

# Pro@ctive CPA

Interact With Your Accountant

## Memorandum

To: Clients, Friends, Family & Associates of Pro@ctive CPA  
From: Cindy Freking, CPA, Tax Manager  
Date: August 15, 2013  
Re: My Mortgage Company Needs a Letter ... (what is the big deal)?

With the uncertainties surrounding commercial and consumer lending, mortgage companies and other third parties are requesting financial information from borrower's and potential borrower's CPA's (Certified Public Accountant).

A CPA can and always has been permitted to provide verification letters to third parties except on matters relating to solvency. The CPA is prohibited from doing so and it is a violation of American Institute of Certified Public Accountants (AICPA) attestation standards. ***Providing verification of solvency or future solvency is an ethical violation.*** What you might believe is an easy request to comply with; for us may be more of a challenge (especially with the wording) in order for us to keep our CPA license and not break any ethic regulations.

This memorandum will discuss the types of information tax preparers are able to disclose and the process that must be followed in order to do so.

### **The CPA Must Obtain Written Consent**

Written consent must be obtained by our firm in order to provide information to third parties.

The written permission must outline who the information will be provided to, the nature of the information to be provided and the time period for which the permission is granted.

If you would like our firm to provide information directly to a mortgage company, adoption agency or any other third party, we will ask you to provide written consent prior to our being able to disclose information. The consent must be in our format as provided in authoritative literature.

### **What is the CPA Permitted to Disclose?**

The most common requests most often are from mortgage companies and they typically include:

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- Client Self-Employment information, including the amount of income from self-employment and number of years the company has been in existence (to name a few)
- Individual ownership percentages of business entities
- Explanation of the profitability of the business
- Copies of prior years' income tax returns

When responding to third party requests, the information that income tax preparers have is often times limited. ***While the lender will lead you to believe that the tax preparer can offer written financial verifications on just about anything, our scope with regard to tax preparation is limited to information that is mandated by the Internal Revenue Code, not the banks' lending officers.*** The applicable ethical and regulatory pronouncements will often times suggest that the CPA provide in letters the following information:

- The nature of the engagement i.e. (the engagement was to prepare income tax returns for filing with the IRS).
- No attestation or assurance function was completed
- The information furnished by the taxpayer was not verified
- The taxpayer's credit worthiness was not assessed nor was there any responsibility to do so
- It is the third party's responsibility to assess the taxpayer's current financial position not the tax preparer's.

These are just a few items which may appear in letters from our firm to third parties.

### **Conclusion**

We are always happy to provide requested information to third parties, most commonly mortgage lenders, but we must operate under certain guidelines. We hope this helps to clarify what we are and are not permitted to do.

Please contact your Pro@ctive CPA team should you have any questions. My direct line is (770) 664-8583, extension 561.

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