



## **Bill Analysis**

Author: Niello

Sponsor:

Bill Number: SB 788

Related Bills: See Legislative  
History

Amended March 24, 2025,  
and April 30, 2025

### **SUBJECT**

Tax Preparers Exemptions/California Tax Education Council

### **SUMMARY**

This bill would, under the Business and Professions Code (BPC), amend the Tax Preparation Act (TPA) to exempt certain individuals and firms from the requirements to register with the California Tax Education Council (CTEC) for tax returns prepared for taxable years beginning on or after January 1, 2025.

### **RECOMMENDATION**

No position—The three-member Franchise Tax Board has not formally voted or taken a position on this bill.

### **SUMMARY OF AMENDMENTS**

The March 24, 2025, amendments added exemptions for firms and their employees, owners, shareholders, and partners from the requirement to register with CTEC, among other requirements, provided the firm has a current and valid license issued by the California Board of Accountancy (CBA) and certain individuals authorized to practice public accountancy, modified the operative date, renumbered the bill sections, and made other technical changes.

The April 30, 2025, amendments replaced the terms “a person” with “an individual” and modified BPC referencing language.

This is Franchise Tax Board’s (FTB) first analysis of the bill and only addresses the provisions that would impact the FTB.

### **REASON FOR THE BILL**

The reason for this bill is to improve access to Certified Public Accountants (CPA) or accounting firms.

**ANALYSIS**

This bill would amend the BPC to additionally exempt the following tax preparers from the requirement to register with CTEC, among other requirements, for tax returns prepared for taxable years beginning on or after January 1, 2025:

- An individual authorized to practice public accountancy under the Accountants Practice Privileges pursuant to Article 5.1 of Chapter 1 of Division 3 of the BPC.
- A firm, including the firm's partners, shareholders, owners, or employees, provided the firm has a current and valid license issued by the CBA.

*Effective/Operative Date*

This bill would be operative for tax returns prepared for taxable years beginning on or after January 1, 2025.

*Federal Law*

Current federal law requires tax preparers to register with the Office of Professional Responsibility (OPR), apply for a Preparer Tax Identification Number (PTIN), and comply with Title 31 Code of Federal Regulations (CFR) Subtitle A Part 10 Regulations Governing Practice before the Internal Revenue Services (IRS), also referred to Circular 230.

A tax return preparer is defined as any person who prepares for compensation, or who employs one or more persons to prepare for compensation, all or a substantial portion of any return of tax or any claim for refund of tax under the Internal Revenue Code (IRC). Designated registered tax return preparers (DRTPs) are individuals 18 years of age or older who demonstrate competence in Federal tax return preparation matters by written examination administered by, or administered under the oversight of the IRS, or otherwise meets the requisite standards prescribed by the IRS, possesses a current or otherwise valid preparer tax identification number or other prescribed identifying number, and has not engaged in any conduct that would justify the suspension or disbarment of any practitioner under the provisions under Circular 230.

IRS Circular 230 governs the practice of tax professionals before the IRS. It outlines the rules, duties and ethical standards required by individuals who represent taxpayers, prepare tax returns, or provide tax advice. The following individuals are required to follow, all or in part, Circular 230:

- Attorneys
- Certified Public Accountants
- Enrolled Agents
- Enrolled Actuaries

- Enrolled Retirement Plan Agents
- Other individuals who assist in preparing or filing taxes or represent clients before the IRS

DRTPs are required to apply for a PTIN with the IRS and must be renewed annually.

### *State Law*

Current state law requires nonexempt tax preparers to register with CTEC and maintain a \$5,000 surety bond under the TPA. A tax preparer includes a person who, for a fee or other consideration, assists with or prepares tax returns for another person or who assumes final responsibility for completed work on a return on which preliminary work has been done by another person, or who holds themselves out as offering those services. A tax preparer is also a business entity that has associated with its people who have as part of their responsibilities the preparation of data and ultimate signatory authority on tax returns or that hold themselves out as offering those services or having that authority.

