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1970

## Advice to clients; Statements on responsibilities in tax practice 08

American Institute of Certified Public Accountants. Federal Taxation Division

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## *Advice to Clients*

### *I. Introduction*

This Statement discusses certain aspects of providing tax advice to clients and considers certain circumstances in which the certified public accountant has a responsibility to communicate with his client when subsequent developments affect advice previously provided.

### *II. Statement*

In providing tax advice to his client, the CPA must use judgment to assure that his advice reflects professional competence and appropriately serves the client's needs. No standard format or guidelines can be established to cover all situations and circumstances involving written or oral advice by the CPA.

The CPA may communicate with his client when subsequent developments affect advice previously provided with respect to significant matters. However, he cannot be expected to have assumed responsibility for initiating such communication except while he is assisting a client in implementing procedures or plans associated with the advice provided. Of course, the CPA may undertake this obligation by specific agreement with his client.

*Issued by the Division of Federal Taxation of the  
American Institute of Certified Public Accountants*

### *III. Explanation*

Tax advice is recognized as a valuable service provided by CPAs. The form of advice may be oral or written and the subject matter may range from routine to complex. Because the range of advice is so extensive and because advice should meet specific needs of a client in particular circumstances, neither standard format nor guidelines can be established to cover all situations. The need to seek legal advice in appropriate situations should be fully recognized. (See Principle 3, "Statement of Principles Relating to Practice in the Field of Federal Income Taxation" published in 1951 and promulgated by the National Conference of Lawyers and Certified Public Accountants.)

In the exercise of his professional judgment in deciding on the form and content of advice provided to his client, the CPA should consider such factors as the following in the light of all the facts and circumstances:

1. Importance of the transaction and amounts involved.
2. The specific or general nature of the inquiry.
3. The time available for development and submission of the advice.
4. Technical complications presented.
5. Existence of authorities and precedents.
6. Tax sophistication of the client and his staff.

A. *Written Advice*—Although oral advice may serve a client's needs appropriately in routine matters or in well-defined areas, written communications are recommended in important, unusual or complicated transactions. In the judgment of the CPA, oral advice may be followed by a written confirmation to the client. A written record will limit misunderstandings and provide a basis for future discussions, reference, planning and implementation of suggestions.

B. *Follow-Up on Advice*—The CPA may assist clients in implementing procedures or plans associated with the advice offered. During this active participation, the CPA continues to advise and should review and revise such advice as warranted

by new developments and factors affecting the transaction.

Sometimes the CPA is requested to provide tax advice but does not assist in implementing the plans adopted. While developments such as legislative or administrative changes or further judicial interpretations may affect the advice previously provided, the CPA cannot be expected to communicate later developments that affect such advice unless he undertakes this obligation by specific agreement with his client. Thus, the communication of significant developments affecting previous advice should be considered extraordinary service rather than an implied obligation in the normal CPA-client relationship.

C. *Precautionary Statement*—Experience in the accounting and other professions indicates that clients understand that advice reflects professional judgment based on an existing situation. Experience has also shown that clients customarily realize that subsequent developments could affect previous professional advice. Some CPAs use precautionary language to the effect that their advice is based on facts as stated and authorities which are subject to change. Although routine use of such precautionary language seems unnecessary based on accepted business norms and professional relationships, the CPA may follow this procedure in situations he deems appropriate.

#### NOTE

*This Statement has been approved by at least two-thirds of the members of the Committee on Responsibilities in Tax Practice and the Executive Committee of the Division of Federal Taxation by formal vote after examination of the subject matter. It has not been considered and acted upon by the Council of the Institute. This Statement is not intended to be retroactive.*

*Statements on Responsibilities in Tax Practice containing standards of responsibility which are more restrictive than those established by the Treasury Department or by the Institute's Code of Professional Ethics depend for their authority on the general acceptability of the opinions expressed.*

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