

Do I need a professional tax preparer? How should I go about choosing one?

Tax professionals are not all created equal. They come with dramatic differences in their knowledge and experience, in their desk-side manner, and especially in their aggressiveness.

Why does aggressiveness matter? You need someone aggressive enough to press you for additional information that's important to your return, to walk you through the benefits of different tax-saving strategies, and to be firm if you have a mistaken idea about a deduction you want to take. What you don't need is someone who is aggressive in recommending deductions or strategies which the IRS may or may not agree are legitimate for your circumstances.

I have a client which I helped with an IRS audit several years ago. This client used a preparer for years to prepare their returns for their home-based business. Unknown to the client, probably a dozen business deductions in their return were not legitimate. Because the client had little knowledge regarding taxes they paid this preparer to do their return. The client came to visit me because they were being audited for three years and owed over \$10,000 in back taxes. I was able to help them find deductions they were allowed to claim, which were not claimed on their original return, but

unfortunately, there were not enough to overcome what was wrongly claimed on their original return. Although this client is extremely grateful for the help I was in lowering the amount they had to pay, they should not have had to go through this whole audit process because they paid somebody to do their return who should have been competent.

I'd like to explain the major levels of competence among tax professionals, describe some indicators that would suggest what level of competence you need, and conclude with a word about computer programs plus some real-life examples to illustrate those points.

Attorneys and Certified Public Accountants (CPA) generally are recognized as having the greatest expertise in understanding taxes. Both the fields of law and accounting are broad and professionals often specialize in specific areas of practice. Even within the area of taxation there are many specialties. For example, attorneys may earn an LLM (Master of Laws degree) in taxation or an accountant may earn an MST (Master of the Science of Taxation), to establish the necessary background for a specialization in taxation. These additional credentials demonstrate advanced training and education in taxation, but are not necessary for someone to be a tax expert.

Enrolled Agents (EA) are professionals who usually are not attorneys or CPA's but who have demonstrated their proficiency in tax law by passing an extensive exam administered by the IRS or by fulfilling experience requirements working for the IRS. The EA designation does not mean they are agents for the IRS, but rather that they can represent you before the IRS similar to the way an attorney or CPA can. I have found most enrolled agents to do high quality work and to be very knowledgeable in many areas of taxation.

Many national chains need to recruit and train hundreds of new preparers each year. They offer extensive training in the fall of the year, and hire as many of the trainees as they need to prepare taxes in the winter. This enables the company to process thousands of tax returns, but many of the preparers are very inexperienced and are not good sources for tax advice. The complex tax laws take years of study to master, as is evidenced the ability for attorneys and CPA's to specialize as extensively as they do.

Attorneys, CPAs and EAs all have annual continuing education requirements. Additionally, they must follow ethical standards of their professions in addition to the ethical standards the IRS has established for practitioners. They can lose their certification if they don't follow these ethical standards, and most do follow them religiously.

In my practice we review the tax returns to ensure the accuracy and completeness of our work. This practice is missing in many of the tax preparation organizations, and our experience in reviewing old returns new customers bring us, shows this is sorely needed. I am sure many of the new preparers are not even aware of their ignorance.

**WHAT TO ASK WHEN
LOOKING FOR A TAX
PREPARER**

**Do you have other clients in my
line of business?**

**How many years of experience
do you have?**

**Does somebody else review
your work?**

**Are you going to be here this
summer to answer my
questions?**

**How much does it cost to have
you answer a letter I get from
the IRS?**

When you pay for tax preparation services, what additional services might you want or expect to go along with this service? Will your preparer represent you if you are selected for an audit? Are they available during the summer months to answer your questions and give advice? What are their guarantees? These are all things to consider when choosing a tax professional to work with.

There are a lot of ads for computer software which you can use to prepare your own return. Computer software in general has come a long way in ease of use and we see record numbers of people finding new uses for software. My understanding is the tax preparation software interviews you. It asks you questions and you answer the questions. As you go through this process, it completes your forms. Sounds simple enough, but our experience is that most of our customers need help understanding some of the questions we ask. Misunderstanding the questions often leads to errors on the returns. How do you know if your software has done your return accurately? After it has prepared your return, will it also answer the letters from the IRS and represent you when you are audited? Will it answer your questions this summer when you want to do some tax planning?

Everybody's personal lives are different, as are their financial arrangements. Because of this, everybody's needs are different when analyzing their need for a tax preparation service. Some have very simple situations with only a W-2 form. Others have families, homes, and multiple jobs. Those who own their own business or have rental properties have increased the complexity again. You will want to select a preparer that has the qualifications to deal with the situation you have.

Everyone who wants to succeed financially should be willing to pay for good financial advice. I often have people ask me, as their tax advisor,

what I would recommend concerning a decision they are making. I often back them up to tell them that although taxes will be a component of the decision, not to let that drive the decision. Their decision needs to be based on what makes the most financial sense, taking the tax impact into account, not based on what saves them the most taxes. (Read that last sentence again.) A good advisor can help people make that determination. Be Aware – the best is seldom the cheapest.

An example of some of my clients whom I have been able to help save significant money includes some individuals with moderately low incomes who have qualified for the "Saver's Credit". I have had clients for whom I have recommended they open an IRA and save 70% of their contribution off of their taxes. Any tax preparer should be able to figure it out, but are they experienced and knowledgeable enough to be able to look for and identify those opportunities?

I have different people come in every year who have tried doing their taxes on their own using one of the computer software programs. These people come to see me because they know enough about their tax return to know that it didn't come out the way it was supposed to, and they want me to do it correctly for them. I often wonder how many people are missing deductions, or facing audits because they took too many deductions because they did it themselves and don't know enough about taxes to know how to get them done right.

Finally, when making your selection for a tax preparer that fits your needs, it is not necessary that you be friends with

your tax preparer, but it should be someone you can respect and trust.

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