Managing your tax season

Edward Mendlowitz

American Institute of Certified Public Accountants. PCPS Executive Committee

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Edward Mendlowitz, CPA, PFS, ABV

Issued by the Private Companies Practice Section Executive Committee
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Managing Your TAX SEASON

Edward Mendlowitz, CPA, PFS, ABV

Issued by the Private Companies Practice Section Executive Committee
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Mendlowitz has spoken on practice management for the AICPA and the New York, New Jersey, and Connecticut State Societies of CPAs, as well as many other professional accounting groups. His Managing Your Tax Season program has been the most popular NJSCPA MAP program, with over 20 presentations. Additionally, his practice management techniques have been reported on by many publications, including the Wall Street Journal, the Journal of Accountancy, and Practical Accountant. He is also a consultant to a number of CPA firms.

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AUTHOR’S NOTE

Comments in this book make reference to “my firm” and how we do or did certain steps or procedures. Some of these refer to what was done in Mendlowitz Weitsen LLP, before it was merged into WithumSmith+Brown on January 1, 2005, or moved into their offices in June 2005, and some refer to procedures at WithumSmith+Brown either before or after we merged or moved. However, all opinions and comments are mine and no endorsement or acknowledgment should be inferred from the personal mention of “my firm’s” procedures.
INTRODUCTION

Tax season does not end on April 15. Tax preparation and tax planning have become a year-round job. There is really no time anymore that can be called purely "tax season."

Tax season is a continuous process because of the impossibility of CPA firms receiving all the returns that need to be completed by April 15. Most (almost all) firms prepare returns and are heavily involved in their individual tax practice and client interaction 12 months a year.

This book has been prepared to help the tax practitioner better serve his or her clients by using better processes and procedures in the office throughout tax season.

Tax season is a high-stress time. Systems need to be established that ease the tension and allow time not only to be thoughtful and consider the issues for return preparation, but also to uncover and develop tax and financial planning opportunities for your clients.

The point of managing a tax season is that each accountant has a system. It may not be as good as it could be, but it is a system that works for that practitioner. This book helps you recognize that there is such a system and shows you ways to improve it, streamline it, or amend it, so that tax season will be less burdensome and more profitable.

Tax season is a year-round process, which starts October 16—the day after the final extensions are due—and ends the following October 15, and then restarts. To simplify the presentation of the material in this book, I have broken this year-round process into two sections: firm preparation and return preparation.

The processes in both sections are no less complicated than the most involved projects and require management as intricate as any essential service. Your goal in the process is to create a world-class tax department.

A world-class tax department is one that provides great service to every client, user-friendly services, responsiveness to client questions and ideas, creativity as well as precision, and the ability to anticipate client concerns. A world-class tax department also has interested, inter-
esting, and excited people working in an environment that fosters everything a world-class tax department should do.

A world-class tax department only has "A" clients. Someone else's B or C clients are treated as A clients by a world-class tax department. The difference is that the world-class tax department assigns the proper level of staff to that client so the client receives world-class tax department treatment.

User-friendly services are standard in a world-class tax department. A world-class tax department recognizes that its job is to communicate what it does so the desired actions will result. That communication can be achieved only when clients are made fully participatory in the process, and that means employing completely user-friendly methods.

Responsiveness to client questions and ideas is what makes a world-class tax department. However, responsiveness is more than good business—it is common courtesy. A good way to deal with responsiveness is to picture yourself as the client and imagine what you expect—and then do better.

Creativity is needed, as well as precision in a world-class tax department. This requires the ability to apply the full scope of the tax person's knowledge to every situation, juxtaposing tax law and rulings and case and fact pattern and reason, so they can recommend the best course for the client.

Anticipating client concerns is de rigueur in a world-class tax department. A world-class tax planner recognizes that clients ask questions and express ideas in the context that they understand within the scope of their knowledge and experience. A world-class tax planner has to be able to flush out the real reason for the question or concern. A world-class tax planner is not afraid of asking question upon question until the planner is sure he or she is on the same wavelength as the client. A world-class tax planner cannot be embarrassed to give simple solutions to complex questions, if that is what is required; and a world-class tax planner should not be afraid to say "no" to a client when that is what is in the client's best interest.

World-class tax department personnel have to be interested and excited in what they do and have to be able to Infectiously convey that interest and excitement. A world-class tax planner has to recognize that each day, each client, and each question present new opportunities and has to believe that new opportunities are exciting.

World-class tax planners have to be well-rounded and involved in more than just taxes and the things they work on. They have to bring an insatiable curiosity, inquisitiveness, and worldliness to the table. They have to be able to integrate real-world situations and patterns into the client's proposed transactions.

A world-class tax planner has to be excited and exciting. Having a world-class tax department is a continuum of activities. There is no conclusion to a discussion on running a world-class tax department—only a series of beginnings.

Some key points to having a world-class tax department are:

- A commitment to providing great service to every client.
- User-friendly services.
- Responsiveness to client questions and ideas.
- Creativity as well as precision.
- The ability to anticipate client concerns.
- Interested, interesting, excited, and exciting people working in an environment that fosters everything a world-class tax department should do.
In many respects there is a major beneficial side effect to tax season. The sharp concentration of work creates the need for innovation and quick training to lessen the time spent and workload. This has led firms to hire temporary seasonal help; use service bureaus to outsource their tax return processing; purchase in-house computer systems, high-speed laser copiers, and scanners for digitization and paperless procedures; and outsource to places such as India. In a lot of respects, smaller firms led the way as they were forced to look for innovative methods and were able to make the quick acquisition decisions tax season demanded.

The tax preparation portion of your practice is a separate business and needs continuous product development, work efficiency improvement, and service program upgrades. Issues for a firm to focus on annually include:

- Conducting a retrospective to determine whether there will be any systemic changes either firm-wide or limited to the tax season department procedures. (Chapter 1)
- Considering all the options available to the firm for managing seasonality. This may include reconsidering options that were rejected the previous year. (Chapter 2)
- Identifying clients who will need pre-year-end planning and tax projections. Calls are made to obtain their most recent tax information; then appointments, where appropriate, are made to meet with the clients. (Chapter 3)
- Preparing mailings to clients, which include a year-end tax planning newsletter to be mailed out before the end of November and organizers to be mailed in the middle of January. (Chapter 4)
- Updating tax materials, including tax handbooks for staff and forms for the new year, plus an update and installation of tax preparation software. (Chapter 5)
- Implementing staff tax training program, which includes the February pre-tax-season staff meeting. (Chapter 6)
- Updating tax client lists and preparing preliminary staff assignment schedules. (Chapter 7)
- Reviewing staff hours and payment arrangements and communicating to staff at the staff meeting. (Chapter 8)
Reviews and procedure evaluations have to be done frequently and carefully to determine how to make the process better. However, at the end of the season, when it is fresh in everyone's mind, the firm should review how tax season went. This includes reviewing the firm's structure and processes, which are discussed in the following sections.

The results of both analysis and suggestions for improvement are outlined in a memorandum by staff level personnel. This memorandum is distributed before the retrospective meeting.

STRUCTURE

As in any department of an accounting firm, there must be an organization structure. Typically a partner heads the tax department.

Tax accounting is a complicated function and is overlooked or unappreciated by clients and sometimes the CPA firm partners and staff. Taxes are subdivided into many separate specialties—preparation, compliance, research, projections, and planning—with each specialty further subdivided. For example, the tax return preparation process is separated into meeting with the client, compiling and assembling the information, preparing the return, perhaps researching some issues, reviewing the return, communicating the results to the client, and planning and projecting for the current and future years.

The hard part of planning and ensuring that everyone is properly oriented is to recognize the differences and then to prepare accordingly by making sure everyone is coordinated. We find that separating the functions makes tax season flow much more smoothly. Even in smaller firms, the separation can be achieved.

Usually higher- or partner-level people interview the clients and get their information. Staff have to develop a method of taking notes and writ-
ing instructions and comments that are easy to read (and in my case, decipher) and follow.

Lower-level staff prepare the returns, but they need a resource person to go to for assistance, direction, and guidance—and that person must be available to help them, or bottlenecks (and unhappy staff and clients) will result.

In most firms the staff is segmented into service categories, with the bulk of the staff working on audits, financial statement preparation, and/or recurring work. Tax returns, being extra work, are added to the corporate and business return work, which is also extra, but part of the firm's base of services. Accordingly, every person in the firm has to be conscripted to work on tax returns, either to prepare or review. Ideally, a firm would have a permanent tax preparation department, but the workload is not spread evenly throughout the year so most firms cannot do this. Using part timers, per diem people, and outsourcing also helps manage the workload. Tax season is a time when everyone needs to participate, especially during the “crunch” time, the last week in March and first week or two in April. A by-product of the tax season preparation is that the staff becomes well rounded and tax knowledgeable.

Higher-level staff have to review the returns. Also, procedures, which will be discussed later in this publication, have to be put in place to reduce the review time, otherwise big time bottlenecks will result here.

Partners and client contact managers have to be available to make decisions and to advise clients of the returns’ progress.

In the retrospective, a firm needs to identify any bottlenecks that occurred due to structure and consider adjustments to eliminate or minimize them in the upcoming tax season.

**PROCESSES**

Growing out of tax season has been a continuous quality control initiative, with the goal of reducing errors. We have found it to be extremely beneficial and helped to reduce by half the tax notices our clients receive; such initiative has also led to many other time-saving initiatives. This is accomplished by analyzing tax return and financial statement review notes and tax notices.

**Tax Return and Financial Statement Review Notes**

Copies of all tax return and financial statement review notes are collected and analyzed to determine the types, categories, and repetition of errors and changes to the returns and reports; who is making them; and the progress made reducing the incidence of errors. An example of the types of items that might reoccur would be shareholder loan issues or personal auto use.

The object is to raise the service level to clients, their confidence in the firm, and their overall financial security by providing error-free work to them. This will also make the firm staff prouder and more confident in what they do.
The object of the monitoring will be to find ways to reduce the quantity of errors. A by-product will be to make each staff member more responsible for what he or she does and more aware of the wasted cost to errors.

Tax Notices

A review is also made of tax notices received during the last year, what the notices were for, and who worked on the returns that generated the notices. The purpose is to determine if there are patterns to the notices, or to the person who prepared the return, or the lack of notices for returns prepared by someone. The firm most definitely needs to find out about lack of notices, so it can replicate what those staff members are doing. The firm also tries to monitor client complaints and compliments.

In that regard, a major source of notices has been determined to be erroneous reporting of estimated tax payments. Most of the time the errors are due to incorrect information the client provides to the firm. Accordingly, one solution is to require clients to provide proof of payment when they submit their tax information. Everyone working on returns should get that information.

In many cases a slightly more deliberate thought about what is being done, its purpose, and the expected or intended reaction or response of the client will reduce the errors. In others, a less rushed attitude will do the job. And in still others, a little extra attention to the final product works.

Types of Changes

Be aware of this program for what it is: a tool to try to identify areas where service to clients and firm efficiency could be improved. This program should not be thought of as a method of eliminating every mistake. The freedom to make mistakes could create an environment, at the proper time, that encourages initiative, imagination, and a degree of aggressiveness in representing clients’ best interest. Also, be mindful that if an associate does not ever make errors, it might indicate a degree of passivity that would cause the firm to not represent clients as fully as it should.

Keep in mind that the search is for patterns rather than isolated instances, although a continuous pattern of isolated instances would also present a problem that needs to be addressed. The object is to reduce carelessness and inattention to what is being done, as well as to improve the efficiency in the way staff work.

Some of the procedural changes we made or instituted because of this program are:

- Signed copies of all engagement letters will be given to our secretary, who will enter the appropriate information in the Tax Control. This was a result of information not being entered on the Tax Control for new engagements that grew out of initial single-purpose jobs. We also now require engagement letters for all assignments, with the exception of individual tax return preparation.
- If a staff person wants to do something that will take more than one hour, he or she must first clear it with a partner. Previously, staff who
were frequently interrupted by so-called urgent requests by clients and who decided to work on those requests determined that the new request was of a greater priority than what they are working on; that's changed.

- All requests for tax research must now be in writing with an estimated time limit for the research and due date. This will force the requestors to be more careful and selective in their request and will clarify the issues and questions to be addressed.

- Many of the errors were because the checklists were not properly or completely filled out. Some is carelessness, but since the errors were widespread, we have changed our training to emphasize adherence to the procedures and attention to the questions. Some of the omissions are "non-number" items such as the client's telephone numbers and birthdates of the clients and children.
CONSIDER OPTIONS FOR MANAGING SEASONALITY

Tax season creates terrible workflow issues in accounting firms.

The work for year-end business client financial statements is always bunched up in the first quarter of the year. Added to this are the tax returns for business clients, and then comes the influx of once-a-year tax-return clients (both business and individual returns).

Part of the added time needed can be made up with night and weekend work. However, the deadline pressures and sheer volume make work during tax season burdens even for the heartiest of us.

Managing seasonality has universal elements, although there is no set formula. Every firm seems to think it has unique ways to deal with seasonality. Each firm tries and tries and tries and still ends up with the same bunching and crunching under the worst conditions professionals can work under—there is just too much work to do in a short period of time.

Seasonality requires determining the peak periods and then scheduling the staff appropriately. Our firm keeps the evening work to a minimum until the real crunch starts, and then we ask for extra hours almost every night during the busiest periods.

Another thing is to be realistic about the seasonality of our business. Work not done during tax season will have to be done at some point. Tax preparation is always extra work and, unless there is a dedicated year-round staff for that, it will always be fill-in or after-hours work. For most practices chargeable hours are always lower in the summer months because of vacation plans and shorter weeks worked by many people, and not because of it being a slower time, which it usually is. However, this doesn't leave time to get the tax preparation work done. Meanwhile, September is a busy month because of the corporate tax extension deadline and the start of work on the extended individual returns. Also, because of the lack of the completion of the individual returns, some excess (and wasted) time is spent on the September 15 individual estimated tax payment amounts.
January is usually a busy month requiring overtime because of year-end fiscal year closings. Also, many smaller firms that prepare after-the-fact payroll taxes commit much time to W-2 preparation and the other year-end payroll forms. One method of reducing time is to “out-source” the work to a payroll preparation firm such as Paychex and ADP.

Short of not preparing tax returns for nonbusiness clients, creative and imaginative methods have to be used to reduce the bottleneck and work overload.

Firm plans to deal with the seasonality have to be balanced against the need to get the work done timely, correctly, efficiently, and profitably. Some options for firms to consider include:

- Use extensions liberally to stretch out the preparation of tax returns throughout the year.
- Hire extra staff and temporary and per diem help.
- Facilitate telecommuting.
- Outsource preparation to offshore places such as India.
- Upgrade the use of digitalization and technology to reduce the time spent preparing returns.
- Designate specific time when individual returns must be worked on.
- Do not accept new individual tax clients.
- Evaluate existing clients.

EXTENSIONS

Extensions are a way to even out the workflow. However, once extensions are filed, there is a low likelihood the return will be looked at before mid-May. Also, unless there is a dedicated tax preparation staff, the preparation work will not get done efficiently, since night and weekend work will be nonexistent. With summer vacations, the firm will be short-handed throughout July and August, as those working will be filling in for the vacationers. This brings the extended returns to September and early October.

The “solution” is to get as many returns as possible done during tax season without the attitude that extensions could always be filed.

SEASONAL STAFF

The demands of tax season, including the compression of an unbelievable volume of work into a short period, require novel ways to get the work done. One such way is to hire seasonal or per diem preparers. We seem to have been able to do this with highly skilled people at reasonable rates. One positive aspect of tax preparation is that much of the work and process is high volume, modular, and repetitive, making it easier to teach.

Per diem personnel can work either on a seasonal basis or year round.

One potential problem with temporary people is the quality control over their work. Part of this is the fitting in to the systems and processes that make everyone able to work together as a team rather than separate people under the same roof.
Not considered in the category of seasonal staff are summer interns who also can work during tax season. This is a very easy way to introduce bright college students to the firm, and for the firm to get a good look at them. Interns can be trained in preparing the more tedious parts of the returns, with the more responsive interns learning the entire returns. With the right training, the interns can become productive very quickly.

Determining tax season hours for seasonal staff and interns is very simple. When and how many hours they want to work is okay. Each person has his or her own schedule and personal time requirements.

Our firm had specially designated “tax season nights and weekends.” At those times, each staff person had to work on an individual tax return—at least one and sometimes two.

TELECOMMUTERS

Using technology effectively can also allow people to work at home when they cannot, for personal or family reasons, be in the office. A parent who has to stay home with a sick child can now do a day’s work by telecommuting, when in the past, a day or more of work would have been lost.

Most regular staff do not telecommute except under special personal circumstances. However, it may become necessary because of extra evening and weekend work. With virtual personal networks (secure networks) and other remote access programs and high-speed Internet access, people can work at home and have the same ability to use the software and paperless filing cabinets as they would if they were sitting in the office.

Telecommuting would be useful and practical with seasoned per-diem people used to working on their own who work on smaller, high-volume returns that would also need minimal review time. The information can be scanned in the office and e-mailed to them; they can work on the returns and e-mail them back. This is not much different from the India outsourcing processes described in the next section.