The TPA exempts CPAs licensed by the CBA, attorneys who are active members of the State Bar of California, IRS enrolled agents, as well as trust companies and specified financial institutions, from the requirement to register as a tax preparer. Any employee, while functioning within the scope of that employment, is also exempt if they are supervised by a person who is exempt and that person reviews the return, signs it, and is responsible for its content.

To register with CTEC, a tax preparer shall submit a written application as specified by CTEC and provide satisfactory evidence of successful completion of educational requirements, pass a background check, pay all required fees and meet any other requirements, as specified by CTEC. The registration is subject to annual renewal.

The TPA requires CTEC-registered tax preparers (CRTPs) to disclose to their clients in writing their name, address, and telephone number, evidence of compliance with the surety bond requirement, and CTEC's website address. The TPA also authorizes CTEC to take disciplinary action against a CRTPs.

The TPA also mandates that CTEC issue a "certificate of completion" to the tax preparer when they have completed 60 hours of instruction by an approved curriculum provider within the last 18 months and evidence that a surety bond requirement is met. In addition, a CRTPs is required to complete 20 hours of continuing education annually.

If a tax preparer violates the TPA, except as otherwise specified, they are guilty of a misdemeanor punishable by a fine not exceeding \$1,000 or by imprisonment in county jail for not more than one year, or by both. In addition, if a CRTP fails to perform a duty specifically imposed by the TPA, any person may maintain an action for enforcement of those duties or to recover a civil penalty in the amount of \$1,000 or both enforcement and recovery. A prevailing plaintiff is also entitled to the attorney's fees and costs.

FTB has the authority to penalize non-exempt tax preparers not registered with CTEC.

Penalties are as follows:

- \$2,500 for the first failure to register
- \$5,000 for each subsequent failure to register

The first penalty may be waived upon proof of compliance within 90 days.

#### *Implementation Considerations*

The FTB has identified the following implementation considerations. FTB staff is available to work with the author's office to resolve these and other considerations that may be identified.

This bill exempts firms, including the firm's partners, shareholders, owners, or employees, provided the firm has a current and valid license issued by the CBA, however the FTB may not be aware of which firm a partner, shareholder, owner, or employee may be working under. In certain circumstances, this bill may require the FTB to request additional tax preparer information for the purpose of providing the necessary compliance information to CTEC.

#### *Technical Considerations*

None noted.

#### *Policy Considerations*

None noted.

### **LEGISLATIVE HISTORY**

SB 1175 (Irwin, 2025/2026) would phase in new education and experience standards for a CPA license and authorize out-of-state CPA license holders to practice public accountancy in California under a practice privilege if the state that issued their license has comparable licensure requirements. SB 1175 is currently in the committee process.

AB 3251 (Berman, Chapter 586, Statutes of 2024) extended the sunset date for the CBA by four years to January 1, 2029, enacted technical changes, and policy reforms.

SB 812 (Berman, Chapter 185, Statutes of 2023) extended the sunset date for the CTEC by four years to January 1, 2028.

## **PROGRAM BACKGROUND**

The TPA was enacted to enable consumers to easily identify CRTPs who are bonded and registered, to ensure CRTPs receive required education and treat confidential information appropriately, to prohibit CRTPs from making fraudulent, untrue, or misleading representations, and to provide for a self-funded nonprofit oversight body to register paid tax preparers and ensure that they meet all of the requirements of CRTPs.

CTEC is a state mandated nonprofit established in 1977 by the state legislature to uphold the standards of tax preparation and protecting taxpayers. The Council's mission is to focus on the protection of taxpayers by enforcing strict standards for nonexempt tax preparers and a commitment to maintaining high standards of industry knowledge and professionalism.

