GRADING YOUR TAX PREPARER

What to Look For When Choosing An Accountant

By: Joseph Arkin, C.P.A., M.B.A.

Business owners invariably have their personal tax returns prepared by their firm’s accountant. This is a good policy for this person knows best your individual situation and is acquainted with credits and deductions and carry-overs to which you are entitled. He will use the K-1 form he prepared for a partnership or S corporation, whereas a different tax preparer might have misgivings because of the penalty provisions enacted as part of Tax Equity and Fiscal Responsibility Act of 1982. (TEFRA).

Also, he’ll know if you should report some miscellaneous income for the partial use of company-owned assets. (i.e., portion of company-owned car expenses used for personal use).

During the course of an audit, Revenue Agents are impressed favorably where it is shown that due care and diligence was used in the preparation of the return, albeit only the picking up of such an insignificant item as personal use of a company-owned asset.

You wouldn’t ordinarily keep your accountant to handle your firm’s books unless you had confidence in his abilities. However, a clever auditor or statement preparer is not necessarily well versed in tax law.

If you use the services of a “Big 8” accounting firm, or a large local CPA firm, you’ll likely have your personal return handled by a member of the firm’s tax department, rather than by the same individual who handles your firm’s regular work.

For the majority who use the services of a one-man CPA practitioner, or of a relatively small firm, it becomes important to establish some guidelines in deciding just who is going to prepare your form 1040.

Here are the things to look for:

1. Is the preparer well versed in tax law? You’ll get some idea of this by asking questions as to what he is doing to keep current on the many changes in the law. Does he have a good tax library, attend seminars, taken the trouble to secure the prestigious Master’s Degree in Taxation, or take courses in Continuing Professional Education? (note: mandatory in some states).

You can’t expect your tax preparer to know the thousands of sections of the Internal Revenue Code verbatim, but you should expect quick answers to reasonably easy questions, and signs of awareness where an item is complex and has to be researched.

2. You should seek that preparer who alerts you to items appearing in weekly or monthly tax publications which affect your business and personal transactions having a tax impact.

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Court decisions, revenue rulings, technical pronouncements, etc. are issued almost daily. Knowing these or being alerted to those affecting you can result in better tax planning of transactions and resultant tax savings.

Planning is an important facet of tax return preparation. Many a transaction has resulted in dire tax consequences merely because the mode used was defective, and with the same facts and situation, could have been structured to effect tax savings and withstand challenge by the IRS.

3. Some individuals hesitate to ask for an automatic extension to file returns and certainly balk at a second extension request where a specific reason has to be given. Why? They fear that the return will be singled out for scrutiny. Right or wrong (the IRS won’t tip its hand on this) this is the thinking of many taxpayers and tax preparers alike.

Therefore we come to the question of just how much time does your tax preparer give you to prepare your information prior to interview time, and at interview time, how much time is allotted to eliciting the information to properly prepare your return.

After furnishing all of the information requested just how long do you have to wait for the return to be completed? You can’t put a time span on how long it should take (whether manually prepared or computer prepared) but you’ll know somehow when it is too long.

It is best to have enough time to review your return. Find any omissions? Items you forgot to mention? If such items are uncovered you’ll want enough time to have the corrections made before the deadline for filing, especially if you have hang-ups about filing for an extension.

4. In addition to competency and promptness you have every right to expect a measure of courtesy. You may want to discuss an item or volunteer more information, but you shouldn’t expect your tax preparer to answer the telephone when in the midst of his doing tax work.

Many errors in preparation can be attributed to distraction—answering phone, seeing a visitor, etc. can all lead to losing one’s trend of thought. You do yourself a favor (and a favor to his other clients) when you are willing to wait for a telephone call to be returned and don’t insist on immediate telephone contact.

5. Returns should be double checked before being considered final. Have all areas of doubt been researched? If available, has another member of the firm or staff checked arithmetic? Searched for obvious omissions? etc.

6. You’d want a preparer who is reasonably ready for you when you come in for interview, having last year’s return available, notes of last year affecting the current year’s return, and exhibiting some knowledge of your specific problems by having given last year’s copy a quick “once-over.”

Is there a capital loss carry-over? Is there a carry-over of investment credit? Changes in marital or dependency status?

7. Computer generated returns are very neat and manually prepared returns which are typed are also very neat. But what about handwritten returns where pressure of tax season work gives rise to some items being illegibly written? If the IRS initial checkers can’t fathom handwritten schedules the return is flagged for
correspondence and possible extra scrutiny. Who needs this?

8. The axiom you get what you pay for is never more true than in tax preparation.

You’ll see ads of franchise tax preparers offering courses and jobs to just about anybody and everybody. Pass a 3-4 month course and you’re a tax preparer. No accounting degree, no experience in the world of business, no real experience in actually preparing tax returns are the usual credentials of these preparers. Is this what you are looking for? A decided, “NO.”

You should want a full-time tax preparer, one who engages in year-round tax preparation (fiscal year returns, audits, etc.) and who preferably is a CPA or a tax attorney.

Sure you will pay more, but your tax preparer who possesses a degree in accounting, exhibits skills and special training in tax work, is worth the professional fee charged.

How much? Fees vary throughout the country, but depending on years of experience, expertise, etc. you can expect to pay from $50 to $75 per hour. You’ll pay even more if yours is a complicated return requiring the service of the tax partner of a large local or national firm.

It is often said that paying $50 more per return to an experienced preparer can cost no more than paying $50 less per return to an inexperienced preparer. You are buying peace of mind, and the more experienced preparer is likely to ferret out deductions that will more than cover the difference in fee.

9. Your tax preparer should be a person who possesses a certain amount of tact and who can handle himself calmly and professionally during the conduct of a tax examination.

The degree of professionalism in this area can be a major factor in how the examination will be resolved.

You certainly don’t want a “hot-head” handling a tax audit. Abuse a Revenue Agent and that person will understandably strike back.

Your preparer should come to the audit well prepared and be polite and firm in defending the accuracy of the return under audit.

One final tip recommendation. To now we’ve discussed the preparer, but how about you?

Do you prepare the information requested prior to interview? Do you answer questions honestly so that you don’t mislead the preparer?

If you fool your preparer you pay the piper, not him. If you don’t believe this read the two different declarations at the bottom of your return at the place where the returns are signed by both taxpayer and preparer.

Tax time will soon be upon us. Decide now who is going to do this year’s return, ask for advice and tax law updates. Start now to assemble and keep a good set of records, for good records are the cornerstone and perhaps the first requisite in savings of tax dollars.