OUTSOURCE

Many firms are starting to outsource their return preparation to India. The results have been mixed, but many firms who outsourced are repeating the process and increasing the returns done in this manner.

Our firm tested returns prepared in India for the 2004 tax season and found the preparation process very effective; we plan to rely on it in the future.

In evaluating an outsourced firm, the due diligence should be similar to that when hiring staff—check references, question them, find out about their quality control and internal control procedures, get assurances of their security processes, check professional accreditations, find out employee qualifications, and inquire into the firm’s financial viability. I would not want to be the first customer of a newly formed firm.

The clients chosen should be carefully selected. You would have to consider the business aspects if a client objected to it after the fact and consider the feelings of the clients selected. With open disclosure, many
firms I spoke to are either stopping the outsourcing or having the India crew moved to the United States for tax season so the returns would not "leave the country." The availability and use of outsourcing has to be balanced against not being able to get the returns done on time.

With regard to outsourcing, while the physical return might be done in India, the analysis, tax and financial planning, and review are done in the CPA's office. The creative and innovative part of tax return preparation is still done here—that is not outsourced, and cannot be outsourced, it is our core activity. Typically rules-based work can be outsourced, while the judgment-based work is retained. The face-to-face relationship, telephone calls, and client interaction remain in the accountant's office.

To send a return to India, the client's information must be scanned and e-mailed to the processing center. To reduce the number of documents, the 1099s and other forms can be batch scanned. The original documents would be returned to the client in a nice neat package.

The return is prepared and sent by e-mail to be reviewed in your office. The review time should be no more than if the return were prepared in your office, except that the reviewer has to be prepared to make the necessary changes rather than give the return back to the original preparer. In fact, the return can be reviewed by an in-office preparer before it is turned in to the review department.

Following is a brief calculation of the cost/benefits of outsourcing returns to India. The first illustration is for a rather complex return. The second illustration is for a basic return.

<table>
<thead>
<tr>
<th>Illustration 1</th>
<th>Illustration 2</th>
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<tbody>
<tr>
<td>Cost per return</td>
<td>$75.00</td>
</tr>
<tr>
<td>Number of returns sent to India</td>
<td>50</td>
</tr>
<tr>
<td>Total cost</td>
<td>$3,750.00</td>
</tr>
</tbody>
</table>

| Hours saved per return | 2 | 4 |
| Total hours saved     | 100 | 200 |
| Number of hours in a day | 8 | 8 |
| Number of days saved  | 12.5 | 25 |

| Cost per hour saved | $37.50 | $18.75 |

The cost per hour saved is only significant if cost paid per hour saved is equal to or lower than the cost per hour you would have had. This cost saving grows to the extent the returns outsourced are prepared in less time than would be spent in your office. Notice in the illustrations above that the cost saved is lower per hour when a return is prepared in three hours when it would have taken four hours in your office. Of course, if you are paying under $18.75 an hour in illustration 2 or less than $37.50 per hour in illustration 1, then there would be no cost benefit.

However, the cost saved might not be as meaningful as the time saved. Saving about 12.5 or 25 workdays from the two- to two-and-a-half-month
CHAPTER 2 CONSIDER OPTIONS FOR MANAGING SEASONALITY

A tax season period is quite substantial when considering that an extra person to supply those days might not be available and, if such person were available, there would be extra tumult and traffic and interruptions in the office with the additional person, as well as extra costs such as desk space, paper handling, telephone usage, coffee or sodas, and lunches or dinners.

The turnaround period of about three days is no longer, and probably shorter, than if the return were done in your office with per-diem help.

Another saving would be the time to prepare extensions for returns that could not get done on time. This is “lost” unrecoverable, and in most cases, no billable time.

Privacy issues have been raised, but we don’t see where the privacy policy is violated. Also, there is firewall security built into the system. Sending returns domestically over the Internet creates breaks in security or confidentiality if someone were inclined to break into your or your clients’ servers. There have been reports of the Israeli Secret Intelligence Agency’s computer system being broken into and confidential data extracted. If it could happen to them, we think there can be no completely safe system, internal or external. The controls built into the system in India make it probably as reasonably secure as a system could be, so we don’t think you should be overly concerned, after your due diligence satisfies you of the security.

Our India Experience

- The returns sent to India had a maximum three-day turn around. In some cases turn around was less than 24 hours.
- The Indian firm learned our Excel procedures and updated and completed the Excel sheets for us.
- The cost was about 30 percent less than what we would have paid a per-diem person for similar work and results, without the added turmoil of having the extra person in our office and without providing “lunch and sodas.” We did not have the interaction we would have had; however, it forced us to be more explicit in our instructions and paper and document organization and handleings resulting in a better “first-try return.”
- Our review process had the reviewer make the changes rather than returning it to the preparer to be redone. The Indian firm actually created a better work flow with a faster return-completion time.
- We tried India-prepared returns for about 10 percent of our individual return clients’ returns. For the future, we plan to send about one-third of the returns; using outsourcing to India enabled us to have a “first” review done by someone who would normally have only prepared returns and raised their level of awareness and skills and resulted in a better job by them on the returns they prepared.
- We believe the security of client data is of top quality and equal to that of our firm’s in-house procedures.
- Average cost to us was $75.00 per return (paying $25.00 per hour).
- We perform the same review on India-prepared returns in our tax department as we do for in-house prepared returns. A review of the India-prepared returns is first done by a preparer and the preparer submits to the tax department for services.
TECHNOLOGY

Our firm adopted a completely paperless tax season in 2004. All file copies are maintained in a paperless environment; 87 percent of the returns we prepared are filed electronically; and many clients have their copies e-mailed to them in PDF format. And everything we did was planned and implemented in the beginning of February!

Technology is a primary driver of a successful tax season. Older and slower equipment could cost up to an hour a day—reducing productivity by 12 percent to 15 percent. Necessary equipment will be computers, high-speed scanners, and second monitors. Also helpful will be networked high-speed printers and possibly personal printers. Your Internet access lines should be fast and able to handle the e-mailing of returns and downloading or upgrading of the tax software. Upgrading before tax season could bring back most of your costs by the end of tax season. Using the latest software is also necessary, but it is almost impossible not to.

DESIGNATED TIME FOR INDIVIDUAL TAX RETURNS

"Designating" a time for tax return preparation is a very important part of tax season. For most firms tax preparation is added or extra work. Because of this the regular work continues and usually takes precedence. Regular work can include continuously serviced clients, annual audits and other financial statement work needed for credit and shareholder purposes, or the life cycle work that needs immediate attention by the accountant such as a divorce investigation or a valuation for an estate or client buying or selling a business—all time-sensitive work.

Accordingly, if the tax season work is not scheduled or allowed for, it simply won't get done. For that reason, certain blocks of time need to be specially designated as "tax preparation" time. This could be one or two nights a week or certain weekends, and certain weekdays. At those times or on those days, everyone must work on individual tax returns or tax season work. This guarantees that adequate time would be spent on the tax work.

One way of assigning or designating tax season time is to consider whether the staff accountant would have worked those nights or weekend day to do the non-tax season work they were going to do if it were July instead of March. If they would have worked those hours in July, they would be excused from the tax season work for those hours.

Another benefit of specially designated time is that when everyone is working on the tax season work, peer people are available to assist with questions and issues rather than going to higher level people.

NEW CLIENTS AND LATECOMERS

The firm should try to control the flow of work by the way staff schedules the interviews and accept new clients.

Many times the clients who come late only came late because they are not asked to come earlier—or are not contacted at all—and they "wake
up" the end of the first week in April. If we have the information, we try
to complete the return. The bottleneck the last week of tax season is not
in the preparation, but in the review and return processing. If the return
is not done by April 15, the chances are it won’t get done until September.

Accepting new clients is a business decision that should be made on a
client-by-client basis. The referral source, type of return, fee to be
charged, and staffing are all factors that need to be considered. I do not
suggest a blanket policy. We have gotten some very good business clients
through new tax clients that came in the second week in April. One thing
we are very clear about is the fee we will charge for the return. Many last-
minute clients are looking for an upgrade to the tax preparation service
they used last year but do not understand that upgraded services suggest
upgraded fees.

EXISTING CLIENTS

Handling seasonality involves evaluating your clients to determine if they
are appropriate for your practice, to see that they don’t stretch your
resources, and to ensure that they are profitable.

Problem clients could be dropped. How problem clients are defined is
very subjective and varies from firm to firm. Examples of problem clients
could be those who:

■ Send in their tax information piecemeal or who don’t provide all the
data and expect the preparer to make up the missing pieces.
■ Call constantly to find out how much progress has been made.
■ Come in at the last minute and expect immediate hand-holding and
attention.
■ Complain about the fee before the return is even finished.
■ Want to know the result or an estimate of the net result before you’ve
been able to complete work on the return.
■ Demand higher-level personnel work on their return, but who pay fees
commensurate with services by lower-level people.
■ Want only a partner to call them with questions, or who only will talk
to the top partners.

Some clients we consider as problem clients are those who want exten-
sive hand-holding, such as wanting a partner to help them sign the return,
makes out the tax checks, and take it to the post office for them and have
it sent by certified mail, but who don’t recognize those services as “valu-
able” and worthy of an extra fee, or clients who show up unannounced
late at night and want to review the papers they previously provided to us
with whoever will be working on their return, or children of important
business clients who expect a same-day or next-day turnaround on their
return. Other problem clients are those who simply waste our time by
showing up for their tax preparation interview unprepared and who sit there
opening, discussing, and examining each envelope they received
that they think relates to their returns and that they put in a folder to
bring to the meeting.
COMPLETE PRE-YEAR-END PLANNING FOR SELECT CLIENTS

Pre-year-end planning for clients starts in late October and continues through December. We try to make the meeting last no longer than one hour. There are several approaches to the pre-year-end planning meeting. This chapter describes three and adds a word about identifying cross-sell opportunities.

TAX PROJECTIONS REVIEW

There are different types of tax season clients. Projections would typically be prepared for those with higher incomes, with uncertain and varying income, with unusual transactions during the year, subject to the alternative minimum tax, or whose returns are affected by year-end actions.

Many clients obviously need projections; others are not as clearly in need, so it is important to alert clients when to contact you for a projection. We also prepare projections for most of the new clients we get toward the end of the year.

Preparing projections serves as a tool to guide clients into what they can do to reduce their taxes by speeding up deductions or deferring income. It also provides an opportunity to review a client's financial situation and allows concentrated, un rushed time to discuss a client's financial affairs. Furthermore, projections provide a road map that a reviewer can use to compare the actual return to make sure there are no overlooked items.

Projections are typically prepared twice a year for most clients: once when the tax return is prepared and a second time toward the end of the year when the "results" are known. When the return is worked on, the interviewer will ask the client questions about expected current year's income or changes from the previous year. This is needed to prepare the estimated tax returns and serves as a guide to the client's current year's
situation. The interviewer is usually a higher level staff person or a partner. If the information is sent in without an interview, the preparer (usually a lower level staff member) will call the client to find out the information needed for the projection.

At the end of the year, a partner or manager-level staff person will meet with the client to discuss the situation for the year and what the expected outcome will be, as well as the opportunities for year-end tax planning.

In some cases the projection is only done during the preparation of the tax return and followed by a phone call to the client toward the end of the year to determine if there are any major changes and to discuss the year-end tax planning.

In other cases, projections are done each time a quarterly estimated payment is due. This is to calculate the proper payment and is usually done for clients with lower income than the previous year who do not (and should not) want to pay estimated taxes based on the protective prior-year tax.

I personally enjoy the pre-year-end meeting with the client. It gives an opportunity to discuss their affairs, concerns, and what's on their minds to see what true planning can be done.

When there is no meeting, and the information is obtained otherwise, someone from the firm will send the client a copy of the worksheet and will arrange to discuss it over the phone. In situations where there are major changes, and they result in large amounts of taxes that will be due, the partner most knowledgeable about the client will call and discuss it.

By the time we are done, we have reviewed the projections numerous times with many of our clients—with some clients it is done almost monthly.

Exhibit 3-1, "Sample Tax Projection Memo," is a sample memo accompanying a tax projection we sent to a client. This memo helps to make the projection and information we give the client user friendly—and reduces the need or urgency for a face-to-face meeting. A discussion over the telephone or via e-mail can do it.

LINE-BY-LINE REVIEW

We developed a new service: meeting clients in the summer and reviewing their return with them, line by line. This accomplishes a number of things: It is done at a less hectic time; it creates an opportunity to involve the clients on a more proactive basis on their tax return; it is a good way to discuss financial planning as well as tax planning with the clients; and it opens up a time for the clients to share their life goals.

Occasionally we find errors on the tax return, although that is not the purpose of this meeting. We then have to make a determination with the client, whether an amended return is to be prepared and filed. In some cases, we tell the client the amended return would be done when we prepare the client's return the following year.

UNPROTECTED ESTIMATES REVIEW

In the case of tax returns where we do not "protect" the client with the estimated tax payments, we put the estimated tax payment due dates on
our tax control so we can follow them up during the year before the September and final estimated tax payments.

We also put on our tax control estimated tax payments for selected clients based on their needs and our involvement with them. In those cases we would mail the client the estimated tax forms about two weeks before the due date. A sample notice is included as Exhibit 3-2, "Sample Unprotected Estimated Tax Payment Notice."

Any unprotected client is a candidate for a projection and we ask such clients to call us about two weeks before the estimated payment due date if there are any changes in their situation. During that call, we define what a change would be. A change is an increase or decrease of more than 25 percent in their regular income stream; a sale of an asset not typically expected to be sold, such as a business; a change in their marital status; a purchase or the formation of a business; an inheritance or expected inheritance; an unexpected disaster; winning the lottery; commencing or ending a law suit for financial damages; receiving or exercising stock options or employer securities; or getting a large promotion or the separation or retirement from their job. Additionally, we will call many of these clients without waiting for them to call us.

CROSS-SELL OPPORTUNITIES

Almost every tax client needs additional services we can provide. The issue becomes, not how to approach them with the suggestions, but when. Not doing it takes away an opportunity to better serve the client and for you to improve your revenue and client relationship. We collect copies of the tax return summaries or Excel sheets. The summaries are reviewed by a partner to determine if there are additional tax or financial planning opportunities for the client. We also specifically review all clients with a Schedule C to see if a pension plan is applicable, and if so, we call them. We suggest opening Keogh, SEP, SIMPLE, defined benefit plans, nonstatutory option plans, and deferred compensation plans where appropriate.

We have compiled a listing of clients' birth dates and make notes about which clients might have to take required minimum distributions from IRAs and, where the client has multiple accounts, which account to take the withdrawal from.

We also prepare follow-up lists when we review the tax returns for additional services we can perform for the clients after "tax season" ends. We start calling clients around the middle of June. Note that if the additional service is time sensitive, it should not be delayed; a partner should be advised and should make arrangements to help the client in a timely and appropriate manner.

Exhibit 3-3, "Sample Checklist of Follow-up Items," is a sample of the types of items that can be followed up on. This listing was taken from an actual follow-up list prepared during tax season as returns were worked on.
EXHIBIT 3-1

Sample Tax Projection Memo

To: [Client Name]
From: [Partner Name]
Date: November 15, 200X
Re: Year-end planning

Enclosed is the updated 200X and 200Y tax projection. Included is a summary of your last three years' tax returns.

To prepare the projection, we made certain estimates as follows:

<table>
<thead>
<tr>
<th>Wages</th>
<th>Projected from pay stub</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest, dividends, and capital gain distributions</td>
<td>Used same amounts as last year</td>
</tr>
</tbody>
</table>
| Capital gains (sale of your employer's stock) | 1/3/0X sold 10,000 shares ($250,000 less cost of $20,000) Estimated capital gain 230,000  
7/3/0X sold 20,000 shares ($550,000 less cost $40,000) Estimated capital gain 510,000  
Please verify the proceeds and costs on both transactions. |
| Pension excess contributions | Same as last year |
| Partnership income from family real estate partnerships | Combined income of $55,000 |
| New S corp. investment | Assumed no profit or loss |
| Itemized deductions | Estimates based on last year, and current year information that we have |
| Exercise of stock options | You exercised options for 50,000 shares at $5 per share, the stock's value at date of exercise was $25. Tax preference income for AMT purposes was estimated at $1,000,000. |

- Your projected 200X federal tax is $666,666. The New York State and City tax is projected at $222,222.
- Your payments to date are listed on the attached projection sheet. Please verify that you made them.
The balance due, which should be paid between January 1 and January 15, 200X, is:

- Internal Revenue Service $90,000
- State of New York $40,000

*Note that the NYS tax is paid in January because of the AMT you are subject to for 200X. Paying the tax in 200X would give you ZERO federal tax benefit.

- We would like an updated stock option plan schedule.
- Please send us a copy of the closing statement for the purchase of your vacation home.
- Please be aware that you might be able to use stock you presently own at the full FMV to pay for the stock you acquire by exercising your options.

If you have any questions or comments after reviewing the enclosed projection, or if you do not agree with some of the estimates, please do not hesitate to call.
EXHIBIT 3-2 Sample Unprotected Estimated Tax Payment Notice

IMPORTANT NOTICE

To: [Client Name]
From: [Partner Name]
Date: [Date]
Re: Unprotected estimated tax payments

Please note that the combination of your projected withholding and/or estimated tax payments for 200X is not the required amount to "protect" you from penalty for underpayment of estimated taxes.

