

Approved: February 15, 2011

Date

MINUTES OF THE HOUSE FINANCIAL INSTITUTIONS COMMITTEE

The meeting was called to order by Chairman Forrest Knox at 3:32 p.m. on February 10, 2011, in Room 152-S of the Capitol.

All members were present except Representatives Hermanson, Grant, and Shultz, all of whom were excused.

Committee staff present:

David Wiese, Office of the Revisor of Statutes
Melissa Calderwood, Kansas Legislative Research Department
Gary Deeter, Committee Secretary

Conferees appearing before the Committee:

Representative Ward Cassidy
Denis Miller, Certified Public Accountant, Norton
Mary McBain, Executive Director, Kansas Society of CPAs
Susan Somers, Executive Director, Kansas Board of Accountancy

Others attending:

See attached list.

The Chair opened the hearing on **HB 2124** - Certified public accountants; allowing professional corporations to practice in partnership with other corporations or individuals and register with the board of accountancy as a partnership.

Staff Melissa Calderwood reviewed the salient points of the bill, saying that the bill permits a professional corporation to be in partnership with one or more corporations or individuals and to be registered with the Kansas Board of Accountancy. It also removes a limitation placed on professional corporations in current law, a limitation prohibiting a professional corporation in partnership with one or more corporations or individuals from registering with the Kansas Board of Accountancy. She added that the bill would have no fiscal impact on the Board's budget.

Proponents:

The Chair welcomed Representative Ward Cassidy, the sponsor of the bill; he introduced Denis Miller, a Certified Public Accountant from the Mapes and Miller partnership in Norton. Mr. Miller explained that the partnership was formed in 1990, prior to the creation of limited-liability corporations, comprising two professional corporations as partners (Attachment 1). He noted that revisions to the statutes (**K.S.A 1-308(a)(5)**) in 2007 allowed the partnership to accept new professional corporations (associations) as partners, but the present bill provides an additional layer of security. He commented that potential new partners have received legal advice that such a partnership would expose their family holdings to increased risk.

Mr. Miller suggested that, on the advice of the Kansas Board of Accountancy, the bill be amended to

CONTINUATION SHEET

The minutes of the House Financial Institutions Committee at 3:32 p.m. on February 10, 2011, in Room 152-S of the Capitol.

insert the word “professional” before the word “corporations” in paragraph 1-308(e) and on line one of the bill. Responding to questions, Mr. Miller replied that there are other more recent corporate structures; however, the bill will give better protection for his firm's corporate structure, which is a partnership of professional corporations. He sees the present statute as an impediment to accepting another professional corporation as a partner in their firm.

Mary McBain, Executive Director, Kansas Society of CPAs, spoke as a proponent for the bill (Attachment 2). Noting that the Society's 2600-member association includes CPAs in public accounting, business, industry, government, and education, she said that, with the inclusion of the word “professional” inserted before the word “corporation,” the association supports the bill. Answering a question, she said that some CPAs in western Kansas work part-time; the bill primarily addresses such circumstances.

Susan Somers, Executive Director, Kansas Board of Accountancy, responding to an earlier question from a member, explained that when the statute was amended in 2007, only two firms in Kansas had Mr. Miller's corporate structure. When the law was changed in 2007, these two firms were specifically allowed to continue their professional corporation partnerships. She said that, after including the amendment, the Board sees no harm in the bill. A member questioned whether or not the bill might create a tiered registration that could diminish the profession. Ms. Somers replied that it would not.

The hearing on **HB 2124** was closed. The Chair announced that the committee would work the bill at the next meeting.

The meeting was adjourned at 3:52 p.m. The next meeting is scheduled for February 15, 2011, in Room 152-S.

DATE: FEBRUARY 10 2011

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February 3, 2011

Professional Corporations for Certified Public Accountants
Testimony Before the Committee on Financial Institutions
Denis W. Miller, CPA

Chairman Knox and Members of the Committee:

Thank you for considering House Bill No. 2124 that has been introduced, concerning the structure of accounting practices in the State of Kansas. A bill that was passed in 2007 changed what had been working for several decades, allowing professional corporations to be members of professional accounting partnerships for firms in the State of Kansas. The law as it was passed in 2007, made the accounting profession, to our knowledge, the only profession licensed in the State of Kansas to not allow professional corporations to be members of partnerships. The revised statute K.S.A. 1-308(a)(5) established that owners must be natural persons. K.S.A. 1-308(e), as revised, states that professional corporations inside a partnership with other corporations or individuals shall not be registered, unless a partnership was formed before January 1, 2007.

