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From California to South Carolina, States Address CPA Shortage

By Amanda Iacone

- States pressure CPA leaders to revise education mandates
- Profession advances reforms to increase CPA recruits

A handful of US states are laying the groundwork to offer more flexible CPA education requirements to combat the shrinking pool of entry-level accountants.

States including Washington and South Carolina have pursued legislation that would begin to unwind rules that CPA candidates nationwide must earn the equivalent of five years of college to qualify for state-issued licenses. California and Arkansas also are considering changes meant to address the pipeline challenges in their states.

Those early steps already are ratcheting up the pressure on the profession's regulators and top leaders to address labor market headwinds. The industry is grappling with declines in accounting graduates, a workforce that shrunk 17% since the start of the pandemic and an impending tsunami of retirements.

"It is a big sea change to actually see multiple state boards now coming out and saying the status quo is not working for us," said Jack Castonguay, vice president of content development at KnowFully Learning Group. "And if you're not going change it, we're going to start to make unilateral changes."

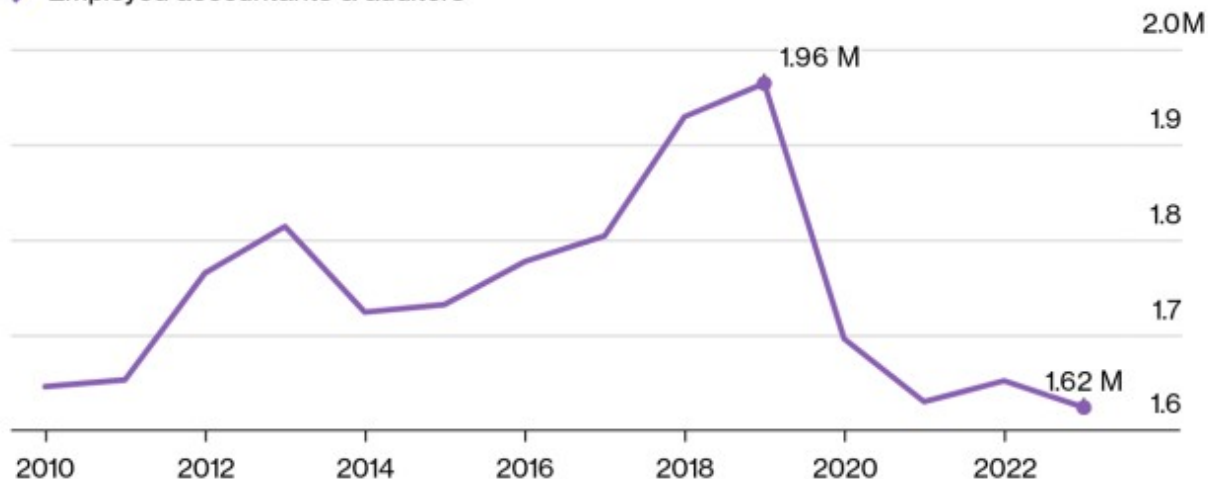
Top leaders are trying to unite the profession around a draft plan released earlier this month that would recognize certain forms of experience in lieu of an extra year of classroom time required under current mandates.

"If we can all kind of rally around a common solution that solves the issues that each of the states are trying to solve, we'll be in a way better place," said Sue Coffey, CEO of public accounting at the Association of International Certified Professional Accountants.

Accounting Labor Market Cliff

The number of accountants working in the US hit a decade-low in 2023.

Employed accountants & auditors



Source: Bureau of Labor Statistics

Bloomberg Tax

New Education Paths

Some states aren't waiting for a national plan as they prepare for possible reforms to the CPA education requirements and, in some cases, craft their own alternatives.

Washington state passed a law this year that gives its accounting regulator more flexibility to revise education standards and evaluate qualifications from other states that might eventually differ from its own.

California's state accounting board is studying possible requirement changes that would provide an alternative path to the CPA license via a standard bachelor's degree and two years of on-the-job experience.

A bill in South Carolina that would have accepted apprenticeships and "experiential learning" as forms of education failed to garner support this year. The measure also would have given the state's accounting regulator more flexibility to recognize licensed CPAs from states with different requirements.

Arkansas has proposed rule changes that would, like California, introduce a second path to the CPA based on a four-year degree plus two years of professional experience. The draft rule changes would also allow students to sit for the exam rather than waiting until they graduated and would make it easier for the accounting regulator to vet CPA credentials from other states.

Efforts in Minnesota to create an added path to the CPA license based on a standard four-year degree sparked a national dialogue over how to boost accounting recruits. However legislation to enact that change wasn't adopted this year.

Proposals like South Carolina's offer a middle ground between backers of preserving the fifth year of education and advocates of returning to former regulations that required just a four-year degree, said Sharon Lassar, director of the accounting school at the University of Denver.

Substituting an extra year of college for on-the-job or other forms of instruction waters down the goal of providing extended training for accountants and isn't useful, she said.

"It's a barrier without meaning. And a barrier without meaning should go away," Lassar said.

Fewer new CPAs entered the workforce after states enacted the 150-credit hour requirement, but the decline was sharpest among Black and Hispanic students, according to MIT Sloan School of Management research published this year. The study reinforces what many in the industry have long argued: the strict education requirements, adopted over several decades, serve as barrier to accounting careers, especially for minority or low-income students.

Preserving Mobility

Such state-by-state changes could threaten the practice of CPAs licensed in one jurisdiction being recognized in any state because each place has substantially similar licensing requirements, the AICPA has warned. In an era of remote work, accountants have clients scattered across the country and rely on that cross-state recognition of their license, known as CPA mobility.

Recommendations from the pipeline advisory group aim to bring flexibility into the licensing requirements and preserve uniform rules nationwide, in what the AICPA's Coffey called an "amazing solution" to address the shortage of new accountants.

That national task force, launched in 2023, is expected to issue its final recommendations in July.

Coffey is pushing to bring together state and federal regulators along with firms and academics this fall to chart a plan to adopt the group's recommendations, including 30 hours of experience-based learning.

She also said she plans to deliver model legislation into the hands of state regulators by year-end, so they are ready to push for education reforms in the upcoming legislative season.

Impact on States

States have an incentive to act independently as the accountant shortage threatens business development and other government priorities.

State boards argue they are protecting businesses that need tax services plus cities and counties that need audited financials to raise funds for school construction or sewer improvements.

"We're trying to help our firms and industries have more options," said Shane Warrick, president of the Arkansas State Board of Public Accountancy. "We're short having enough people to fill all the spots."

Efforts by the National Association of State Boards of Accountancy and the AICPA to substitute courses and other training for a fifth year of college could complement Arkansas' planned education changes, he said. And the Arkansas board's draft rule changes would also make it easier to adopt any national education plan.

A dearth of licensed accountants poses risks for consumers and can significantly increase the fees that they would pay, Dominic Franzella, executive officer of the California Board of Accountancy, said in a statement.

Accounting firms that serve the middle market are hurt the most by the lack of qualified workers, said John Barrios, an assistant professor at Washington University in St Louis.

Those firms can't turn to accountants in India for help like the largest national firms, which is why they are pushing their states to act, Barrios said.

Meanwhile, other states like Ohio are watching closely.

Regulators in the Buckeye state are willing to explore other pathways to the CPA license but ensuring that Ohio's credentialed accountants will be recognized by other states is critical, said Scott Blake, chair of the Accountancy Board of Ohio.

"This is not some far-away hypothetical, it's a real challenge for us as a state. And it's a real challenge for a lot of states," Blake said. "It's really about a modernization of how we approach the CPA profession and how we can attract individuals into it."

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