We based the estimated payments on information you provided to us about your expected 200X tax situation. If you believe these amounts are not accurate or you want to be fully protected, please call us immediately.

We further suggest that you call us to review your situation before each estimated tax payment is due as follows:

<table>
<thead>
<tr>
<th>Payment due date</th>
<th>Call us by</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 15</td>
<td>June 1</td>
</tr>
<tr>
<td>September 15</td>
<td>September 1</td>
</tr>
<tr>
<td>January 15, 200Y</td>
<td>December 15</td>
</tr>
</tbody>
</table>

If you have any questions or comments, please do not hesitate to call.
EXHIBIT 3-3 Sample Checklist of Follow-up Items

______: Trust situs of trustee. Consider changing re: NYS tax.
______: Payroll taxes.
______: Household employee payroll taxes.
______: Put our JE on their books [Staff Name].
______: Letter re: using a complete set of books with B/S as well as P&L.
______: Partner’s cash distributions and percents. Review with [Staff Name].
The 200X distributions do not seem right.
______: To review loan & exchange account. Doesn’t agree with partnership information.
______: Savings interest income
     ______: And retirement income
     ______: Minus her investments
Review IRA designations and compare to new regulations.
______:  
______:  
______:  
______:  
______:  (also Estate Planning)
______:  
______:  (also Estate Planning)
______: If he were to invest in real estate, the losses could shelter the real estate income he has. Maybe that could enable him to be more aggressive.
______:  ______: Follow up and tell them how to specifically identify stocks and mutual fund shares to be sold.
Day traders ______; ______: Does Mark to Market apply to their nonproprietary transactions?
______: Consolidate his retirement accounts, perhaps into one IRA rollover account. Need details and distribution choices from present trustees.
______: Negative capital account. [Staff Name] says it is “taxable.” To be researched.
______, ______, ______: Meet with them in June or July for line-by-line tax return review and planning session.
______: Call after September to follow up doing year-end tax planning and call to consider additional withholding tax now.
______: Cashless exercise of ISO to avoid AMT.
______: Re: Financial Planning: meet by end of April. Combine and invest two 401(k) accounts.
______: Stock options; look at it.
______: Get info on his company from Web (if possible).
______: Consider setting up an organized charity for him; 501(c)(3) vs. foundation if possible.

(continued)
_______: TK payout amounts vs. amount earned.
_______: P/S amended return for K-1.
_______: Form 5500 for 200X and 200Y.
_______: Tell how to set up SIMPLE plan for this year.
_______: “Scholarship” from business for daughter’s tuition.
_______: Check out cash distribution from inherited IRA.
_______: TK state status of irrevocable trust.
_______: Not protected for estimate tax.
_______: ISO to exercise (cashless).
_______: Calculate tax for H and W separately.
_______: Financial planning re: retirement income.
_______: Family limited partnership.
_______: Estate Planning.
_______: Check W-2 s/b $10K.
_______: Do 200Y tax projection.
_______: Effects of wash sale and doubling up now and selling original shares in 31 days.
There are several mailings to be made to clients: a pre-year-end newsletter to be mailed in November, tax organizers to be mailed in mid-January, a letter regarding a tax notice service, and a privacy notification. Plus, there is information about Circular 230 Notices. This chapter discusses each of these mailings.

PRE-YEAR-END NEWSLETTER

A pre-year-end newsletter is sent out both for informational as well as promotional purposes.

By corresponding with our clients during the year and by trying to get them to come in for a pre-year-end review, we maintain some semblance of a year-round service. Doing this solidifies the relationship and also makes the person think of us as his or her firm and not as any one individual as his or her accountant. We also try to encourage clients when we prepare their return to call us during the year if there are changes in their lifestyle, such as a divorce, new job, retirement, or an inheritance. We also try to continuously mention trigger events in our newsletters and other correspondence, so clients will know to call us when their taxes might be affected.

TAX ORGANIZERS

Two sample cover letters for mailing organizers are included as Exhibit 4-1, “Sample Organizer Cover Letter—Short Version,” and Exhibit 4-2, “Sample Organizer Cover Letter—Long Version.”

The only clients that do not get the organizers are those specifically requesting that they not be sent. We also make sure that they are not sent to client's spouses at homes when they are separated, or to minor chil-
dren, or children at college (especially when large trust funds are in their name and their parents or grandparents did not tell them about it), or any other special circumstances. We also make sure that the organizers are not sent to prior addresses.

Included in the letter is a sentence or two that explains extra billing situations. We now bill extra for work that is not a tax preparation process, such as calculating a stock’s basis, helping a client determine the basis of an asset that is sold, reviewing a divorce or separation agreement and determining taxable alimony, and calculating a net operating loss deduction. The extra billing is identified as such and is included with the tax preparation fee.

One year we tried to get additional tax return business by sending a blank organizer with a cover letter asking the client to give the extra organizer to anyone who might need our services. It did not work and we stopped doing it.

Clients are starting to request electronic organizers. These are e-mailed and the clients could print them out for themselves and then complete them, or they could enter the information and e-mail it back to us. We are now asking clients how they want their organizers sent, snail mail or e-mail.

Many firms send engagement letters with the organizers, some send rate schedules, and some send pre-bills. I haven’t found any overwhelmingly great method and each firm seems to do what they feel comfortable with.

We also sent with the organizers an e-file procedure information sheet. An example is included in Exhibit 4-3, “Sample E-file Procedures Information Sheet.”

**TAX NOTICE SERVICE LETTER**

Tax notices are coming with increasing frequency. Fees for handling such notices are getting higher and higher, especially with the nonresponsiveness of some tax agency personnel.

Rather than bill each client as work is done, we instituted a process where we add a fixed amount to each client’s tax return fee and then handle any notices without additional charge.

The letter we use to notify clients of this service is included as Exhibit 4-4, “Sample Tax Notice Service Letter.”

**PRIVACY NOTIFICATION**

Every client for whom you prepare a tax return must be notified annually regarding your privacy policy. Some firms mail out the notice each year on a fixed date. Others mail it out with the tax organizers or completed tax return. Still others attach it to their engagement letters. A sample notice is included in Exhibit 4-5, “Sample Gramm-Leach-Bliley Act Practice Disclosure Provision.”
CIRCULAR 230 NOTICE

In accordance with IRS rules of procedure, known as Circular 230, any tax information you provide to a client must be accompanied by a notice stating that the recipient cannot use the information to avoid potential IRS penalties.

Every tax information statement, worksheet, projection, or written communication has the Circular 230 Notice on it. All e-mails from our firm automatically have the Circular 230 Notice affixed.

Two variations of this notice are included as Exhibit 4-6, “Sample Circular 230 Notice Language.”
January 200X

To Our Clients:

Enclosed you will find your 200Y Personal Income Tax Organizer. Please complete as much of the Organizer as possible and return it to our office at your earliest convenience. Upon receipt of the Organizer we will complete your federal and state income tax returns in a timely and efficient manner.

Our Firm has the capability to e-file your tax returns. In fact, unless you opt out, the State of New Jersey requires that your return be e-filed. Please see the enclosed insert in your Organizer headed “E-file Procedures.” Unless you tell us otherwise, or circumstances do not permit, your federal and state returns will be e-filed. E-filing will permit you to receive your refunds much faster than filing the returns by regular mail.

If you wish, your tax refunds can be credited directly to your bank account. Please review the Organizer to make sure that your current banking information is correct.

In addition, please review and enter in the Organizer your date of birth, including the date of birth for your spouse and children.

Several recent tax acts have been signed into law that will benefit many individual taxpayers. In order to take advantage of the changes, please take care in the preparation of your Organizer. Where possible, supply us with either the original or copies of your tax documents, so that we may determine the proper tax consequences of each item or transaction.

“Protective Estimates” can be utilized to avoid underestimation penalties. The penalty can be avoided by paying 100 percent (110 percent, if your 200Y adjusted gross income was in excess of $150,000) of your 200Y tax as an estimate toward your 200X tax liability.

Extra care should be taken in completing the section of the Organizer regarding your 200X estimated tax. The proper estimation of your tax will prevent the assessment of penalties. Unless you indicate otherwise, a “Protective Estimate” will be prepared for 200X.

Be sure to indicate or update your telephone number and personal e-mail address on the “Taxpayer Information” page of the Organizer. Doing so will enable us to quickly resolve any open items associated with the completion of your tax returns.

As we have done in the past, we will be utilizing a computer service to process your returns. Your federal and state tax returns will be prepared from the information you furnish to us. We will not audit or verify the data you submit, although we may ask you for clarification of some of the information.

The completed Organizer, and any additional information, should be returned to us in the envelope provided. This will enable us to expedite the preparation of your returns.

If you have any questions regarding the above, or need help in completing any portion of the Organizer, please do not hesitate to contact us.

Very truly yours,

[Partner Signature]

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1This letter was prepared by Ronald L. Bleich, shareholder, WithumSmith+Brown, New Brunswick office. Printed with permission.
EXHIBIT 4-2  Sample Organizer Cover Letter—Long Version

January 200X

[Client Name]
[Client Address]

Dear [Client Name],

The time for filing your 200Y federal and state individual income tax returns is approaching. In order to assist you in gathering the necessary information, we have enclosed your 200Y Tax Organizer. It is designed to help you organize the information that we will need to prepare your income tax returns.

If there are items that are not clear to you, please note them, and we will review those items with you. However, it would be helpful if you completed as much of the organizer as possible. This will facilitate the preparation of your income tax returns. Following we have listed some hints that should help you to provide the documents that we will need in order to prepare your tax returns.

**Hints on How to Compile Your Tax Information**

**Names and Social Security Numbers**

Please make sure that all Social Security numbers reported on the return (yourself, spouse, and dependents) are correct and that the names exactly match the Social Security cards. The IRS will be disallowing exemptions and certain credits if there is a mismatch. Please contact the Social Security Administration if there is a problem.

**Salary**

We need all parts of all of your W-2 forms.

**Interest-Dividends**

Provide us with all 1099 forms you have received. If you earned interest or dividend income from a particular investment but did not receive a Form 1099, please contact the institution for the missing information. However, you should give us the amount that should be reported.

If you receive tax exempt interest, we need to know the amount and the source of this income. Tax exempt interest is required to be reported (even though it is not taxable) to the federal government and in some cases to state taxing authorities.

**Social Security and Unemployment Insurance**

We need to know the full amount of Social Security and Unemployment Insurance benefits received. Provide us with the 1099s for those items.

**Pension, Profit Sharing, and IRAs**

Please indicate the dates and amounts of any payments made into an IRA, Roth IRA, SEP, Keogh, or SIMPLE account and the year for which you wish to claim the deduction.

If you received distributions from an IRA, pension or profit sharing plan or SEP, 401k, or 403b plans, please provide us with Forms 1099-R and/or W2-P. If any of these amounts were “rolled-over” into another plan or to an IRA, please give us the details.

(continued)
If you converted an IRA to a Roth IRA, please provide the information. If you wish to reconver to a traditional IRA, please call us to discuss.

**Income From Partnerships, S Corporations, Limited Liability Companies, Estate, and Trusts**

Please furnish all K-1 forms and accompanying statements of additional information received from these entities.

**Sales of Securities**

In the event you sold stocks, bonds, or other securities during the year, we will need brokerage statements reflecting the capital gains and losses or copies of buy and sell confirmation slips. If you maintained a brokerage account, please provide us with copies of the monthly statements as well as the year-end statement (including Form 1099B).

Regarding mutual funds and other securities sold, please note that it is your responsibility to provide us with the cost basis including the effect of any reinvested dividends. Many mutual funds can now furnish you that information. Should we be asked to do these computations, there will be an additional fee.

If you sold securities you inherited or received as a gift, you will need to obtain the cost basis from the executor or donor.

**Sales or Purchase of Real Estate**

If real estate was sold or purchased during the year, we need to be furnished a copy of the closing statements. If you sold your residence or other real property, we need to know your cost basis as well as the cost of improvements made during your ownership. Also give us a copy of Form 1099-S.

**Business Income or Rental Real Estate**

Summarize your gross receipts. We suggest that you review deposits made in your business and personal bank accounts to insure that all income was properly included in your summary. Expenses should be summarized by type of expenditure (for example, telephone, electricity, repairs, commissions, travel, and entertainment). Meals and entertainment, which are subject to a 50 percent limitation, should not be combined with other expense items.

If you are not presently maintaining a formal set of accounting books and records, we can suggest an inexpensive user-friendly computer software system to cut down the time it takes to record and summarize your records. If you maintain your transactions on Quicken, Money, or any other software program it might be easier if you e-mailed your file to us. Please speak to us to determine whether it should be done.

**NJ Residents' Homestead and NJ Saver Rebates**

Please provide us with the amount received, which must be subtracted from your federal real estate tax deduction if your return utilizes itemized deductions.

**Deductions**

We suggest that you make a preliminary review of the lists of deductions contained in the organizer and provide us with a summary of your deductible amounts.

We will also need you to summarize the cash expenses noted in your T & E Diary (See below).

When completed, record the totals on the appropriate page of the organizer.
If you do not know whether a particular expense is tax deductible, please identify it for us so that we can discuss it with you.

**State and Local Sales Tax Deduction**

New for 200Y is the itemized deduction for state and local sales taxes. Taxpayers now have the choice to deduct the greater of state and local income taxes or state and local sales taxes. If you live in a state that does not have state and local income taxes, the new sales tax deduction will probably apply to you. Most taxpayers will still benefit most by utilizing the state and local income tax deduction. If the sales tax deduction applies to you, do not have to gather all of your sales tax receipts. The IRS has published tables for the sales tax deduction, which are based on your income. Sales tax for major purchases such as automobiles and boats is allowed in addition to the table amounts. If in doubt, please provide us with the documents for your major purchases.

**Business Entertainment and Meals**

Entertainment and meal expenses are only 50 percent deductible. It is necessary to separate your business expenses into the following categories:

1. Hotel room charges (fully deductible).
2. Meals including those incurred while away from home (50 percent deductible).
3. Entertainment costs (50 percent deductible).
4. Transportation costs (fully deductible).

Please note that expenses under $75 per item that are properly and timely entered in a diary do not have to be substantiated with receipts. However, for all items of meals and entertainment the amount, time and place, date, business purpose and business relationship must be recorded in the diary, on the receipt, or on some other expense record.

**Charitable Contributions**

Please note that most cash charitable contributions need to be substantiated by a receipt or letter from the organization. For contribution transactions of $250 or more, you must obtain a contemporaneous written acknowledgement from the charitable organization. If you have not obtained such documentation, you must do so by April 15 or you are not permitted to take the deduction. You do not need to provide us with the receipts, but you must maintain them in the event of an audit.

We will need a listing of any property donated and the original cost or other basis of that property. If you contributed property other than publicly traded securities with a total claimed value over $5,000, you must have obtained a qualified appraisal. Provide us with a copy that we could include with your tax return.

**200Y Estimated Tax Payments**

You must provide us with copies of cancelled checks (or bank statement entries) for all federal, state, and city estimated tax payments that have been made for tax year 200Y. Please note that the final estimated tax payments could have been made in January 200X. In addition, in some instances, we will be checking directly with the IRS and state tax authorities to verify all estimated tax payments. In order to do so we must have any postcards received from these agencies, which contain your PIN numbers. The above procedures are necessary in order to prevent the issuance of tax notices and the resulting assessment of additional taxes, interest and penalties.
200X Estimated Tax
We will normally prepare 200X estimates on the basis of your income and withholding taxes for 200Y. We will use the best procedure that minimizes the possibility of a penalty for underpayment of estimated tax. If you anticipate a significant change in your income for 200X or a change in your withholding taxes, please advise us when you submit your tax data. If your income should change later in the year, please advise us at that time and we will determine if your estimates require an amendment.

Hope and Lifetime Learning Credits
If you, your spouse, or your dependents attended college or another postsecondary educational institution, you may be entitled to a credit on your tax return. Please provide us with the details and any forms received from the institution verifying attendance and the amount of tuition. Please note that if your adjusted gross income is $105,000 or more if married filing jointly, or $52,000 or more if single, you will not qualify. If you are married filing separate you will not qualify regardless of your income.

If your income is between $85,000 to $105,000 (joint) and $42,000 to $52,000 (single) the credits are subject to phase out provisions. Married taxpayers must file jointly to claim the credits.

Gift Taxes
Making gifts of assets does not generally save income taxes but can drastically reduce eventual estate taxes. In some situations, capital gains taxes can also be transferred to the gift recipient. We should be apprised of all gifts to individuals over $11,000, as well as all gifts, whatever the amount, to trusts that include or can include grandchildren. We can then discuss the income, gift, and estate tax aspects with you.

Joint vs. Separate Returns
It usually is better for married couples to file joint returns. However, in certain instances it might be better or advisable to file separately. This would include situations where one spouse owes large amounts to the IRS or for child support; where there are marital difficulties; where there are dual residency or second home issues; or where there is the incidence of certain deductions for one spouse and not the other. Please advise us of any special circumstances that you think we should consider when we prepare your return.

