-of-state CPAs who practice in Hawaii. The standards that must be met by Hawaii licensed CPAs are higher. I think foreign and out-of-state CPAs should meet the same standards as those licensed in Hawaii. I have worked hard to earn my degrees in college, to pass the CPA exam (at that time, you had to take the whole CPA exam at one time and pass at least two parts), to work in a public accounting office to earn my experience to become a CPA and to pass the ethics exam before the Board of Public Accountancy would license you. In 1981, when I received my accounting undergraduate degree, my father urged me to obtain my masters degree. I did get my masters in accounting. It was already in the works that you would need the upper level college classes to be licensed in Hawaii. I didn't realize at the time that it would take more than 20 years to become a reality. It was a lot of work and at the end, you were proud to be a CPA.

Opposition to HB1109, HD1
Page two
March 10, 2020

The biggest and most concerning issue regarding this bill is a consumer protection. Is it in the best interest of Hawaii residents that foreign and out-of-state CPAs do not have to meet the same standards set for Hawaii CPAs? The answer is **NO**. We're proud to be from Hawaii where the standards are set higher than other states. It shows that the State of Hawaii is protecting its residents. Is it in the best interest of the public to lower the standards for foreign and out-of-state CPAs? I don't think so. The out-of-state CPAs do not live here permanently. What happens if something goes wrong with a Hawaii client and the out-of-state CPA has already left the islands? Who will the Hawaii resident turn to? Will the Board of Accountancy help him? I don't think so. I think it will end up being that a Hawaii CPA that will have to help the client and the client will end up paying for the out-of-state CPAs mistakes.

If the CPA licensing standards are lowered, there are no payment fees and no notice of practice in Hawaii to the Hawaii Board of Public Accountancy, there will be a loss of Hawaii jobs if out-of-state and foreign CPAs are allowed to practice in Hawaii without a Hawaii CPA license and permit to practice.

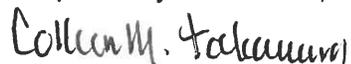
HB1109, HD1 provides that no fees will be charged to out-of-state individual CPAs practicing in Hawaii. This is troubling since there will be higher costs of enforcement against foreign and out-of-state CPA practitioners. Hawaii CPAs would have to shoulder the entire burden of the states CPA licensing fees, and those fees would probably be increase with the loss of tens of thousands of dollars in fees currently collected from our-of-state CPAs who pay permanent Hawaii license and permit to practice fees or temporary permit to practice fees.

This legislation is one-sided and only provides practice rights for out-of-state CPAs without similar "no notice, no fees" practice rights given to Hawaii CPAs and Hawaii CPA firms to practice in most other states. Although there are some states that have adopted CPA mobility legislation, these are typically states with lower CPA licensing standards. In addition, many of these states charge fees, require notice, restrict the scope of practice privileges give to out-of-state CPAs, require CPA firm licensing or require reciprocal arrangements from the CPAs home state.

Please protect Hawaii's consumers by voting NO to HB1109, HD1 for the above and many more reasons.

Thank you for this opportunity to testify.

Respectfully submitted,



Colleen M. Takamura, CPA

**Committee on Commerce, Consumer Protection, and Health
Wednesday, March 11, 2020 at 9:30 a.m.
Conference Room 229
State Capitol**

Re: Opposition to HB 1109, HD 1 Relating to Public Accountancy

Chair Baker, Vice Chair Chang, and Committee Members:

I am a certified public accountant and a principal with the firm of Niwao & Roberts, CPAs, a P. C. on Maui. I am also a member of the State of Hawaii Board of Public Accountancy (Board) and a member of the Enforcement Resources Committee of the National Association of State Boards of Accountancy (NASBA). My testimony in opposition to HB 1109, HD 1 is submitted solely in my capacities as a CPA and as a principal of a Hawaii-based CPA firm and not as a representative of either the Board or NASBA.

***NOT ONE MORE HAWAII JOB LOST TO OUTSOURCING.
NOT ONE MORE TAX DOLLAR UNPAID BY OUT-OF-STATE CPAS.
NOT ONE MORE LICENSING FEE DOLLAR LOST.***

Hawaii can ill afford to lose one more job to outsourcing, yet this is exactly what will happen if HB 1109, HD 1 is passed.

By exempting mainland and foreign CPAs from the Hawaii licensing fee and notice requirements facing Hawaii-based CPAs and their firms, mainland and foreign CPAs will be able to avoid the higher cost of Hawaii's office rents and mandated employee benefits. Occupancy costs and payroll/benefits are the two largest costs for a Hawaii-based CPA firm. HB 1109, HD 1 will create an uneven playing field rewarding mainland and foreign-based firms for basing their employees outside of Hawaii.

CAPITAL AND LABOR ARE FLUID.

In order to mitigate the competitive price advantage HB 1109, HD 1 will give to mainland and foreign CPAs and their firms, Hawaii-based firms will be forced to shift their own operations and staffing to outside of Hawaii in order to compete in the Hawaii market. For example, my firm does not outsource its work to the mainland or to foreign countries as a matter of policy even though we presently have the technology in place to do so at substantial cost savings. If HB 1109, HD 1 passes, we will be forced to pursue contingency plans for this scenario, starting with opening an office outside of Hawaii and replacing future hires with significantly less expensive employees based elsewhere.

