Tips for a Tougher Tax Season

Unique economic times, late tax legislation, and uncertainty make preparation more difficult. ***By Jeff Stimpson***

A lot goes into a normal tax season: getting new clients, changing procedures, training, client retention and interaction, tax planning, and cross-selling, to name just a few. Year-end tax planning with clients these troubled days, however, is also rife with such issues as the AMT, stock options, expiring tax provisions, gift-giving, income and deduction shifting, and investment impacts. About the only certainty is change.

"We're taking a different approach for the upcoming season," says John Wyson, tax partner at Irvine, Calif.-based Haskell & White. "We've begun developing our staffing schedule earlier in the process. We're making a real push to get some of our larger projects done well in advance of the due dates, and we're cutting out review levels where possible."

"Client conversations about planning are happening earlier than usual," says Scott Isdaner, managing member of Isdaner & Company, Bala Cynwyd, Pa. "Clients also want to know the impact of tax-code rate modifications based on election results. Discussions about gain/loss investment implications and tax-planning strategies are key topics of conversation."

Adds M. Cathryn Green, a senior associate in the tax advisory services group at Margolis & Company, Bala Cynwyd, Pa., "It's hard to know, once elected, how quickly the new president may attempt to pass new legislation. For the moment, tax planning must be done with the law currently in effect, knowing that it may change. The typical advice of deferring income and accelerating deductions," she adds, "may not make the most sense this year."

According to Rick Hoffman, tax partner in the New York office of Friedman LLP, 2009 will be "a slower time, trickling down to all industries, creating capital losses, slowing cash flow. Firms may feel pressure from clients. At the same time, firms will need to make decisions about where staff time is most valuable and what clients are most desirable."

The Preparation

Isdaner's firm prepares for tax season with both clients and staff. "We identify and manage clients earlier that will need to be put on extension. We're more proactive with these clients to avoid a time crunch and lessen the stress. We make clients aware that when they submit their information will affect when the return will be completed," he says. Isdaner's annual marketing banquet in January is the firm's tax-season kickoff event. It recognizes marketing and team efforts throughout the year, and "serves to motivate and inspire employees," says Isdaner.

The firm also uses interns from local colleges and universities during the season. "We provide extensive training and useful working experience to these candidates," Isdaner says. "It's also an opportunity to screen best candidates and offer full-time positions. We encourage staff to take vacations before their schedules become hectic, and coordinate the time of their vacations with others in their departments."

"Before year-end, send out engagement letters for all of the larger 1040 clients and all business returns," says Green. "Now is the perfect time to weed out your clients. Do you really want to keep that client that pays invoices late, has lots of demands, and a low engagement fee?

"Make a list of the referrals you've given to your attorney and business contacts and then make a list of the referrals you've received in return," Green recommends. "If you owe your referral source some leads, get brainstorming and consulting with your co-workers for potential leads to reciprocate. If you've been giving more referrals than you've received, you should let those contacts know that you've noticed the disparity and you're hoping they'll send more referrals your way."

Preparing can also involve consistent effort throughout the year. "When you meet with a prospective client, take your firm's 'A team' and make sure they're available to provide client service after the initial sales call," says Timothy Barnthouse, state and local tax practice leader for Los Angeles-based Stonefield Josephson.

"We're increasingly getting our tax professionals to the client's place of business," says Wyson. "Clients perceive more value when they actually see the work being done, and unanswered questions are resolved and needed documents secured more quickly." To help cross-sell, partners from each service group at Wyson's firm meet regularly to review client lists. "Partners then make a client introduction for another function where a relationship didn't exist before," he says.

"Take your state and local, and international, tax specialists to market," Barnthouse suggests. "You may be surprised by how many issues are discovered

Economic Crisis A New Variable

"The main differences I see for the 2009 tax season will be driven by the economic crisis. The presidential elections will likely have more impact for the 2010 tax season, although awareness of tax issues will certainly be heightened when the new president is elected and changes in the tax laws can be anticipated," says Charles McCabe, founder and CEO of Peoples Income Tax, which operates multiple tax offices in central Virginia and licenses income tax school systems and tax practice management manuals to independent tax firms nationwide. "Taxpayers will be seeking ways to cut expenses, and some who are capable will prepare their own tax returns, especially if they're unemployed. Economic conditions, however, could also drive more taxpayers to tax professionals to seek to reduce tax liabilities. The increase in unemployment will be a positive factor for tax firms seeking to hire additional tax preparers and/or upgrade the caliber of their staffs. The same trends of the past few years will continue and intensify," he adds, "such as greater competition, and increased IRS pressure on tax preparers to conduct due diligence and movement toward national regulation of tax preparers. Tax firms may also be able to get better deals on media advertising due to cut backs on marketing by businesses. I expect 2009 to be a good tax season with moderate growth."

