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Method of Accounting

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Isaac M. O'Bannon • Sep. 11, 2014



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accrual method “will have a severely detrimental impact on thousands of businesses

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both sides of Capitol Hill.

“Those who use the cash method of accounting include many of our local job creators and professionals including accountants, architects, attorneys, dentists, engineers, farmers, physicians and financial service professionals,” the legislators explained in a September 11 letter to Speaker John Boehner (R-Ohio) and other members of the House leadership. “Importantly, the cash method of accounting is the foundation upon which these businesses have built their business models for decades.”

The House effort was led by Representatives Brad Schneider (D-Ill.), Richard Hudson (R-N.C.), Mike Quigley (D-Ill.) and Blaine Luetkemeyer (R-Mo.).

The House letter explained that the cash method of accounting is a simple method in which income is recognized when it is collected. By comparison, the accrual method of accounting recognizes income when a service is performed, regardless of when cash is collected. “If forced to pay taxes before income is received, as would be required under the accrual method, less money would be available to small businesses for growth and job creation,” the lawmakers wrote. “Additionally, cash flow management becomes far more complex as a result, and will likely trigger the need for additional outside financing. These factors alone would have a significant negative impact on our local economies.”

“While we believe reforms to the tax code should provide a simpler and fairer tax system, requiring the use of the accrual method for entities currently using the cash method will not achieve these goals,” the House letter concluded. “As we seek to best represent the concerns of the constituents in our districts, we strongly urge you to preserve the cash method of accounting.”

“Colleagues from state CPA societies and our members have been instrumental in this

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