Our firm was formed in 1990, comprising of two professional corporations as partners, because at that time limited liability companies did not exist. This was the only way we could provide some level of limited liability for partners of the firm for actions that they were not involved in. Since that time, we have added two additional partners as professional corporation and we would like to add several more in the near future under this structure that has worked well for us for over twenty years.

Once we had proposed adding a fifth partner as a professional corporation, we were told it was no longer possible due to the change in accounting laws created in 2007. When the potential fifth partner requested approval in January 2010 with the board, he was denied due to revised K.S.A. 1-308.

Attachment 1
House Financial Institutions Committee
Date 2-10-11

We feel that the structure we have is very beneficial to our practice of accounting, in our communities that average between 1,500-2,000 citizens in Northwest Kansas. This is an area, as you are all aware, that has significant population declines and we have had severe problems obtaining accountants in Northwest Kansas forcing us to close one office for failure to obtain a CPA for that office and we have had difficulty in filling an accounting position in another office several times.

Three of the current partners have or do actively farm and the proposed new partner is actively farming with his family on a part-time basis. This is a fairly common situation for Northwest Kansas as most of the young professionals probably have some type of farm background to draw them back to our communities. Once a young professional has been asked to become a partner and goes forward to explore that opportunity and receives professional legal advice, many times he/she would be informed that joining the partnership as a non-incorporated entity would expose them to additional risk for them and their family. This would make their family's farm acquired over several generations exposed in a potential lawsuit for an action they were not responsible for.

Most of our young accountants are female and will be the next group in the future of the partnership. Some of them are married to local farmers or businessmen. Joining the firm as a partner would appear unattractive, if the protection of being a professional corporation would not be available, thereby making their family's business exposed to increased risk.

Limiting partners as professional corporations would stifle the growth of accounting practices in already small Northwest Kansas and eventually force a lot of firms to die or disband and become sole practitioners with limited resources for accounting services to our citizens. In addition, the new audit requirements have forced sole practitioners to get out of auditing and it would create a vacuum of firms to audit the municipalities and businesses in Northwest Kansas without going to large firms located in the metropolitan areas.

We feel the continuation of this restriction is detrimental to rural Kansas and the business environment to grow in Kansas. As an example, if you had two sole practitioners operating as a professional corporation, they could not merge into a firm without forcing them to change their operating structure for no sound business reason and possibly causing significant tax consequences.

In addition, after reviewing the proposed Bill, I would recommend that the word "professional" be placed before the word "corporations" in paragraph 1-308(e), and possibly consider adding "professional" before "corporations" in Line one of the description of the Bill.

Therefore, we respectfully request that the committee recommend to the legislature to pass this bill to allow partnerships to have professional corporations as partners.

Thank you for your time and I will be happy to answer any questions.

Sincerely,

Denis W Miller

Certified Public Accountant
MAPES & MILLER CPAs

Phillipsburg, Kansas

DWM\km\denis\partnershipbill

February 10, 2011



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HB 2124

Testimony Before the House Committee on Financial Institutions

Mary MacBain, Executive Director

Chairman Knox and Members of the Committee:

I am Mary MacBain, Executive Director of the Kansas Society of CPA's (KSCPA). We have 2,600 members in the state of Kansas in public accounting, business, industry, government, and education.

We are here today to support HB 2124, concerning the structure of accounting practices in the State of Kansas, with a modification to the language of the bill to insert before the word "corporation," the word "professional."

The Executive Committee of the KSCPA supports this change and believes that it is good public policy for the state of Kansas.

We encourage your favorable consideration of HB 2124. Thank you for your time and I will be happy to answer any questions.

Attachment 2
House Financial Institutions Committee
Date 2-10-11