CTEC is responsible for the registration and enforcement of paid tax preparers in California. A tax preparer must complete 60 hours of training from a CTEC-approved provider, of which 45 hours are dedicated to federal tax education and 15 hours to state tax education. A tax preparer is required to pass the final exam of their qualifying education course with a grade of 70% or higher. In addition, a tax preparer must purchase and maintain a surety bond of \$5,000, pass a background check, obtain a PTIN from the IRS, and pay the registration fee. After all requirements have been fulfilled, CTEC issues a certificate of Completion. Once a tax preparer is registered, the tax preparer is required to complete 20 hours of continuing education annually, including 10 hours of federal tax law, 5 hours of state tax, 3 hours on tax law updates, and 2 hours on ethics.

The FTB assists CTEC by notifying CTEC of tax preparers who have not registered with CTEC and penalizing tax preparers who have not registered with CTEC.

## **OTHER STATES' INFORMATION**

None noted.

## **FISCAL IMPACT**

FTB anticipates minimal costs to implement this bill.

**ECONOMIC IMPACT***Revenue Estimate*

This bill as amended on April 30, 2025, would not impact state income or franchise tax revenue.

**LEGAL IMPACT**

None noted.

**EQUITY IMPACT**

None noted.

**APPOINTMENTS**

None noted.

**SUPPORT/OPPOSITION**

Assembly Committee on Business and Professions, dated June 20, 2025.

*Support*

California Society of Certified Public Accountants

*Opposition*

California Tax Education Council

**ARGUMENTS**

Assembly Committee on Business and Professions, dated June 20, 2025.

*Proponents*

Writing in support of this bill, the California Society of CPA's, noted, in part:

While most states that regulate tax return preparers broadly exempt active CPAs and other licensed professionals—regardless of where they are licensed or reside— California takes a more limited approach. With respect to CPAs, the Tax Preparation Act only exempts CPAs who are licensed in California.

This creates confusion and the potential for duplicative regulation, especially for CPAs licensed in other states, but are authorized under the Accountancy Act to practice in California, as well as professionals

working in a CPA firm licensed and regulated by the CBA. These individuals are already under CBA oversight, yet the overlapping requirements of the Tax Preparation Act introduce unnecessary complexity and compliance burdens for CPAs and firms working to serve consumer needs effectively and efficiently.

To address this, [this bill] updates the CPA exemption under the Tax Preparation Act to clarify that the following are all exempt from the Tax Preparation Act and CTEC registration requirements: CPAs holding a current and valid license issued by the CBA; CPAs authorized to practice public accountancy in California; and employees of CPA firms licensed by the CBA, when services are performed under the firm's license.

### *Opponents*

Writing in opposition to this bill, the CTEC, noted, in part:

CTEC opposes the language in Business and Professions Code section 22258(a)(2), which exempts from CTEC registration, "[A] firm, including the firm's partners, shareholders, owners, or employees, provided the firm has a current and valid license issued by the California Board of Accountancy" because this language is overbroad and would allow any individual who is employed by a licensed accountancy firm but is neither a CPA nor an Enrolled Agent to prepare tax returns without receiving the education required for CTEC registration, placing California consumers in danger.

CTEC believes that the exemption in section 22258(a)(2), when paired with the exemption in section 22258(a)(7), (which states, "(7) Any employee of any person described in paragraph (1), (2), (3), (4), (5), or (6), while functioning within the scope of that employment, insofar that the employee is supervised by a person exempt under this subdivision who reviews the return, signs it, and is responsible for its content.") would allow individuals who are neither CPAs nor IRS Enrolled Agents to review and sign tax returns.

We do not believe that it is the intent of the legislature to allow any owner of, or employee employed by, a licensed accountancy firm (such as the receptionist) to prepare and sign tax returns merely because of their employment or ownership status, however the language as currently drafted would allow that to occur. The exemptions in the Tax Preparers Act have always been applicable to specific individuals who meet certain stated qualifications, not to firms as a whole.

**LEGISLATIVE CONTACT**

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