If you file separately, and the reason for it subsequently changes, you can refile jointly within the three year statute of limitations. Once you file jointly, you are precluded from filing separately.

Amended Returns
It may happen then when you prepare for the filing of your 2004 tax return you find an error on a previously filed tax return. Please let us know as soon as possible. Amended returns can be filed for the last three years up until April 15, 2005 (and possibly later if you had an extension for a prior year).

Electronic Filing
We plan to electronically file your 200Y federal and state individual income tax returns, whenever possible. Electronic filing provides definite benefits to you including reduction of processing errors by the tax authorities, faster refunds (usually within 10 to 14 days), fewer (or no) documents to sign, no envelopes to mail, and confirmation to us that your tax returns were received by the tax
We call tax aspects P.S. soon authorities. This we should allow us to electronically file your return with your electronic signature in the form of a PIN number. You can also pay balances due by check, direct debit from your bank account, or by credit card. The IRS has continued to add many more forms that can be included on an electronically filed return. Previously, most of the returns we prepared were too complicated for the electronic system. We will be glad to discuss any questions or concerns you may have about electronic filing when we prepare your returns.

We suggest that you send us a voided copy of a check from your checking account when you forward your tax information to us. This will provide us with the proper banking information for direct deposit tax refunds (fastest way to get your refund) or electronic payment of balances due (can be scheduled to occur anytime up to April 15).

Preparation Process for Your Tax Returns
Preparing your tax returns accurately and efficiently is very important to us. The procedure for your tax returns may involve outsourcing parts of the preparation process in order to improve client service and turnaround time, and to manage costs. Every income tax return completed at our office undergoes a quality review by one of our firm's tax professionals and is approved and signed by one of our shareholders.

IRS Correspondence
There are now checkboxes authorizing the IRS and most state tax authorities to discuss any problems in processing the tax returns directly with your preparer, eliminating the need for extra correspondence and having to obtain power of attorney forms. We recommend your authorization for this by checking the appropriate box in your organizer. If you do not check this box in the negative, we will assume you will want the tax authorities to contact us directly in the event of any questions. Of course, we will never agree to anything that will cost you additional taxes, interest, or penalties without your assent.

Conclusion
We rely on you to provide us with complete and accurate tax return information. This will allow us to prepare your returns expeditiously. In addition, your tax return will be better able to withstand scrutiny by the IRS and other taxing authorities. When your information package is complete, please submit it to us as soon as possible. If you are missing only a few items, such as K-1 forms, please do not delay. We can get started and add the additional information when it is received.

Should you have any questions about the information we need to prepare your tax returns, please call our office.

Cordially,

[Partner Signature]

P.S. If you feel you would like to discuss your personal financial planning, or any aspects of it, please either indicate it when you send in your tax information, or call us to discuss how we can help you.
EXHIBIT 4-3

Sample E-file Procedures Information Sheet

E-FILE PROCEDURES

Client Information Sheet

If your tax returns qualify, both federal and state returns will be e-filed. This will enable you to get your refund (if any) faster, avoid IRS processing problems and errors that may be encountered in transcribing your returns, and eliminate the need to go to the post office to file your returns.

Unless you notify us that you do not want to e-file your returns by answering no to Question 15 in the Organizer, they will be processed for E-filing.

The e-filing process is quite simple, and will entail the following:

- When your returns are completed, we will send you your copy of the returns for you to review and approve, together with Forms that will authorize us to e-file your returns.
- Once you have approved the returns for e-filing, please sign the forms where indicated (if filing a joint return, both spouses must sign) and return it to us in the envelope provided. Alternatively, you can fax the forms to us at (XXX) XXX-XXXX. These forms will not only provide us with your consent to e-file the returns, but will act as your “electronic signature” on the e-filed returns. Upon our receipt of your signed Forms, we will e-file your returns.
- Your tax refund can be expedited by having it directly deposited into your account. This can be accomplished by supplying us with your bank’s routing number and account number and indicating whether the account is a savings or checking account. To ensure that the proper numbers are entered, please send us a copy of a voided check. This information should be supplied to us on the bottom of the “Taxpayer Information” page of the Organizer.
- If you have a balance due to the U.S. Treasury or the State of New Jersey, it can be paid in one of three ways:

  1. By check . . .
     We will send you Vouchers to remit payment to the U.S. Treasury and the State of New Jersey. Even though your return has been e-filed before April 17, payments can be made with Vouchers that are mailed in time to reach the IRS and the State of New Jersey by April 17.

  2. By credit card . . .
     You can use American Express, Visa, MasterCard, or Discover Card to pay your tax liability. There is a convenience charge charged by the service provider for this service.
     For federal returns contact:
     Official Payments Corporation or Link2Gov Corporation
     1-800-2PAY-TAX 1-888-PAY-1040
     www.officialpayments.com www.PAY1040.com
     For New Jersey returns contact:
     Official Payments Corporation
     1-888-PAY-1040

  3. By “Electronic Funds Withdrawal” or “Electronic Check” . . .
     If you request “Electronic Funds Withdrawal” for the federal return, we will enter the withdrawal date of April 13 to assure that the tax is timely paid. The same information requested for direct deposit
will be used for the Electronic Funds Withdrawal. For New Jersey, you can use “Electronic Check” (e-check) by going to their Web site, www.state.nj.us/treasury/taxation/, or calling the State at 609-292-6400. Unless we are notified otherwise, we will send you payment Vouchers with your copy of the tax returns. Please note, we will not send out reminder notices with regard to the timely mailing of the payments and Vouchers to the U.S. Treasury and the State of New Jersey.
January 200X

[Client Name]
[Client Address]

Dear [Client Name],

Of late there has been an epidemic of individual tax notices and inquiries from the Internal Revenue Service and the state tax authorities. These notices usually result from a mistake by the tax agency, income reported to the tax agency for which the taxpayer didn't receive the appropriate information documents, or incorrect estimated tax payments.

Should you receive a tax notice, it makes sense for you to forward it to us to check it out. We normally charge extra for this service. As you may know, the fees for individual services are becoming quite expensive, sometimes more than the cost of the actual tax return. This is not through the fault of our clients or us, but rather in the nature of dealing with the "new" IRS and the state tax authorities.

In order to institute a more equitable process and spread the costs, we have initiated a policy where we will now charge every individual tax client a $XXX fee for each tax year, which will cover any notices or inquiries for tax returns we have prepared. In this manner nobody will be charged extra if and when a tax notice occurs.

Please note the tax notice service fee referred to above does not apply to tax examinations, meetings with tax agents or collections officers, extensive phone calls, and appeals (which would be billed at our standard hourly rates). Generally, our contact with you under the tax notice service does not include any meetings, but would involve telephone, fax, or e-mail.

Should you have any questions about this, please call us.

If you do not wish to participate in our tax notice service, please sign the waiver, below, and return it to our office within 10 days.

Sincerely,

[Partner Signature]

By checking this box I hereby acknowledge that I am declining the Tax Notice Service. I understand that I will not be billed the $XXX fee for this service with my 200X tax return, but should I request you to respond to a tax notice, I will be charged at your standard hourly rates.

Name (please print)__________________ Signature__________________ Date______
EXHIBIT 4-5 Sample Gramm-Leach-Bliley Act Practice Disclosure Provision

GRAMM-LEACH-BLILEY ACT
PRIVACY DISCLOSURE PROVISION

Privacy Notice
as Required by Federal Trade Commission Rule 16 CFR Part 313
"Privacy of Consumer Financial Information"

July 1, 200X

We collect personal information about you and all our clients from the information you submit to us orally or in written form, and through information we obtain over the course of your business relationship with us. In addition, we may from time to time receive information about you from third parties. Personal information is information that we collect from you that is not otherwise available from public sources. The categories of personal information we collect include (1) information you submit to us, such as your name, address, Social Security number, names of family members, assets, and income; (2) information about your transactions with us, such as your account balances, investments, current and prior tax information, and credit card usage; and (3) information we may receive from credit reporting agencies pertaining to your creditworthiness and credit history, including loan or mortgage payments made. We do not and will not disclose any personal information about our clients or former clients to anyone, except as permitted by law. Upon your request, written or oral, we will disclose information about you. In rare circumstances, we may be required by law to disclose personal information about you, such as in response to a subpoena or other court order. Within our firm, we provide access to your personal information only to those employees who need to know the information to provide you with our services. On occasion we outsource work to other professional organizations that agree to adhere to the same client privacy protection standards that we do. We maintain physical, electronic, and procedural safeguards to guard your personal information. We do not share your personal information with companies that perform marketing services.
Sample Circular 230 Notice Language

Sample 1
To ensure compliance with U.S. Treasury rules, unless expressly stated otherwise, any U.S. tax advice contained in this communication (including attachments) is not intended or written to be used, and cannot be used, by the recipient for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code.

Sample 2
Any tax advice contained in this communication (including any attachments) is not intended or written to be used, and it cannot be used, for the purpose of (1) avoiding or reducing penalties that may be imposed by the Internal Revenue Service or any other governmental authority, or (2) promoting, marketing, or recommending to another party any transaction or matter addressed herein.
Every staff person is given his or her own copies of master tax guides for the IRS. Others who request them are also given the master tax guides for New York and New Jersey. Also, every staff person completes the CPE quiz for the Master Tax Guides. All staff needing any additional materials or anything extra for their homes are given it.

The books I use and refer to generically as Master Tax Guides are one-volume books prepared for professionals such as the CCH Master Tax Guide, RIA Federal Tax Handbook, and J K Lasser's Your Income Tax—Professional Edition. They also have a regular edition—also wonderful—that is sold in every bookstore in the country. The difference is that the professional edition has citations and references.

We have an extensive and complete tax library. This includes over 35 PPC services and the 15-plus volume Biebl Ranweiler PPC series. We have the complete RIA and BNA research, analysis, and forms services on CD-ROM and with Internet access. By the time you read this, we will be receiving all of these services online—no more paper services.

Our entire staff is given every issue of a fantastic tax update newsletter, the monthly Tax HotLine, and selected staff (those who request it) are provided another fantastic update, the bi-weekly PPC Tax Action Report. We are also switching to online mode of delivery for that update.

For the last 26 years I have been on the editorial board of Tax HotLine. I am also the only person to have had an article in every issue (with the exception of one issue). Tax HotLine continually has many top tax experts writing on a wide range of tax issues. The articles are well edited, compact, succinct, and contain the most up-to-date information on the subjects covered. We highly recommend subscribing. Subscriptions are $39 per year and can be ordered from Tax HotLine, P.O. Box 50393, Boulder, CO 80323-0393. If you prefer, ask them to send you a free three-issue trial subscription.
The tax department, besides being the tax planning, research, and review arm of the firm, is a resource and support center for the staff. However, before any work is referred to the tax department, it should be first checked in the *Master Tax Guide* or the applicable instruction form. All questions should be presented in writing by e-mail, with a copy to the engagement partner. The e-mail forces the person requesting the research to work out and clearly articulate what he or she needs. This keeps the researcher focused. I have also found that the person laying out the issue in writing can many times uncover his or her own answer, or the lack of need to continue with that question or line of approach.

For quick reference we have prior years' *Master Tax Guides*. However, most of what we need is available on the Internet.

The IRS Web site can be accessed by www.irs.gov. Also, our firm's Web site (www.withum.com) as well as other CPA firm Web sites have links to many other useful Web sites.

Members of the AICPA tax division have access to their extensive checklists, which might help you when you prepare returns. We find the AICPA tax checklists to be an excellent tool to use when preparing and reviewing returns. The preparers can use the checklists to not only do a better job of making sure they did not miss anything, but as a self-review before handing in the return for review. Many of the checklists come in a short version as well as a full version. The 1040 checklist comes in three versions—a 2-page mini, a 9-page short and a 28-page full checklist.

Many firms keep the last dozen years' *Master Tax Guides* federal and state Package X's in their libraries. These have tax rates and depreciation schedules and rates as well as the tax rules for those years. These can be very helpful if prior-year returns need to be prepared for those who have not filed timely. Again, the paper versions are being thrown away when the information is available online.

Keeping current is not only a tax season issue, but also an important part of your professional activity. Business and professional journals, periodicals, and newsletters should be scanned and looked at the moment they come to you. You spend a few minutes seeing what issues and topics are covered. Any issues relating to a client should be then either looked at more carefully, or copied or printed (or e-mailed to their folder on the server) and put in client's file—and *then* the time should be scheduled to be worked on. This whole process should not take more than two or three minutes per publication. If you get 5 to 10 such newsletters and e-mails a week, then ½ hour a week is the most that is spent to "get smarter" and be able to serve clients the best way possible.

Excellent e-mail updates that can be sent to you are:

- From the AICPA:
  
  E-mail: Tax_InsiderSubscribe@email.cpa@biz.com

- From the IRS:
  
  www.simplifyeftps.org
  
  www.irs.gov
From other sources:
www.accountingweb.com
E-mail: Cindyh@NATPTAX.com

The AICPA also has a Web site with tax tips as well as a myriad of financial planning information and tips: www.360FinancialLiteracy.org.
IMPLEMENT STAFF TAX TRAINING PROGRAM

Training is important to ensure as accurate a return as possible. It is also important as a tool to establish as much uniformity throughout the office as possible. This will enable staff to help each other, make it possible to have someone not familiar with a file to complete a return with missing information or to make changes or review the return, and to establish a consistency of work thorough the firm.

Tremendous effort and energy are put into staff training. In effect, training is continuous, with each person expected to learn, develop, and grow professionally and technically. We also place great emphasis on procedure compliance. Our lives are always made better when things are done as they should. It makes review, error disclosure, and training easier and a pleasure rather than a chore.

We focus on two types of training: the pre-tax-season meeting and on-the-job training. This chapter discusses both of these and includes a section on maintaining morale.

THE PRE-TAX-SEASON MEETING

For tax season, the kickoff is our annual pre-tax-season meeting, held from 5:00 P.M. to 9:30 P.M. over a buffet dinner during the first week of February. We have a 200-plus page manual that contains the procedures we want followed during tax season, a section on tax changes that we want to highlight, copies of our internal forms, and an organizer and tax information for a sample client whose return will be prepared that evening.

The staff meeting consists of three separate parts.

- Part 1 is a discussion of tax law changes and highlights, and our procedures and processes. This lasts about 90 minutes.
- Part 2 is the preparation of a sample tax return on IRS forms. This lasts about 100 minutes.
Part 3 is a discussion and critique of the return. This lasts about 60 minutes. We allow 20 minutes for eating, even though we work through dinner. We give five CPE credits.

Part of our training that has been successful for us is for the staff to prepare a sample return on government forms, followed by a discussion of the results. What we did was customize the preparation to the level of the preparer. Proctors would walk around supervising the preparation and have each person fill in the parts of the return geared to the level they were at, with everyone actually calculating the taxable income and the income tax. Filled-in forms for the parts they did not manually prepare were handed out during the appropriate time in the preparation session.

We usually invite colleagues from other firms to join us. This allows us to share information with them as well as to gain different perspectives so we could all learn and grow. This part of the meeting has been very successful for everyone attending, and we intend to continue it. As always, we look forward to any comments and suggestions for now and the future to make this training program even better.

The objective of our meeting is to:

- Create respect for tax season.
- Create a morale and spirit.
- Strengthen our firm culture ("We are different, and we are better, and we work together"), and brand (what we stand for and the quality behind everything we do).
- Preparing a return on actual forms so there will be a "feel" for returns.
- Ensure the highest quality of preparation at each level handling the return, starting with the lowest level.

On-the-Job Training

A key element of the success of the training is the reinforcement during actual return preparation. Our experience had taught us that the most effective method is the on-the-job (OTJ) training, not the classroom lecture. To work properly, the training has to be available, continuous, consistent, and reinforced. The overseers of the OTJ training would typically be the reviewers. Thus, the highest level would need to train the lowest.

A quick word about this training method: It is essential that a classroom-type training program be conducted. The staff has to be shown what to do, procedures to follow and how to get as much of the work done before seeking help, and how they can check their work and find their own errors. However, my experience has shown that most people will not follow what they are taught; they are impatient, have a short attention span, and are anxious to get to work on a return. For that reason, the OJT has to be done deliberately, focused, and consistently every time it is needed (that is, it's necessary). It is essentially training by correcting errors. References can be made to what was taught in the classroom, but the direction has to come with the actual work. If the higher level staff do not follow through on the OJT, there will be no growth except by extremely bright or the more motivated staff. The OJT program is not a
replacement for the classroom training; it is more regular and occurs almost daily while the classroom training takes place before any of the work is attempted or started.

The tendency during the very busy time is for the reviewers to fix errors themselves, to save time and move the return. Resisting this could be one of the hardest things to do; however, if the reviewer has the preparer fix errors, it increases the probability that those mistakes won't be made again—while by making the change the reviewer ensures the errors will be continuously made every time the opportunity arises. Expediency has to step aside for the process of having the firm's goals met, and that has to be by the clear, deliberate, consistent, and regular training, with the error corrections an integral part of the training.

This is a time for long-range thinking, but by some measure the long-term interests coincide completely with the short-term. In tax season, two months of training and efforts are concentrated into a week. Shortsightedness four days before April 15 can cause much more work for the reviewers and missed learning opportunities that cannot be reversed or made up. The dedication to training will pay immediate (perhaps for the next few returns submitted by the preparer) dividends and longer-term dividends on all the errors avoided on the extended returns those preparers will be working on.

