

## PRACTICE ADVISORY

### When is Mechanical Processing of Tax Returns Considered to be Providing Accounting Services to the Public?

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When tax season approaches, members often look for clarification on whether tax return preparation constitutes “providing accounting services to the public” under CPA Ontario’s Bylaws. This determination has different implications for registration of a practice, as discussed below.

“Providing accounting services to the public” is defined in Bylaw 1.1.53 (formerly Bylaw 1.1.39). Subsection (3) deems carrying on public practice in “taxation, insofar as it involves advice and counselling in an expert capacity” to fall within the provision of accounting services to the public, but specifically excludes the “mechanical processing of tax returns.”

Interpretation of this exclusion has given rise to much confusion. Suffice it to say that there are *very limited* circumstances where completion of a tax return by a Chartered Professional Accountant (CPA) would be seen as “mechanical processing.”

There is a presumption that most individuals would seek the services of a CPA for his or her professional judgment and expert knowledge of the *Income Tax Act* (ITA). To this end, the preparation of corporate (T2) and trust (T3) returns are considered to be providing accounting services to the public in virtually every case. The preparer of a corporate return, for instance, requires an understanding of financial statements and the ITA to identify information to include on the return. In the context of a personal tax return (T1), mechanical processing would basically involve inputting a few tax slips and performing very simple calculations. If there are choices to be made requiring the exercise of professional judgment and tax knowledge, such as which spouse should deduct donations or RRSP contributions on their respective T1 returns to realize the maximum benefit, the member is providing advice in an expert capacity and is therefore engaged in “providing accounting services to the public.”

The determination of whether an activity constitutes mechanical processing becomes less clear when a member uses sophisticated tax preparation software, as decisions that once required the exercise of judgment and knowledge, such as regarding which spouse should claim child tax credits or medical expenses, are programmed into such software sold at retail stores. Accordingly, the determination of whether public accounting services are being provided requires an assessment of the facts in each situation: is judgment being applied on the basis of expert knowledge, and/or is advice being requested or given? An engagement letter is desirable to reduce any likelihood of an expectation gap between the member and the client regarding the level of services that were provided.

If a member is providing taxation services that fit under the definition of “providing accounting services to the public,” the member is required to register a practice with CPA Ontario, obtain professional liability insurance, and pay an annual practitioners fee. Members may also undergo periodic practice inspections, depending on what additional services they provide (such as compilation services). As well, only limited forms of corporate structures can be used to provide



these services; for example: a proprietorship, partnership, limited liability partnership or professional corporation. Note that a public accounting licence is not required to provide these services, and the hours spent providing these services do not contribute to experience requirements for licence renewals.

As no two situations are identical, CPA Ontario members are responsible for ensuring that their own situation complies with the CPA Code of Professional Conduct, By-law and Regulations.

For further guidance, members are encouraged to contact a Practice or Member Advisor:  
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