The ripple effect of Hawaii-based firms shifting work to the mainland and foreign countries will be significant. Office occupancy rates will fall, Hawaii contractors will have less work making periodic leasehold improvements, less payroll taxes and General Excise Tax (GET) will be due to Hawaii's Department of Taxation and, of course, some future graduates from Hawaii's colleges and universities will have to leave Hawaii and seek employment elsewhere. In fact, it might become difficult to justify maintaining schools of accountancy at local colleges and universities after HB 1109, HD 1 pulls the plug on local demand for their graduates.

Hawaii can ill afford to lose one more tax dollar, yet this is exactly what will happen if HB 1109, HD 1 is passed.

In 2010 the Hawaii Association of Public Accountants (HAPA) study on CPA Temporary Permits to Practice revealed that approximately 70% of outside CPA firms whose owners and/or employees obtained a temporary permit to practice in Hawaii did not obtain Hawaii GET license numbers.¹ (These firms only obtained GET license numbers sometime later after they were warned of their noncompliance.) Therefore, those out-of-state CPA firms were not paying their share of Hawaii taxes. As documented in HAPA's follow-up study conducted in 2015, tax compliance rates for out-of-state CPA firms licensed in Hawaii skyrocketed once the Hawaii Board of Public Accountancy implemented procedures forcing these out-of-state firms to obtain and provide their GET numbers as part of the application process.² In other words:

NOTICE = TAX COMPLIANCE.

No similar studies have been conducted in any other state to my knowledge. The combination of the State of Hawaii's public database for GET licenses combined with its Office of Information Practices law made it possible for HAPA to obtain and compare information from different Hawaii databases to perform the two studies. These unique circumstances may not exist in other states, so it is impossible to evaluate changes in tax compliance in other states resulting from their "No Notice, No Fees" legislation.

However, the results of the HAPA Studies are painfully similar to what was discovered in research performed as part of the *(Dis)Honesty Project – The Truth About Lies*, conducted by Duke University professor Dan Ariely, a behavioral economist and psychologist. The *(Dis)Honesty Project* found that the majority of the time people cheat and lie unless they perceive that someone is watching over them – including CPAs apparently. This is why "No Notice, No Fees" is so dangerous from the perspective of tax compliance. Notice establishes internal controls and the audit trail needed to make sure that out-of-state CPAs and their firms pay their fair share of Hawaii taxes. HB 1109, HD 1 will remove the audit trail by eliminating notice, reducing tax compliance and again giving mainland and foreign CPAs and their firms a competitive advantage in the Hawaii market for CPA services.

¹ HAPA Study #1 is available at: <http://hawaiiassociationofpublicaccountants.com/hapa-study-1/> .

² HAPA Study #2 is available at: <http://hawaiiassociationofpublicaccountants.com/wp-content/uploads/2015/03/Hapa-study-2-page1.png>

Hawaii can ill afford to lose one more dollar of licensing fee revenues, yet this is exactly what will happen if HB 1109, HD 1 is passed.

According to the State of Hawaii *Geographic Report* (Current Licenses) as of October 17, 2019, prepared by the Department of Commerce and Consumer Affairs (DCCA) Professional and Vocational Licensing Division, there are 723 mainland-based and 18 foreign-based CPAs licensed in Hawaii.³ That means that 25.5% of all regular Hawaii CPA license holders are based outside of Hawaii. Similarly, there are 164 mainland-based and 1 foreign-based CPA firms licensed in Hawaii, which means 19.9% of all CPA firms licensed to work in Hawaii are based outside of Hawaii.⁴ At current licensing and permit fee rates in effect, mainland and foreign based CPAs and their firms generate substantial license and permit fee revenue for State of Hawaii. The above fee estimates do not include the dollars being collected from individual out-of-state CPAs receiving temporary permits to practice in Hawaii, which would also be lost if HD 1109, HD 1 is passed.

HB 1109, HD 1 will waive licensing fees for these mainland and foreign-based CPAs and their firms. Yet the cost of enforcement actions against mainland and foreign-based practitioners will not go away. HB 1109, HD 1 will just shift the cost of funding any enforcement actions against mainland and foreign-based practitioners to Hawaii-based CPAs and their firms.

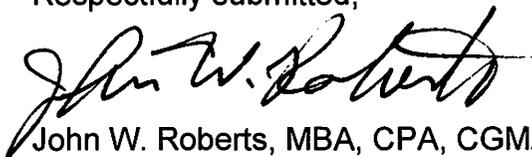
PERSONAL COMMENT

The preamble to HB 1109, HD 1 implies that Hawaii's consumers suffer from a lack of access to the superior technical competencies held by mainland and foreign-based CPAs and their firms. Personally, I find this unsupported assertion to be outrageously offensive. Nonetheless, when the DCCA's latest *Geographic Report* data is viewed in aggregate, it is clear from the percentages that Hawaii consumers already have ample access to mainland and foreign CPAs.

There are numerous other problems with HB 1109, HD 1 undermining consumer protection in Hawaii and providing preferential treatment to out-of-state CPAs and their firms - too many to present in any readily readable written testimony. Should any members of this Committee wish to discuss them, I am available to respond to your questions at your convenience.

In closing, I urge this Committee to vote no to HB 1109, HD 1 for the above reasons.

Respectfully submitted,


John W. Roberts, MBA, CPA, CGMA

³ Table 3 page 1 of the DCCA PVL Geographic Report as of October 16, 2019 is available at https://cca.hawaii.gov/pvl/files/2019/10/WebGeo_101719.pdf

⁴ Ibid.