I have also found out that having the preparer make the changes teaches them what they did wrong and that they must be more careful because they are the ones who will have to make the changes. Leaving the errors for the reviewer to correct should not be a strategy that works.

Another element of the training is the availability of a "go to" person a preparer can ask for assistance. This can be the reviewer, another staff person, a manager, or even the engagement partner. Uniform procedures will help the training since the methods and advice will be consistent and will be done in a consistent manner.

We also provide sensitivity training for error avoidance and serving the client more efficiently.

In summary, following are the key elements of the training:

1. OTJ training needs to be formalized, with consistent methods that are uniformly applied.
2. The methods have to be developed in a way that everybody does everything the same way. Any one person should be able to pick up any other's work and proceed in the same way the originating person would.
3. The partners and senior staff have to become focused on the methodology and become dedicated to the process of delegating, training, and developing.
4. We have to become a training organization.
5. Everybody you hire needs training. The most experienced need training in your procedures, accountability, and oversight requirements. The inexperienced need to be told everything, including how to turn on the computer and back up files. The experienced person might need procedures drummed into them even more than the new recruit, to break some bad habits.
6. In training we must find ways to constantly tell the staff they did a good job and to excite them, as well as to not let them go home upset or leaving tasks unfinished.
7. Training methods should involve breaking jobs into smaller tasks. It's easier to get smaller things done right and easier to review smaller things than big things. It also takes much less time to explain what to do for a short task than a large job.
8. Training should be done cheerfully and gracefully—not grudgingly.
9. The attitude should be to train and have the trainee do the tasks—not the trainer, who must avoid the attitude that it is easier for them to do it.

MAINTAINING MORALE

One of the problems we face from time to time, and we forget about it until it becomes a problem, is to create a morale and spirit toward tax season. We work at this. We have a pre-tax-season trip to a New York City museum, dinner, and show. During tax season, we buy flowers and plants for our staff; get afternoon ice cream; vary the places we bring in lunch from; close one Saturday; and occasionally let our staff go home earlier than 11:00 P.M. (just kidding).
You should prepare a list of all returns by each due date. A printout should be given monthly (weekly during tax season) to each partner and in-charge staff person to use as a guide and checklist. We include the type of return or service, the due date, updated status, and key people responsible for the return. A sample is included as Exhibit 7-1, “Sample Tax Control Report by Due Date.”

Additional information would be to include a code for client group. We find it is helpful when we plan and work for a client to have a listing of every return we need to do for each client. It is also useful when we want the client to know everything we do for them; and for clients to have a copy for themselves to also be aware of and track due dates. A sample is included as Exhibit 7-2, “Sample Tax Control Report by Client Group.”

Items to consider when creating the schedule include software used, how the schedule will be tracked, setting priorities, and the time needed to complete the return.

SOFTWARE USED TO CREATE SCHEDULES

We have not found a completely suitable method of tracking due dates as part of tax preparation software, so we recommend separate tax control software. This has a disadvantage in that it is another database that needs to be maintained. This causes additional work entering the information and reconciling the two systems and creating an extra step to have the information entered. However, when using the tax preparation software, it is also a separate step for you to enter the returns that need to be prepared when you know what has to be done. It is also necessary to enter the information as soon as you know what is to be prepared so you can track due dates for extensions and possibly estimated taxes. On the tax preparation system, marking it off when the return is completed is auto-
matic or one click; on the separate system, however, it has to be entered and needs to be entered timely. The separate software, though, can handle multiple due dates for state returns, selected estimated tax due dates for clients that are not "protected" where separate calculations have to be made for each quarterly payment, and forms and filings and follow-up information where there is no actual tax form such as Crummey letters, officer loan interest payments, personal auto inclusion in W-2 amounts, and tax refund filings.

Some firms create Excel spreadsheets, while others use their billing programs. It appears many of the tax preparation programs do not provide a useful tracking checklist, but that would be the most efficient and appropriate to use.

HOW THE SCHEDULE WILL BE TRACKED

Many firms have a method whereby they prepare a new client checklist as they get new clients. On that form is a listing of the tax returns the firm is responsible for preparing. This form is usually saved in that client's permanent file. A problem arises when additional preparation work is to be done for an existing non-tax-preparation client. For instance, let's assume a client for whom you performed forensic litigation work now wants to become a regular client and have your firm prepare their tax returns. Well, this client has already been entered into your system with the new client checklist. There might not be any regular mechanism to now enter the tax returns you are asked to prepare during the next tax season (you might have done a pre-year-end tax projection for them, but that would not ordinarily get entered onto the tax control). We suggest that the new client checklist be renamed "new service" checklist and that it be filled out immediately whenever a new service is known to be done for a client. As a matter of good business practice, you could also list the fee and billing arrangement, which would be fresh in your mind and forces you resolve the issue at that time instead of leaving it open ended or vague.

The tax calendar should be networked, with a minimal number having access to entering and updating data.

An added client service and practice support process is to prepare an individualized tax and financial payments calendar for a client. The starting point would be the tax calendar you maintain, but you would include estimated or actual expected payment amounts. Obviously, this would only be prepared where your client service arrangement includes this add-on premium service.

SETTING PRIORITIES

People who are not corporate clients have their returns assigned on an "as-scheduled" basis and according to who is available. If at all possible, we try to schedule the same person who prepared the return in the past. But this is not necessarily done.

All the scheduling and preparing of the return is done on a FIFO basis. Unless someone has a dire need for a tax return by a specific date, such as
leaving the country or going on an extended vacation, we do not take returns out of the order that they came in.

TIME NEEDED TO COMPLETE A RETURN

The amount of time it takes to get a return to the client is about three weeks before March 31 and 10 days or sooner from April 1 on.

After April 15 the process takes approximately one month because people are not necessarily scheduled to be in the office to do tax returns, as they are during tax season. Tax returns are also not given the full priority after April 15 that they are usually given beforehand because of the lack of serious government deadline. However, the faster we can get the return out, the more satisfied our client will be.

The bigger the returns made, the longer the review and higher the potential for error. Therefore, we schedule the preparation of difficult tax returns to minimize the strain and number of client telephone calls.

In 2004 we instituted a two-week completed-return policy. This greatly reduced the calls from clients, reduced our work in process, eliminated most scheduling problems, and speeded up our cash flow. Not too bad!
### EXHIBIT 7-1
Sample Tax Control Report by Due Date

<table>
<thead>
<tr>
<th>Client</th>
<th>Client Group</th>
<th>Service or Return</th>
<th>Extended</th>
<th>Status</th>
<th>Key Person 1</th>
<th>Key Person 2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Due Date: 11-15-XX</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A Corporation</td>
<td>7010023</td>
<td>1120</td>
<td>No</td>
<td>Sch</td>
<td>AA</td>
<td>BB</td>
</tr>
<tr>
<td>B Corporation</td>
<td>7020076</td>
<td>1120</td>
<td>Final</td>
<td>Rev</td>
<td>AA</td>
<td>CC</td>
</tr>
<tr>
<td><strong>Due Date: 11-20-XX</strong></td>
<td></td>
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## EXHIBIT 7-2
### Sample Tax Control Report by Client Group

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<th>Client</th>
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<th>Service or Return</th>
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</table>
Firms start tax season weekend work anytime from the beginning of January to the beginning of February. This usually includes either Saturday or Sunday and night work two times a week. Some firms require night work on an “as needed” basis. Very few public accounting firms do not have extra hours during tax season.

Some firms close the day after April 15 and some have a golf outing for partners.

Some firms restrict the night and weekend work solely to tax return preparation. No audit work can be done except in some rare instances.

Some firms pay overtime weekly or with each paycheck; others accumulate it until a date after tax season but usually no later than June 30. Others do not specifically pay for tax season work but give a bonus, taking into account the added time and efforts during tax season; and some do not pay anything extra, working the extra hours into the regular weekly pay arrangement.

Some firms that pay overtime base it on straight time over 40 hours a week, and some pay time and a half. State labor laws might determine how you should pay for overtime hours. Some firms have a 35- or 37½-hour work week, and pay no overtime up to 40 hours a week.

Some firms bring in lunch, and others dinner, and some both, for their staffs working during tax season. Some firms pay a fixed-dollar amount for dinner and let their staff make their own arrangements for eating.

Whatever the arrangement, firms need to focus on two items—accountability and control through an effective tracking system and using personnel to their full potential.

ACCOUNTABILITY AND CONTROL

An effective time tracking system must be maintained on a real-time (that is, daily) basis. This ensures control and accountability.
Updating our daily time system eliminates any need for additional timesheets or recordkeeping. Some purposes and benefits of the daily entries are:

- To know how much time was spent on a return and by whom. In many cases returns are “touched” by people the partners are unaware of.
- To track progress by looking at the accumulated time rather than by speaking to or calling a staff person.
- To actually know who is currently handling the return.
- To track what work a staff person has done the previous day—especially a day he or she might not have been in the office. Another reason is the system allows us to deal with situations such as seeing staff congregating around the office, wondering what they were doing and accomplishing, and being able to check it the next morning while it is fresh in everyone’s minds.
- To determine whether a staff person is working on scheduled work or impromptu or unscheduled or unplanned work.
- To track that the proper time is charged to a job, and that “nonchargeable” activities are not charged to a client they did not perform work on.
- To determine that a staff person is working adequate hours during periods of unusual extra work, or that a staff person is working an inordinate amount of time.
- To make sure all work done is captured in the time system while it is fresh in the minds of the accountants.
- To be able to bill when a return is sent to client and not after a month or longer.

**USING PERSONNEL EFFECTIVELY**

For personnel to operate effectively during tax season, the firm has to recognize the human assets available and the relative scarcity of these resources. Briefly put, the resources, in order of ease of obtaining, are:

- Administrative and support staff.
- Preparers, usually lower level staff.
- Reviewers, usually specialists or higher level staff.
- Shareholders.

The roles of each of these resources in the tax preparation process should be as follows.

**Administrative and Support Staff**

- Assemble and prepare the returns for sending to the client and filing with the tax authorities.
- Print the completed, ready-to-file return to GFR.
- Scan the client information and working papers into GFR.
- Schedule appointments with clients.
- Inform mail-in clients their information has been received.
- Log in client information as it arrives.
Follow up to see that the clients have received their returns and that they send back the e-filing forms.
- Call client for additional information when it is easily identifiable.
- Generally assist staff and shareholders to reduce their time in non-preparation tasks.
- Turn around returns in one day.
- Daily, at end of day, enter returns and processing sheets into GFR.
- Networked coordination of returns that have been sent out and the availability to see it in real time.

Preparers, Usually Lower Level Staff
- Prepare the returns.
- Do light research.
- Get questions and open items resolved so that the reviewer doesn’t have to.
- Organize the client’s information in a specific order so reviewer and shareholder can easily and without recreating what was done check input as they decide to.
- Fill out standardized worksheets and schedules.
- Read and respond to checklist questions.
- Prepare self-checking worksheets.

Reviewers, Usually Specialists or Higher Level Staff
- Review returns two ways—a content review and an issues review (described in a later section).
- Since there are fewer reviewers than preparers, processes must be developed that will save the reviewers’ time.
- These procedures might take extra time for the preparers, but their time is more readily available than the reviewers—and is less expensive.
- Also, the better organized and prepared the return is, the faster the reviewer can check the return.

Shareholders and Partners
- Shareholders and partners should delegate everything that can be delegated.
- That includes shareholders effectively delegating to each other the things that each of us does better.
- They should be available to answer questions about the client, resolve issues, make sure no one is chasing their tail and that the work is moving.
- An important role of the shareholder is to be able to discuss arising issues with the client and to make the client aware of any problems, bottlenecks, and need for additional services.
- The shareholder has to be able to manage his or her book of business or client responsibilities a little better than during the rest of the year because staff won’t be as available as they are during non-tax-season time. The shareholder has to let the clients know that the firm is open for business during tax season, not just open for tax return preparation.
RETURN PREPARATION

Tax season and preparation has provided many firms with the impetus to introduce new ideas and improve the firm overall. Clients are filling out their organizers online and receiving their returns by e-mail, with the accounting firm filing the returns electronically—without a single piece of paper being generated.

The issue is to recognize that there is a system and that the procedures must be followed to ensure a smooth or smoother tax season. The steps in this system include the following:

■ Client calls for appointment and speaks to either the secretary or a partner. (Chapter 9)
■ Clients needing tax interviews meet with partner; others mail or send in their information. (Chapter 10)
■ Client information is copied or scanned and organized. Client active status is recorded into tax control. (Chapter 11)
■ Return prepared by an accountant (not necessarily the person who did the interview). Some things might need to be researched, and this could be done by someone else. (Chapter 12)
■ Return is reviewed. Return could be given back to the preparer if there is a question or for a change to be made. (Chapter 13)
■ Time charges are calculated or fixed fee schedule filled out, and the bill is prepared. Bills are distributed to the bookkeeper. (Chapter 14)
■ Partner approves the issuance of return. Return is copied and assembled, or a digital copy is e-mailed to client. Paper versions of returns, or copies, are mailed by secretary. (Chapter 15)
■ Appropriate returns are e-filed. (Chapter 16)
■ Extensions are prepared. The process restarts regarding obtaining information from clients with extensions. (Chapter 17)
■ Client calls with tax audit notices. (Chapter 18)
■ Check is received from clients with completed returns—and then we use the money to spend on a vacation to “recover” from tax season.
■ October 15—the last extension is filed. Tomorrow tax season starts again.

There is a system—and it works!
Each partner schedules his or her own appointments to interview the client. New clients are almost always seen by a partner.

Making appointments is a pain in the neck, but essential. But I do set aside days, and some nights, to see tax clients. I schedule an hour per person, with some slack time to allow for running late or to return phone calls or e-mails. In a typical day, the first appointment might be at 9:30, second at 11:00, third at noon, fourth at 1:30, then again at 3:00 and 4:00, and possibly 5:00, for those who want to come after work. This gives me potential to see six or seven people in a day. My secretary or an office assistant calls clients that I typically see to schedule the appointments. I usually see people in different locations—my offices in New Brunswick and New York City, and conference facilities in several parts of Manhattan and Long Island.

All audit people are to get the information of the principals of our corporate clients sometime in February. If they do not, a continuous flow of calls must be made every third day until the information comes in. This might seem to be an annoyance to the client—and it is. However, the annoyance is offset by the rise in confidence in the firm knowing that someone is watching their return and “won’t let it slip through the cracks.” In my mind the extra telephone calls are a marketing maneuver.

When we make an appointment with a new client, we make sure to discuss the fees and basis for them. For lower income clients, we give them a rate schedule. For wealthier clients, we prepare an engagement letter with a fee range. We also say when we expect to be paid. We also accept the major credit cards. Note that many firms prepare engagement letters for all individual tax clients.
CHAPTER 10

RECEIVE INFORMATION FROM CLIENTS

There are two ways to receive information from clients: a personal interview or mail. This chapter covers these two topics and engagement letters.

TAX RETURN INTERVIEW

Following are some procedures that could be followed when interviewing clients to get their income tax information.

- When you interview clients in person, ask them to bring all of the previous year’s canceled checks or a printout if it’s available. Ask client to sort them; or if they would prefer, we could do a data entry and give them an analysis of their entire year’s expenditures.
- Record clients’ home and business phone numbers on control sheet.
- Ask all clients their birth date and record it in working papers.
- Ask all clients their children’s ages. Social Security numbers are mandatory for all dependents. If clients do not have a number for a dependent, give clients Form SS-5.
- Verify if client is an active participant in an employer-maintained retirement plan, and whether the employer actually made a contribution for the client. If the employer did not make a contribution, client might be able to make a deductible contribution to an IRA.
- When we get a new client, we try to obtain a copy of the previous year’s tax return before we start our work.

MAIL-IN CLIENTS

A number of clients mail us their information. This is scheduled in the same way as if the client came up to the office.
Mail-in clients have to get treated a little differently because the personal eye-to-eye contact doesn’t exist. We call the client to tell them their information has arrived, who will work on the return, and approximately how long it will take until the return will be completed. Some mail-in clients have their returns scheduled, with the client being told when to mail us their information. If we get the information too early, it will just increase the flow of calls asking when the return will be ready.

Copies of any correspondence sent with the information are given to a partner, who will follow up with a telephone call if necessary.

We “correspond” but also “call” and send e-mails to clients addressing their specific situations. An example is where we give a speech on asset allocation techniques. We will send a client with those expressed concerns or needs a copy of that handout with a handwritten note to call us if they want to discuss further.

ENGAGEMENT LETTERS

It is good business procedure to obtain an engagement letter for every client you prepare a return for. This has become an especially important tool to eliminate misunderstandings with the client and perhaps the clients’ family members where there is intrafamily controversy.

A sample engagement letter is included in Exhibit 10-1, “Sample Engagement Letter.”
Sample Engagement Letter

[Date]

[Client Name]
[Client Address]

Dear [Client Name]:

As is customary in the profession, we are providing you with this engagement letter outlining the services this firm will render and the fee arrangements in connection with the preparation of your 200X tax returns.

We will prepare your federal, state, and local income tax returns from information that you will furnish. We will not audit or otherwise verify the data you submit, although we may ask you to clarify portions of it. We will resolve questions involving the application of tax rules in your favor, if there is reasonable justification.

The Internal Revenue Service as well as state and local taxing authorities reserve the right to examine your tax returns. The selection of tax returns for examination is usually based upon variances from standard norms. In many cases, however, selections are made on a random basis. Also, as your income increases, your chances for selection increase. Should your return be selected for examination at a later date, we will be available to represent you, and the time spent will be billed to you at my standard rates for tax examinations.

Our fees are based on the amount of time required to obtain, review, and analyze your information; perform any necessary research; and prepare and process your tax returns. My hourly rate through December 31, 200Y will be $XXX. The hourly rate for other members of my firm will range from $XX to $XXX. In addition, you will be charged for out-of-pocket expenses (for example, messenger charges and computer service charges). Generally, you will be billed after we have completed your tax returns. Our invoices are due and payable immediately upon receipt. There will be a late charge equal to 1.5 percent per month on any unpaid balances.

If the above terms are in agreement with your understanding of our engagement, please sign and return the enclosed copy of this letter along with your Organizer. Should you have any questions concerning this letter or the fees to be charged, please do not hesitate to call.

Thank you very much.

Very truly yours,

[Partner Signature]

Approved by: ________________________________

Signature Date

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1 This letter was prepared by E. Martin Davidoff, CPA, Esq. Printed with permission.
Many offices are becoming paperless. However, before you can have a paperless system you need a method of capturing and organizing the information. The following presents working paper and filing processes that were done manually and can be adapted to the paperless environment.

Whenever tax information comes in, the secretary records it into the tax control program and copies or scans all information that the preparer will need. If there are canceled checks for Schedule Cs, she enters them on QuickBooks. We do not keep any original information. All information to be returned is put in a separate envelope and kept with the file. It is returned when we send the client their return. The copies are put in the current year’s file (either physically or saved on the client’s file on the server), which is accompanied by the previous year’s tax file (if not paperless) and a folder for next year. The files and client information are then put in the special filing cabinets where all in-process tax returns are kept.

All files in process must be put in special filing cabinets. This enables other staff personnel to quickly locate a file and complete a return. It also reduces clutter in the office and on individual desks.

**NON-PAPERLESS FILING PROCEDURES**

We only keep the last two years’ folders in our office. At the same time new file folders are set up and made ready for the coming tax season. We always keep file folders for the next year. In year 2007 we are preparing the 2006 tax returns. We also have year 2007 file folders set up. We also use the 2005 tax file. All prior years are in the storage area in the basement.

Separate filing cabinets are maintained for individual tax returns including gift, estate, and trust tax returns, and personal financial statement working papers and file folders. We also have separate cabinets for business and organization files, and “mint” copies of financial statements.
Individual, gift, estate, and trust files are filed by the client's last name. Corporate, partnership, and organization files are filed by the first letter of the first name of the entity. For example, if the corporate name is a person's name followed by Inc. or P.C., the files will be in alphabetical order based on the first letter of that client's first name.

Files might include:

- **Tax file.** We use a separate file folder for each year. We use manila folders with year tabs on the upper right edge, similar to the following:

  \[
  06 \ 07 \ 08
  \]

  The tax file is set up where a copy of the tax return and supporting working papers are filed on the right side. Every working paper must be fully indexed and cross-referenced if necessary. Our uniform working papers must be used where applicable. The tax control is the top sheet. On the left side are tax projections, analytical printouts from tax preparation software, tax research notes, copies of tax correspondence, and notices and pink flag sheets if necessary.

- **Special matters.** When we work on a special matter for an individual client we use separate yellow file folders for each matter. This could be for divorce consulting, financial or estate planning, assistance in employment or other negotiations, IRA required minimum distributions, or buying a business. Each matter has the year typed on the folder and some folders could be for a process that runs over a few years such as a marital separation. These are not removed from the filing cabinets for many years.

- **Permanent file.** Where necessary, we maintain a permanent file for individual tax clients. This would include final divorce agreements, employment contracts, stock option information, Section 83b elections, AMT credit backup, basis calculations, or schedules of carryover amounts. We also use a yellow folder for this.

- **Red “mailbox.”** Every client has a red “mailbox” folder. Any correspondence, mail, or loose papers are filed by the secretary in this folder. When someone goes to work on that client, they must first clean out the red folder, dispose of any open items, and properly file everything else.

No loose papers are permitted in any file when handed in to the reviewer. The only loose items should be a printout of the tax return and an envelope with the client's original information that is to be returned with the completed tax return.

**PAPERLESS PROCEDURES**

Changing and advancing technology has been vigorously seized by the accounting profession. Spreadsheet software might be the single most important reason for people initially purchasing personal computers, giving rise to quantities that made the PC affordable. Then came tax preparation program software, followed by accounting system or bookkeeping programs. Today we have paperless offices.
The reality is that it will be a staple in all our offices, so why not get started if you haven’t already?

Starting with tax return preparation is actually an easy way to start. It is a self-contained system. You don’t need special software—most tax software has buttons to convert to Adobe PDF files. Tax return preparation has all work compartmentalized by year, by client information, and the return output. Governments want e-filed returns and are even penalizing firms that file paper copies. Clients are adapting to getting information e-mailed to them.

Other paperless tax software includes the tax research services. When I started in business, we used to have a librarian come in every other week for a full day filing the updates. Today, almost everything is online, with a few CD-ROMs sent to us.

To start, all that’s needed is a “paperless attitude.” You have to be focused on being paperless. When in doubt, go paperless. Preplanning should be done and the process carefully organized with the right training and equipment. Note that the cost and time savings and increased confidence a firm can achieve make any initial costs worthwhile.

What we’ve done is digitized our working paper filing procedures. Whatever paper documents and reports and copies we previously filed, we did not make them digital or PDF copies and file on the server. We have “digital” folders for PDF tax return copies, client original info, research questions, review notes, “flag” sheets to make sure to take care of or follow up on when return is prepared, “financial planning” folders, reference letters and other correspondence with and behalf of client folder, and a permanent file with info such as divorce agreements and closing statements for real estate.

There is software that puts an index on files and allows you to search for them by key words, dates, and file names; it saves them as if they resided in your filing cabinet. Some software is Web-based, such as GoFileRoom (which we use), permitting us to access files from anywhere. Files can be password-protected, of course.

Note that going paperless is a major undertaking and should be carefully planned and organized, with the right training and equipment. Jack Welch, writing in Jack—Straight from the Gut, said that it doesn’t make sense to have a digital system and a paper system. Considering the difference in the costs and efficiency between the two, sans the start-up costs, what are we all waiting for?

Part of the paperless protocol is the e-filing of clients’ tax returns. Whatever your reservations, the system works. The time savings were the greatest: speeding up file retrieval and file use, and reducing clutter. It’s now faster to open and review files when clients call with questions. The cost savings had to do with paper expense, copying charges including staff time, and postage and overnight charges. We also recently started cutting our file storage space and converting space previously used for file folders into work space and putting work stations for staff or tax agents coming to our office.

Another aspect of being paperless is using Web-based tax preparation programs. These are always up to date and accessible from any location—
not just from the office. It also enables staff to occasionally work from
home and save traveling or commuting time.

Unrelated to tax season but integral to our practice is that our audit
“work papers” are Web-based and paperless, eliminating the need to carry
tons of paper and secure files overnight. The reduced “wear and tear” on
our auditors is certainly worth the cost. Employee training was minimal,
with readily intuitive methods and procedures. Windows-based programs
contain similar instructions and keystrokes—anyone with a Windows
background can easily pick up new software—the only training is in the
specific applications of working papers and adherence to firm internal pro-
cedures with respect to backing up and signatures.

Regarding e-filing, at the time we went paperless, we decided to e-file
all eligible returns. None of our clients objected once we explained it
would reduce or eliminate data entry errors by tax agencies and speed
their refunds. For intraoffice communications, we correspond electronically using Microsoft’s Outlook.

We have a history of extensive file folder procedures. However, the
paperless system has almost completely eliminated the need for paper fileolders. Everything we used and did is now saved on our server. In some
respects we followed the procedures we established for the “paper” files;
it’s just that now, it’s all maintained digitally.

We recommend that every staff person have a personal scanner
(preferably automatic feed, high speed) and a second monitor. Having the
second monitor helps increase file handling, input, and review. It’s now
possible to have the clients’ scanned original data on one screen and the
tax program on the other. In addition, it’s easy to put the current tax
return on one screen and the prior-year return on the other and compare
the two. For the partners, the ability to retrieve files within seconds with-
out getting off their chair speeds up tax return and data retrieval when
clients call with questions. Looking at returns on the screen while talking
to clients also enables partners to suggest additional services such as
financial planning, investment management, or tax planning.

Personal scanners have become such necessities around our office that
we wonder how we ever got along without them. In fact, we’ve invested in
some portable scanners, allowing us to input data right at the client’s
office or at our homes—and since staff can hook up to the firm’s server
from off-site locations, it’s literally the same as being at the office.
Scanners and monitors are inexpensive; we easily recovered our cost
within a few months through increased productivity, less intraoffice chatter,
greater efficiency, and faster turnaround time.

We have also found separate laser printers becoming popular for each
staff person. Usually centralized printers (many are high speed, but not all)
are used office-wide. This requires people who are sending data and
returns to the printer to get up to get printouts (actually, the exercise is
not too bad for you). We have seen people sending a 120-page tax return
with copies to be filed with the tax authorities, the client, and the office
files, ergo 360 pages printed—and eight seconds later someone sends a
two-page memo that they need for a meeting they are rushing to. How
many times do you think the second person ran back to the printer to see
if their memo printed? Add to this a couple of other people sending their
work to the centralized printer. How much wasted time? Measuring this against the cost of the extra printers—we believe the extra printers win hands down! One other point—suppose someone wanted to print their copy on special paper they have to manually feed into the printer? How can this be done when others can beat you to the printer? One point of organizing for tax season is to provide an efficient method of getting the work done—and that might not always be the conventional or expected way. We vote for one printer per person (or per room with not more than three people sharing the printer).

We use Capture Perfect software, Canon scanners, and the full version of Adobe Acrobat. We also use PaperPort, a program that can edit or alter scanned files. However, it's not necessary for scanning and saving files.

It truly was a seamless transition to our paperless office. No one had trouble adjusting. Once we rid ourselves of the fear of getting started, we accomplished our goal with lightning speed. When a return is prepared in our paperless environment, a PDF copy can be e-mailed to the client to review, a copy can be kept on the server, and the government copy can be electronically filed. It is truly amazing: not one piece of paper and click, click, click. And so, my fellow CPAs, I leave you with this: When in doubt, go paperless.

Paperless procedures are not the same as electronic filing. You don’t have to be paperless to electronically file.

**CONTROLLING PAPERLESS SYSTEMS**

Controlling the paperless office is no different from paper procedures. A system must have checks and balances and some redundancy. We use a control sheet with space to indicate that a return was saved (or printed) to the paperless filing cabinet. If it is not filled in, it is sent back to the person responsible for that.

In tax season there are many opportunities to check the work because clients continually call with questions that require staff to retrieve the saved returns and backup information. Everyone must be disciplined enough to track down the person who made the mistake and have them correct what they did wrong.

A method to follow is that after the return is reviewed for the last time, it is sent to the office staff to process to send to the client. That person will save the return to the paperless filing cabinet and so indicate on the process sheet. When the return is given to the partner to sign, he or she makes sure it has been filed on the server. If not, it is returned to the office staff for that to be done.

For any system to be effective, it must be followed, and those who don’t follow it have to be told, by having them correct their omissions and not by the next person handling the file or the person catching it correcting it for “expediency.”
This chapter covers several procedures related to preparing a tax return. These procedures are sign-in procedures, working paper procedures, administrative procedures, pro forma procedures, and projection procedures.

SIGN-IN PROCEDURES

When work on a return starts, a memo sheet is provided to our secretary for entering the start date on the tax control. This will enable follow-up to be monitored. The memorandum sheet will be included with every form packet.

A few times a day the completed and delivered tax returns are marked off on the tax control and a new list is generated.

WORKING PAPER PROCEDURES

Even though we now have a paperless system, we still need working papers—only they are not done on paper. Where appropriate, we try to have and use uniform procedures. This way anyone can pick up a file and continue working on it. Also, it is much easier to review the return. Furthermore, if a client calls with a question, the item can be located in the file within seconds. We get an ancillary benefit if the client has occasion to see the file. We believe the neatness and order are impressive.

Working papers must follow index sequence, for example, salaries, interest, and dividends. Copies of all 1099s should be taped to related working papers. K-1s should be filed in the proper place, again following index sequence. All entries on the tax return need support and documentation. This includes amounts received through telephone inquiry, which must be documented in the file in the proper place. In some instances a notation of a discussion with the client would be sufficient.
All working papers should be indexed and labeled. The indexing must be accomplished by the proper use of the MW Individual Tax Return Index. The index was designed to be flexible and easy to use. It also highlights mandatory forms such as the Individual Tax Return Checklist. An item may have more than one working paper number assigned to it—for example, dividend income 6A-6C—but either the top sheet of that section or a lead sheet must have a total of the items that tie into the tax return total.

If the organizer (systematizer) is the source of a particular item, enter an “S” on the working paper number line, and the page number on the organizer. There are also several blank lines at the bottom of the index for items not listed.

Indicate basis of presumptions (estimates) used in completing the return in the proper place. If not sure of propriety of basis/entry, the reviewer should speak to a partner before completing the return.

All working papers should be signed and dated by the preparer.

We track tax agency notices very carefully and try to do extra work in the preparation in order to have clients avoid getting notices. Working papers are designed with that in mind. Some of the things we do that tremendously reduce the flow of notices are as follow:

■ Prepare an extensive worksheet for estimated tax payments. We now ask for copies of the checks or bank statements showing the cleared check.
■ Have detailed explanations on the returns for unusual items.
■ Do a verification of IRA and pension rollovers, and a comparison of last year’s 1099s with the ones received this year and explanations from the client of why there is no new one for this year. Report incorrect 1099s in the proper place on the return and then subtract it on a different line.
■ Do a reconciliation of the gross income on a schedule C with the 1099s, making sure the gross income is equal to or less than the amount reported.
■ Make sure the gross security sales on the tax return is at least equal to the amounts on the brokerage firm 1099s.
■ Include answers to every question on the return.

We try to do everything in a user-friendly, time-efficient manner. Whenever we set up a new procedure we give it a user-friendly test. This involves asking if it will be user friendly in terms of making it easier for the client to be our client. We ask if what we are doing will be user friendly to the client when they review what was done. We try to keep in mind that we are offering a premium-priced, handholding type of service and not running a discount store bargain basement.

In keeping with the neatness kick, every worksheet in the individual files has the client’s name and the year laser-printed on every page. Also, at the bottom right is space for the title of the worksheet and the page number.

Working papers are assembled by the preparer, and the information is entered directly into the computer without input sheets.

If there is missing information, a draft federal return is run and kept with the file.
ADMINISTRATIVE PROCEDURES

We try to have as few people as possible handle the files, but there is always a minimum of six people: the administrative person, the interviewer or person receiving the tax information, the preparer, a reviewer, and a partner or shareholder—either the tax partner or engagement or contact partner—and the person "pushing the button" for e-filing. With so many people involved, administrative processes become all the more valuable. A few administrative procedures tips are listed here.

■ Whenever tax information comes in, an administrative person should record it into the tax control program.
■ The files are then put in a special filing cabinet where all in-process tax returns are kept.
■ An accountant should assign the returns.
■ If the returns are not assigned but are picked on a FIFO basis by the preparer, the person overseeing the selections can be an administrative person.
■ A tax calendar should be maintained. Ideally this should be part of the Fast Tax software and should be maintained by an administrative person. The calendar should be updated daily and either kept on the network or made available to everyone needing to see and use it.
■ Clients that mail in their information should be called to notify them it has arrived safely.
■ Everyone touching the file and working on the return should log in the progress stage the return is at.
■ All files in process should be put in special filing cabinets. This enables other personnel to quickly locate a file and complete a return if necessary. It also provides a place to locate the client's original information, should that be necessary.
■ When a return is completed and the final reviewer has signed off on the return, it should be given to the administrative staff to assemble and get ready to send to the client.
■ If a bill is to be sent with the return, the final reviewer should either have it prepared (the easiest way would be with the Fast Tax software) or ask the signing partner what the fee should be. Alternatively, the bill will be prepared at the beginning of the next month when the time run is reviewed.
■ An administrative person should print a completed return to GFR when they print it to be assembled.
■ The printing should be from Fast Tax and not from copies; this removes a handling step.
■ An administrative person should scan the indexed and properly ordered client's original information (without bookmarking) before it is returned to the client.
■ The client's information should be put in an envelope appropriately marked when it is sent back to the client.
■ Everything that will be sent to the client should be given to the shareholder who will sign the return; the shareholder will give it a final look and signature, and will "put it in the envelope."
■ An alternative would be for the signing shareholder to see the return before it is given to the administrative staff to process, and for the shareholder to sign it before it is fully processed to send to the client. Then the administrative staff will complete processing, binding, and sending the return out. An upside to this is that the shareholder will get a look before it is assembled and bound. A downside is that the shareholder will not see the final package as it will be sent to the client.

■ Someone—an administrative person—should follow up on a regular basis with clients to make sure we get the e-filing forms returned timely. This should start no later than a week after the return has been sent out of our office and can continue at three- to four-day intervals. This will avoid bottlenecks from developing the last week of tax season and will relieve an accountant/preparer from getting involved. Also, when an accountant calls, clients tend to ask questions such as how much do they have to pay, how much is their refund, or was the fourth corrected form picked up on their return. An administrative person will spend much less time on those calls.

PRO FORMA PROCEDURES

Regardless of paper or paperless preparation, pro formas and carryover data must be reviewed before working on a return. Check that spelling of client’s name and address and Social Security numbers are correct.

We have a place on our Tax Control Sheet to indicate whether pro formas from last year were used. This will make it easier for the reviewer and allow them to only spot check the information rather than check each item separately.

PROJECTION PROCEDURES

Most of our projections are now done when we prepare the tax return. We use the best information available and it is not unusual to change it two or three times during the year. The best time to work on this is when the tax return is being worked on. Unfortunately it also is the worst time because of the time pressures; however, it is the most efficient time for the work to be done, and it always keeps the client’s information file current and it makes it much easier to advise the client during the period the expected transactions are occurring.

In terms of dealing with the time pressures, it is always easier to do something later, or tomorrow, or some other time—especially during tax season. However, the nature of public accounting is that we are always busy, and generally there is always some degree of pressure, meaning that there is no “best” time to do something. Overlooking the special time-crunching circumstances of tax season, the most propitious time to prepare the projections is when the tax return is worked on. Time is a fungible asset—if you have to do it and you don’t do it today, you will still have to spend the time doing it. That being said, the least time spent on the projections is when you have the client’s file open and you are working (intensely) on their individual tax return. There is an actual great time
saving because we’re preparing the projection while the return is being worked on and all the information is at hand. And the added benefits, or dividends, for doing it at that time is that it will ease the review process and reduce the review and oversight process, as well as have the projection available in “real time” to discuss with the client and plan for opportunities to be proactive in the client reducing their tax or planning for the cash availability to pay the estimated taxes.

Projections are prepared using software such as the Bureau of National Affairs (BNA) tax projection programs. The information must be entered separately from the tax preparation software, causing additional work. You can also use many tax preparation programs that have “add to’s” and “subtraction from’s” to prepare the estimated taxes for the current year. Most accountants we know prefer the BNA since it is more thorough and is continually updated. However, the output is over 20 pages and the summary sheets do not show the data in a user-friendly manner.

We use projections as a review tool. The actual numbers on the final return are compared with the projection for that year and also for the next year. The reviewer will also eyeball the prior two or three years’ actual amounts. Because of this review procedure, the preparer would be advised to perform these steps before the return is handed in for review. It is always better for the preparer, rather than the reviewer, to find the errors.

This prereview process by the preparer allows the preparer to take a few moments to look at the big picture and reflect on any tax planning or financial planning possibilities for the client. Even if it is too late for planning for the return that was just prepared, or the year that just ended, the planning can be recommended for the current or later years.

Also, we will use projections for pre-year-end meetings with clients. So, you must think in terms of making it easier for the client to be your client. Ask yourself if what you are doing will be user-friendly to the clients when they review what was done. Keep in mind that this is offering a Nordstrom-type handholding service and not a K-Mart self-service operation.

A few tips on projections are as follow:

- When doing the prereview of the return by comparing and possibly reconciling it to the projection, you should not overlook the opportunity to save the client taxes for the past year, or to apply for refunds for the previous two years.
- The projections done while you are preparing the return should be done on the tax preparation software. If the projections are done any other time, they should be done using the BNA projection software.
- Summaries of the projections are entered on an Excel spreadsheet. The object is to have user-friendly information to give to clients or use at client meetings. The better the presentation, the better the meeting and the more substance that is covered at the meetings.
- Another thing we do with the projection spreadsheet is present the information in a way the client could relate to it. For example, we group all the items on a K-1 together on the Excel sheet. We do not put interest income from a K-1 with the Schedule B items—it only causes confusion when a client reviews the summary or at a meeting with the client. Clients never think of the individual parts of the K-1s; they only know the net result.
You should also prepare extensive comparative multiyear Excel work-sheets for Schedule C businesses and Schedule E rental properties, K-1s, interest and dividend income, and similar information that is reported on the current tax return as well as the prior years' returns. This is also very helpful in our review process, and a big help to the client who gets copies, because it gives them a quick summary of their business or rental property activity, and a basis of comparison.

You should also prepare detailed stock options schedules (both ISO and NQSO). Also, for clients who are insiders with stock options we should look it up on the Internet.

For clients with K-1s where we have access to their cash flow information, we should include cash flow information on the K-1 schedules.

For clients without K-1s and multiple accounts and any property or Schedule Cs, you should use the two-year comparison tax preparation software printouts. Also print out all the tax preparation software backup worksheets, which we review, and have available when we meet with the client, but do not give to the client.

Clients that have C corporations with retained earnings should be asked if they want us to project taxes on dividends (at new federal tax rate of 15 percent).

We give each client an Excel worksheet containing annual summaries of their tax return for previous four to six years. Where applicable, we also provide a “projection of the next year” (that is, the current year).

We provide summaries of all their K-1s organized by the various components of income expense items. We also provide four to five years of summaries of Schedule E, “Rental Property,” and Schedule C, “Business Activities.”

Where applicable, we provide summaries of the client’s interest and dividend income by account and by payer and distribution analysis of taxability by federal and each stage the client is subject to tax.

We also provide an analysis of tax loss carryforwards (Schedule E, rental property items, capital gains, business operating losses, charity deductions, and alternative minimum tax credit availability).
Reviewing tax returns is a key part of tax preparation. It also is an area for major bottlenecks and backlogs. Tax return reviews are performed by more highly skilled professionals who are more difficult to train or find. Therefore, anything that can be done to reduce the review time must be considered.

This chapter covers methods to reduce review time, establish who should do the review, determine content review versus issue review, identify specific items for the reviewer to check, and establish administrative procedures.

METHODS TO REDUCE REVIEW TIME

To have a successful tax season, care and effort must be spent to reduce the review time while maintaining quality. The reviewer's time is the main element that needs to be managed, and reduced. Some ways this can be accomplished follow.

General Procedures

- Better training of the preparers.
- Better training of the reviewers.
- Digitization as much as possible, such as reviewing the returns on the screen and reducing printing and paper handling; reviewing the backup on an indexed computer file; electronically transferring K-1s when the corporate, partnership, or trust return is prepared by the firm; carrying forward carryover and pro forma data by the tax preparation software; filling out client organizers online and transferring them into the current year's program.
Modularization or compartmentalization of the work so it can be done and reviewed more easily.

Better scheduling of the work so the more complicated returns are not bunched together and can be reviewed calmly and separately.

Creating a less harried, less hurried office atmosphere.

Keeping everything in order and in its place.

Preparer Procedures

Compare the completed return to last year's return and make sure there are no great differences.

Use the tax comparison feature to compare the last year's categories to this year's.

For complicated returns, prepare an Excel comparison sheet separating the K-1 information from the various parts of the return they appear in, such as in interest, capital gains, Section 179 depreciation, tax credits, and perhaps Schedule E activities. This makes comparing the client's activities and return easier.

Use uniform procedures and worksheets wherever possible. Anticipate the reviewer's process and create worksheets and schedules that will tie into the amounts on the tax return, so the preparer can easily see it and be able to quickly test the transactions. Prepare worksheets that reconcile amounts that must be correct because the IRS and tax authorities programs tie out with the information they have.

Look at the output and compare it to any projection that was done for the client to last year's tax return, and to the tax comparisons from the preparation software (how you "enforce" this requirement is a function of your training and quality control programs). Note that many preparers might do a diligent job of entering information and tying in all their work, but they neglect to look at the return they just completed. Experienced reviewers easily uncover many errors by simply looking at the output and also comparing it to the previous year's return. Getting the preparer to do this first would raise the quality of the finished product passed on to the reviewer and would reduce the reviewer's time, the error correction time, and the total processing and handling time.

Respond, before passing the return to the reviewer, to all open items in the software diagnostics so there are no items left for the reviewer to resolve or follow up on.

Read and complete the checklists.

"Pre-review" (by other preparers) detail input relieving the higher level reviewers and releasing this time.

Added effort by the preparer will save reviewers' time. We have found that requiring extensive, complete, neat, organized, and indexed working papers or PDF files will take about 20 minutes a return to do but will reduce the time it takes the preparer to prepare a return by about an hour and 20 minutes—net gain one hour per return. For a workload of 400 returns this reduces the time by the equivalent of one full-time person during tax season.
Actually, a method that could be used is to have the preparer put the clients' information in order with indexed cover sheets placed before each group. A cover sheet could also contain an adding machine tape or an Excel sheet tying in the original data. The person scanning the data could scan everything without bookmarking, provided an index is prepared by the preparer indicating the order of the information and a “letter” index is put on the top (or bottom) of each page. This will make it a little harder to find information in the server, but that will always be done after the return has been completed since that is when the information will be scanned. The only time it will be referred to will be if a question arises after filing and when the next year's return is being prepared. This may be a lower-cost way to put the information into the server balanced by the little extra time it would take to find something if later questions about the file arise. This is the method we used the last couple of years and found it effective.

The reason organizing works is that many people, especially less experienced preparers, are not always clear on how they should start when presented with the clients’ “shopping bag” of data. The method of having the original data copied or scanned and indexed provides a starting point and method of getting going. Also, we are using unleashed brain power. By handling every bit of data, the brain captures the information and is already assembling it in the proper order so you have a head start when you actually commence the input.

Besides having great working papers with a shorter overall preparation time, even greater benefits are derived by having the tax department spend less time reviewing a return while substantially raising the quality of the review. The tax department, on some level, has a finite amount of time available for review, while the preparation staff might have infinite time since it is much easier to get tax return preparers than reviewers.

Another benefit is a selfish one, and one that every partner personally benefits from: the ease of reviewing a file and discussing a tax return matter with a client.

This is especially important if a return is sent out with an error; the partner has to explain the error to a client and can quickly retrieve the inputted data much more quickly. The working papers can literally make the difference in keeping or losing the client.

Another benefit and a very important one is that neat, orderly working papers or PDF files also create a more professional attitude among the staff.

WHO SHOULD CONDUCT THE REVIEW

The main decision about who should review is between the tax department, which would review every tax return, or other higher level personnel (such as audit managers and partners) who might not necessarily have the comprehensive training, background, and experience to handle everything that might come up during the tax preparation process. Generally, the tax department has limited staff, and the bunching of work places an almost insurmountable burden on that staff. Additionally, in
most firms, almost everyone on the staff will prepare some returns, and
that lack of dedicated preparation skills will place an added burden on the
tax department during their review process.

Following are 10 questions reviewers should be able to answer in order
to “qualify” as a reviewer. Note: whether or not you agree with the ques-
tions below, you have to consider the method of making sure the reviewers
are “qualified.” This would also include reviewer-appropriate CPE and in-
house training.

1. What is the latest date an SEP can be opened for 200X for a sole proprietor?
2. What is the 200X maximum 401(k) payroll deduction that can be
made for a WS+B employee?
3. What is the maximum adjusted gross income a taxpayer can have and
still be able to convert an IRA to a Roth IRA in 200X?
4. What is the maximum federal capital gains tax rate from any portion of
the gain on commercial real estate that an individual tax client sells?
5. When would you use the annualization exception for the 2210 penalty?
6. How are Section 1256 gains taxed?
7. How would you advise a client that gives large amounts of annual char-
itable contributions and typically has large long-term capital gains?
8. How much can an individual give as a gift tax-free in 200X?
9. What would a minimum strategy be for a client with Incentive Stock
Options to avoid the Alternative Minimum Tax?
10. What is the equivalent taxable interest amount for a client with 4 per-
cent municipal bond interest if his or her marginal federal tax rate is
25 percent (assume no state tax)?

CONTENT REVIEW VERSUS ISSUE REVIEW

Each type of review requires a different discipline. Primarily there are
content reviews and issues reviews.

A content review has the preparer checking most or all of the original
client info and that it was entered and used correctly. This is very time-
consuming and can be done by a lower level staff person but is usually
done by a tax department specialist. We find that this type of review
does not add value. It might improve the accuracy of the return but it
doesn’t make the client richer.

An issues review purely adds value. Not only are tax issues examined
to see if applicable, but the focus is also on planning for the current
year and finding ways to make the client richer.

In an ideal world, everything that should be done would be done with
the proper time allowed for each step. Also, it must be understood by the
preparers and reviewers that the tax return must be properly prepared—
with the input carefully and correctly entered; with an understanding of
what information might be missing; with tax savings, planning, compli-
ance issues deliberately considered; and with “outside the box” planning
considered such as financial, retirement or family security issues developed or brought to the clients' attention as the return is being prepared and reviewed by the accounting firm.

Now, back to reality. Any human endeavor has errors. The issue becomes one of where you want the errors to occur—in missing a charity receipt, or overlooking an opportunity to provide advice on opening an SEP, contributing to a Roth IRA, having the client enroll in his or her employer's 401k plan, or on the types of mutual funds the client should have. Procedures have to be established to accomplish the firm goals which should be to provide the best service possible for the client.

A problem with content review is the reviewers review what they see—what the client sent in—the notes and comments the interviewer and preparer made—and is in front of them. What they miss is reviewing what should be there—what they should be seeing—what they need to add to the process—the analysis, planning, experience, imagination, and creativity the firm owes to the client. A content review does not add the value the client expects from a world-class tax department. An issues review concentrates on the unprovided, unsupplied, and the not-there stuff!

The method you choose will determine how and where you want the errors, and how you handle the errors, and how you will personally deal with them—explaining the missing charity receipt or the lost opportunity for an extra pension deduction for your client.

By the way, the proper handling of errors also can be opportunities for the firm. If the error is quickly identified, acknowledged, and rectified, the client often will gain a greater confidence in the firm than if the error hadn't been made. However, we do not recommend this as a method of client bonding.

CHECKLIST FOR THE REVIEWER

Following is a checklist of things for the reviewer to check (some items can be test checked):

- The client's name and address
- Social Security numbers
- Estimated tax payments
- K-1 input
- W-2 input
- 1099 input
- Gross sales from security transactions
- Add backs and reductions of items for state tax returns
- Items on flag sheets entered
- Reasonable diagnostics and no open or unresolved items
- All questions on the preparer's checklist answered by preparer
- That special instructions on the control sheet are followed
- That repetitively incorrect issues are looked at and included on the checklist (such as opportunities for IRA or SEP contributions, clients' ages and Social Security numbers and ages of dependents)
- Opportunities for tax planning for the client
It is important to remember part of the training process is for the preparer, not the reviewer, to make any necessary changes, even though it might be a simple change.

There is a rereview before the return is copied and assembled. The return is reviewed once again by the tax partner and finally by the partner who signs it.

The tax projection that has been prepared is reviewed by the tax partner to determine if the return is on target with the projection and information that has been given to the client back in October, November, or December. Notes are also made for planning opportunities for the client.

**ADMINISTRATIVE PROCEDURES**

There are many administrative-related procedures reviewers have to perform in many firms. Following are some tasks that can best be performed by appropriate administrative staff, freeing up the preparers to do what they do best.

- Printing paper copies of the completed return and then giving them to the administrative staff to copy, further assemble, and get ready to be sent to the client.
- “Printing” the completed, fully reviewed return to the server.
- Organizing the clients’ original information that is to be returned.
- Making sure special filing instructions are adhered to.
- Signing the returns (this might be better done by someone else, either a partner or another reviewer, giving a preparation-unrelated person an opportunity to have a fresh look at the return).
PREPARE THE BILL

The bill is prepared and generated by the tax preparation software. We add to the bill for extra services not billed during the previous year. We bill clients based on time and complexity, and we take into account the number of telephone calls we get from them during the year.

Follow-up billing is usually done monthly and we do add a late charge for past-due accounts. We also make follow-up phone calls to clients starting the end of June for additional services and work that should be done for the clients. Of course, if it is something of a timely nature, we will follow up much sooner so the work can be done for them.

We accept MasterCard, Visa, and American Express credit card charges.

I believe the most efficient time to bill is when you send out the tax return. The return and client information is in front of you; if you want to ask anyone who worked on the return anything about it, it is still fresh in their mind and clients have the results of what you did along with their pile of information in their hand when they have your bill. Also, they are writing other checks and might as well do yours.
Completed returns are given to the secretary to copy and assemble. They are returned to the tax department to review the assembly. Part of this process is the reviewer actually looking at each page. He or she then puts on the “sign here” labels and makes sure a bill is included with the return. It is then given to the partner who will sign the return, who gives a cursory review of the return. That partner physically places the return in the mailing envelope and distributes the bills. The completed files are then given to tax control for entry and filing.

A partner calls every client before the tax return is sent to give a heads-up on what to expect and that it is in line with advanced projections (or if not, why not).

The return is sent to the client with a copy of the return, a bill, the client’s original information, and preaddressed envelopes to mail the returns. Note that the e-filing will reduce and eliminate some of this process.

We do not enclose separate letters of correspondence with the returns except for a short personal memo from the partner such as, “Hope all is well. If you have any questions, please call.”

We try to be user-friendly to our clients. Whatever we can do to facilitate working with us, we do. We put “sign here” labels every place they have to sign (it also makes it easier for the partner signing the return). We provide a listing of the postage rates; some clients get their return address put on the envelopes. If a tax return is sent to a client to file and either they are housebound or it is close to the deadline, we put stamps for correct postage on envelopes.

A partner calls the client to discuss or explain anything unusual or unexpected on the return. We do whatever possible to avoid having a client call us asking, “What do I do?” or “What happened?”
Our marketing person calls every client a couple of days after the client is expected to have received the computed tax return to make sure it has been received and to see if there is anything else they need us to do.

Note: No one in our office is permitted to give any information to a client about whether they will get a refund or have additional tax to pay. This could only be given by a partner, and we only give out the information after the return is completely finished and ready to be sent out.

Giving out information prematurely could only cause trouble. If the client is told incorrect information, they lose confidence in the staff. If told correct information, they may not be happy with it and so will complain. It also generates additional telephone calls to me and my partners, which wastes time and doesn’t accomplish anything.
Starting with the 2004 tax season, we decided to use electronic filing as much as possible. Our results have been more than phenomenal: 87 percent of our clients' returns were filed electronically. Note that the IRS has a special incentive for professionals filing more than 100 returns electronically: They give you access to their computer database for the clients that you filed electronically.

Electronic filing greatly reduces the paper handling, the mailing costs (both of us sending the return to the client and by the client sending to the governments), and the rushes to get things “in the mail” so they are received in time for the client to post.

Electronic filing helps the CPA firm because:

- It reduces handling in office (assembling and mailing).
- It decreases the time we can get returns to client (electronically by e-mail).
- It is easier to retrieve and review in the filing room.
- It is easier to retrieve and review when a client calls with a question.
- It saves mailing costs.
- It saves client time mailing, going to the post office, and getting a certified mail receipt.
- It provides “proof” of filing.
- It reduces IRS data entry error.
- It speeds up refunds (which reduces telephone calls clients make to CPA firms to say they did not get their refund and could we follow up).

You should become familiar with the e-filing forms:

- Form 8453, “U.S. Individual Income Tax Declaration for an IRS e-file Return”
- Form 8453-OL, “U.S. Individual Income Tax Declaration for an IRS e-file Online Return”
- Form 8879, “IRS e-file Signature Authorization”
Firm administrative procedures have to be established to keep track of the forms the clients have to sign and return to you. You are generally required to have signed forms in your possession before you can “push the button.” However, at the last minute of tax season this might not be possible. You should establish a protocol to get the client’s assent to file, such as an e-mail response or even a telephone okay. If a client calls in their consent, the person taking the call should print out the signature form and write in it that the client called. This keeps the procedures and handling process uniform. This is very important considering the large number of returns that are e-filed the last few days of tax season. One way to avoid a last-minute rush is to have someone follow up a few days after the returns are sent to the client to get the forms back quickly.

Many states will force electronic filing in a few years for any preparer firm that prepares more than a minimum (varies from state to state) number of returns.

A firm policy needs to be established where not every return can be e-filed, for instance the federal and three state returns can be e-filed, but not a fourth state’s return for that client. We would suggest that every return that can be e-filed is, and the others have paper returns.

Some areas where returns cannot be e-filed:

- Withholding is more than 50 percent of the taxable wages.
- Social Security numbers for taxpayer or dependents are incorrect.
- A dependent has been claimed by someone else (for example, a child is claimed by an ex-spouse).

An electronic filing checklist for individual tax returns is presented in Exhibit 16-1, “Electronic Filing Checklist.”
PROCEDURES FOR PREPARING FORM 1040 FOR E-FILING

THE PROCESS:
When e-filing returns, they will be prepared in the normal manner, making sure to complete the necessary e-filing requirements for each input sheet, and then tested for e-filing capabilities. If the returns are able to be e-filed, the Client's copy of the returns will be sent to the Client for approval with either Federal Form 8879 if no attachments are required, or Form 8453 with required attachments. The Client will approve the returns for e-filing by having both spouses sign and return the Forms 8879 or 8453 to us. Once the approved Forms are received from the Client the returns can be e-filed. If the client is sent a Form 8453, the original Form 8453 must be forwarded to the IRS within 3 business days after the e-filed return was accepted by the IRS. If the client signed the Form 8879, this Form will be kept in our files, and will not be forwarded to the IRS. If a New Jersey NJ-1040 or New York IT-201 is not going to be e-filed, a signed New Jersey Form NJ-1040-O, or a signed New York Form IT-800, must be obtained from the Client. These forms are also to be kept in our files.

PREPARER STEPS:
1. Prepare the return in the normal manner, making sure to complete the necessary e-filing requirements on each input sheet. Clear as many of the diagnostics as possible by clicking “View” on the tool bar and selecting “Diagnostics.”
2. Once the return has been completed, it is now ready for the e-filing process.
3. Select “Electronic Filing” from the Organizer tree, and open “1040 Returns.”
4. Step 1: Enable Electronic Filing. Our EFIN (Electronic Filing Identification Number) has been entered as a default setting.
   - Check the “Enable Federal Filing” box.
   - Check “Enable All Resident States” box or select individual States for filing.
5. Step 2: Personal Identification Numbers (PIN). We will be using the “Practitioner PIN” program; therefore the “Practitioner PIN” box should be checked. Select the box to “Randomly generate the taxpayer and spouse PIN numbers.”
   The ERO (Electronic Return Originator) PIN number should be entered.
   This five-digit number is the signer's three- or four-digit employee number followed by one or two zeros. For example if the signer is employee number 999, the ERO PIN number would be 99900.
   Enter the date that the PIN numbers were entered.
   If the return cannot be e-filed using the electronic signature method of Form 8879, it must be e-filed using the manual signature method using Form 8453.
   The manual method (Form 8453) must be used if there are special IRS Forms such as Form 8283 (Non-Cash Charitable Contributions, Section B Appraisal Summary), 1098C regarding the donation of an automobile, or other paper attachments such as schedules of capital gain transactions that are not entered on Fast Tax (see list in Fast Tax input sheet by clicking “Form 8453 Requirements and Selections”).

(continued)
6. **Step 3: Direct Deposit or Debit.** If the client wants to have his or her refund direct deposited or account debited for payment, enter the information on the “Taxpayer Information” screen; it will automatically carry to this screen. If the account is to be debited, and the client does not give you a specific date to debit the account, use April 14 as a default date.

7. **Step 4: Additional Information.** Review the specific input for completeness. Do not override ERO and paid preparer information.

8. **Step 5: Review Electronic Filing Diagnostics.** Fully recompute the return. Follow the directions on this screen before you “Create Electronic File.”

9. **Step 6: Create Electronic File.** Check the “Enable Federal Electronic Filing for this Return” box. Check the State return box(es) as needed. Finally, click “Create Electronic File for 1040 Returns.”

   Note: Anytime a change is made to a return, you must recompute the return, clear the e-file diagnostics, and create a new electronic file.

   Once an electronic file is created, the return is “Qualified” for electronic filing. The return is now ready to print and give to the reviewer.

10. **Processing the Return to Send to Client.** After the reviewer has completed his/her review, the return must be recomputed and a new “Electronic File” must be created. The return is then printed in final form, together with Forms 8879 or 8453, and given to Tax Processing for assembly. The return is assembled, and given back to the reviewer to check the assembled return for completeness. Once completed, the return is given to the signer for signature and mailing to the client.

   **The reviewer's final step is to lock the return by entering the “Completed Date.”**
When we prepare extensions, we do so using the tax preparation software. It prints the forms as well as the instructions. We also prepare estimated taxes for all four quarters for the year. We know these amounts will change, but it is very unlikely many returns will get done by June 15, so preparing the estimates for that date eliminates touching the client’s file and reacclimating ourselves with the client’s situation that extra time. If by chance the return is not done by September 15, we already gave the client that form so the payment can be made. Also, by giving the client the estimates for the balance of the year, the client is aware of the approximate amounts they will need to pay. This helps them in their cash flow planning.

We include the extension payment with the first quarter’s estimated tax payment so the client only has to write one check, and in case the extension payment was supposed to be greater than we estimated, the client’s penalty and interest will be much lower by only having to pay the underpayment of estimated tax penalty for the first quarter. We can mitigate this by preparing the return sooner.

We usually give the client a copy of the worksheet we used to estimate the April 15 tax payment.

Extensions are necessary when:

- Clients don’t have all their information.
- Clients want extensions because they think it will reduce the chance of an audit.
- Clients need the extra time to make their payments to the IRA pension plan, SEP, or Keogh.
- The CPA firm cannot get the work done on time.
Tax audits are always a possibility, and we bill extra for audits. Some of the various types of audits and activities are:

- Office audits.
- Field examinations.
- Audits of pension plans and nonprofit organizations.
- Preparation of appeals and protests.
- Tax Court petitions. CPAs can be admitted to practice before the U.S. Tax Court if they show a need to be admitted and if they pass a bi-annual test. Being admitted to practice will enable you to file Tax Court petitions, which will give you at least two more avenues for negotiation and settling a case. The tests are given once every other year usually in September, October, or November in Washington, D.C. There are fewer than 200 nonattorneys so admitted. If you want the exact date and location of the next exam, you can go to the Tax Court Web site, www.USTaxCourt.gov, and go to “Forms” and “Admission Information for Non-Attorneys.” You can also call the U.S. Tax Court at (202) 606-8736 or write to them at 400 2nd Street, NW, Washington, DC 20217. You can also purchase copies of previous exams and their rules of procedure.
- Criminal tax cases, including liaison with counsel.
- State tax audits and appeals, including sales, income, and personal property taxes and penalties.

The tax department usually handles the audit, not the preparer or engagement partner. Usually an audit specialist handles it. Other tips for assisting with a tax audit include the following:

- The practitioner must adequately prepare for the audit prior to the audit. Note: The amount of preparation time is inversely proportional to the time spent with the agent.
- The CPA must be skilled in negotiating strategies.
- The CPA must know when to be quiet and listen.

The accountant needs the ability to handle sensitive matters, including underreporting of income and other criminal acts, and the ability to know when to insist that something be reported, as well as how to walk away from the engagement. Accountants must always be cognizant that they risk their license, livelihood, and liberty when they engage in illegal actions, or look away from a client so engaging. Accountants must always be aware of their legal, ethical, and moral responsibilities. CPAs should do nothing that they cannot clearly defend and explain should they be on a witness stand, and they should assume that they might be in that position for everything they do.

There are two methods to be engaged by a client to represent them during an audit. The first method is when the client receives a notice and contacts the firm for help. Exhibit 18-1, “Sample Tax Audit Engagement Letter,” is an example that can be used for a client’s tax examination.

However, some accounting firms are offering an “audit insurance or protection plan” under which the accountant’s fee is covered by the initial payment made under the plan. Exhibit 18-2, “Sample Audit Protection Service Letter and Bill,” is a letter and the accompanying bill for such service. This is offered to most of the low-risk clients for a nominal fee.
EXHIBIT 18-1  Sample Tax Audit Engagement Letter

[Date]

[Client Name]

[Client Address]

Dear [Client Name],

This letter will confirm the arrangements for our representation with respect to the State of Pennsylvania’s examination of your Pennsylvania Individual Income Tax return for the years 200W and 200X.

Tax Audit Services

We will represent you before the State of Pennsylvania during this examination, unless the arrangement is terminated in writing by either party. Furthermore, in the event we cannot resolve all of the issues at the initial level, we will be available to appeal any proposed deficiencies and/or penalties at the Appeals Division of the State of Pennsylvania, although that appeal is not part of this engagement.

We will not audit, or otherwise verify, any information provided by you for presentation to the State of Pennsylvania during the course of the examination, unless we deem it necessary or you specifically request us to do so in writing. However, we may ask you for further clarification and expect you to provide that clarification promptly and candidly.

Our communications are “confidential,” not “privileged.” That is, they may not be disclosed unless you approve under most circumstances. On the other hand, privileged communications are not permitted to be disclosed, even in court. Although there is now a limited CPA-client privilege in federal matters, it does not apply to matters prior to the passage of the Internal Revenue Service Restructuring and Reform Act of 1998 and does not apply to state matters. Accordingly, if we are served by a properly issued administrative summons compelling us to testify in court proceedings, even our confidential communications could be subject to disclosure.

The tax agencies have recently begun emphasizing a number of procedures during examinations to ascertain that taxpayers have complied with their tax filing responsibilities. These procedures have led to a growing number of requests by examining agents to interview the taxpayer directly. However, you do have a statutory right to be represented, and not to meet with the examining agent (unless you are served with an enforceable administrative summons). It is in your best interest to refer any questions or other contact from the agent to us without discussing the case with the agent. By signing this engagement letter you acknowledge that any direct contact by the State of Pennsylvania will be promptly referred to us as your authorized representative. It is hereby acknowledged that if you choose to appear before or discuss this case with the agent against our advice, you do so at your own risk.

Fees

Fees and expenses are due and payable upon presentation of our invoice to you. Our fee for representing you will be based upon our time, billed at our rate of $XXX per

(continued)
hour for partners and $XX to $XXX per hour for staff plus out-of-pocket expenses. We anticipate that most of the services involved in the exam will be performed by a partner. In order to proceed we require a retainer in the amount of $XXXX.

If we have not received payment in accordance with the stated terms, we reserve the right to terminate this engagement with no further notice.

Conclusion

If this letter reflects your understanding of the terms of our engagement, please sign below and return one copy to us with the retainer amount.

We want to express our appreciation for this opportunity to serve you.

Sincerely,

[Partner Signature]

Accepted by: ________________________________
Client's signature ________________________________
Date ________________________________
EXHIBIT 18-2

Sample Audit Protection Service Letter and Bill

April 2, 200X

[Client Name]

[Client Address]

Re: AUDIT PROTECTION SERVICE

Dear [Client Name],

This letter concerns a method we have initiated in order to limit our fees in the eventuality of your being audited by the IRS. We call this our AUDIT PROTECTION SERVICE.

For the additional fee of this AUDIT PROTECTION, we will represent you at the Internal Revenue Service and the applicable resident state tax authority for a field or office audit on your 200Y tax return, and respond to any and all of the above tax authority inquiries on your 200Y return, without additional charge to you. It does not cover appeals. This service will be performed at any time that your 200Y tax return is audited or questioned, which may be as late as 200Z. Our normal fee for this service is based on our hourly rate schedule and would greatly exceed the cost of this protection plan. As you are aware, we cannot guarantee that there will be no tax changes, interest, or penalties, but we will represent you and act for your best interests at NO ADDITIONAL FEE.

An income tax audit is a time-consuming ordeal which requires work by the taxpayer to gather the evidential information as well as a professional to prepare and represent the taxpayer’s case before the authorities. In general, our charges for this service usually run in excess of the fee for preparing the tax return.

We are offering you this audit protection for the nominal charge of $XXX. This offer will expire 30 days from the date of this letter.

If you agree to our firm providing this service for you, please acknowledge such by signing and dating below, and paying the total amount due, including audit protection on the enclosed bill. We will then forward you a Power of Attorney form for your signature. This will enable the Internal Revenue Service to forward to us copies of all correspondence regarding your 200Y return. We will also, with your approval, check a box on your tax return that will grant permission for the taxing authorities to speak and deal with us on any matter arising from the filed return.

Should you elect not to subscribe to the audit protection, just pay the total without audit protection amount on the enclosed bill. This letter and the enclosed bill will be the only correspondence we will send you relating to audit protection.

If you have any questions, please feel free to call us.

Cordially,

[Partner Signature]

Acknowledged:

Signature  Date

(continued)
Bill Accompanying Audit Protection Letter

Preparation of 200Y federal and state individual income tax returns should be charged as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax preparation fee</td>
<td>$XXX.xx</td>
</tr>
<tr>
<td>Optional <em>audit protection service</em> (See enclosed letter.)</td>
<td>$YYY.yy</td>
</tr>
<tr>
<td>Total with <em>audit protection</em></td>
<td>$ZZZ.zz</td>
</tr>
</tbody>
</table>

Audit insurance is an additional charge of between 15 percent and 25 percent of the preparation of the fee that is paid when the tax return is prepared and will cover the CPA’s fee for handling the audit. It does not cover penalties and interest.

(We started charging every client a “tax notice” fee (see separate section) that we added to their tax preparation fee to cover our charges responding to tax agency notices. About 75 percent of our clients paid it.)
AFTERWORD

When we send a client their tax return we are sending them, for the few moments when they look at it and sign it, the single most important thing in their life. We must work on that single most important thing in their life with that knowledge, and the care and attention they expect, deserve, and pay for.

The essence of a successful tax season is:

■ Establish effective communication in the office.
■ Adhere to procedures and systems.
■ Keep everything in its place—be neat.
■ Maintain user-friendly attitude and service.
■ Think and be user-friendly.
■ Focus on quality control.