Among his general tips:

- Developing a tax office policy and procedure manual is important for tax firms that employ more than a couple of people and essential to operating more than one office effectively. Employees need standard answers to scores of questions such as how the telephones should be answered, client problems resolved, returns priced, prepared, checked, processed, and e-filed, IRS Due Diligence requirements met, payments and bank deposits handled, daily results reported, and preparers paid.
- The schedule of charges and/or hourly rates should be reviewed and changes made prior to training tax preparers. A national tax

and that need to be addressed, many of which may represent opportunities rather than exposure. Consider the implication of transaction taxes, such as sales and use tax and gross receipts taxes. A difficult economy means that state governments will be looking for additional sources of revenue, and you don't want the state auditor discovering the issue for your clients."

Says Tracy Gallagher, managing director of Tofias PC in Cambridge, Mass., "We're accelerating our planning from October through December, and all of our planning will be completed by December 1. Also, building upon prior years' experience working with clients and the changing nature of their businesses, determine their current and upcoming needs. Then determine which staff should be assigned to accounts to ensure clients benefit from the specialty skill sets of staff members while still ensuring continuity on their accounts," Gallagher advises. Conduct planning meetings with clients "to minimize surprises" and determine in advance any necessary actions that need to take place to ensure a smooth process, and as well as internal meetings to review contact and communications with clients to ensure you are providing the highest level of client service and exceeding their expectations. Gallagher also recommends hosting events on business best practices and on the latest tax and accounting changes that will impact clients, followed by surveys to clients after tax season.

"Has your firm been proactive or reactive to clients?" says Green. "If the approach has been more reactive, what could your firm do better to let your clients know you are thinking about them? Has a letter been sent to clients explaining about the provisions that will likely apply to them from the Emergency Economic Stabilization Act of 2008?"

"We evaluate our list of prospective clients, and become more selective by accepting those prospects that meet certain criteria to insure timely services to all of our clients," says Isdaner. Each department works with another planning and coordinating the client's service needs, with the goal of the work completed in an orderly and timely fashion." Isdaner also periodically sends tax alerts to clients to better prepare them for tax-planning sessions and to apprise them of updates and changes in the law.

Under Consideration

Tax partners Robert Spielman and Diane Giordano of Melville, N.Y.-based Marcum & Kliegman advise considering all available tax elections during the planning process, including interest on U.S. Savings Bonds; installment sale reporting; elections for those engaging in real estate trades or businesses; corporations making qualified stock purchases under IRC Section 338(g) or 338(h)(10); divorce; reporting of foreign bank and financial accounts; planning for capital losses; hobby losses; worthless securities; personal non-business loans; unusable capital losses; Roth IRA conversions; maximization use of education credits; renting real estate to non-passive activities, among others.

"Both political parties have talked about taxing wealthier Americans, including corporations, more than in the past," Barnthouse notes. "For individuals, this

preparer price survey might be obtained by becoming a member of a professional association such as the National Association of Tax Professionals (natptax.com).

- Take inventory of all existing equipment and supplies to determine shortages and avoid ordering excess items. For printed supplies, it might be cost-effective to order a supply for two years.
- A tax season marketing budget should be determined and a plan should be completely formulated four to six weeks prior to the season. The marketing plan should consider the following: advertising, including electronic and print media, direct mail, directory, and Internet pay-per-click; public relations, including news releases, writing articles, speaking engagements, radio and TV appearances and community service; sales, which includes networking, seminars, cold calling and telemarketing; promotions such as grand openings, group tax programs and client referral programs, and local Internet marketing including search engine optimization, link building, article marketing, and others.
- Organizers should be mailed or e-mailed by mid-December to clients with more complex returns. A January client newsletter should be produced with tax tips and articles, as well as information about services offered, features and benefits, guarantee, locations, hours, your Web site, and other details. Call prior clients before the dates they were in last year to schedule appointments. Letters or postcards should be sent to prior clients of any offices that are being relocated, and procedures should be developed to obtain client e-mail addresses. The firm's Web site should include resources such as tax calculators and links to IRS sites.

More information is at 800/984-1040 or peoplestax.com.

means that the capital gains rates are going to rise. If a client has any investment assets with built-in capital gains, they should seriously consider disposing of these assets before year's end. In the same vein, marginal tax rates are likely to go up for nearly all taxpayers, so it's sound tax-planning to utilize strategies that accelerate income recognition and defer deductions. In this area, creative use of accounting periods and methods can be deployed and should be considered where appropriate." Use tax planning that avoids placing taxpayers in, or further within, the AMT system, as the spread between regular and AMT rates will likely increase.

For the moment, says Green, long-term capital gains and dividends are taxed at a maximum of 15 percent. "This rate could increase once the new president is in office. If your client has long-term investments that they've been planning to sell, it may make sense for them to go ahead and sell before the rate increases. If your client is a shareholder in a closely held corporation, the dividends paid out of the corporation will be taxed currently at the 15 percent rate, as opposed to the potentially higher rate next year," she says.

"Payroll deductions to 401(k)s, IRA contributions, and SEP contributions are all smart moves toward saving money for retirement," Green says. "Encourage your clients who turn 50 by the end of the year to take advantage of the catch-up contribution limits."

"Many clients have been wondering about selling their stock investments to deduct the losses against their other income," Green notes. "Unfortunately, these losses are only available to the extent there are gains, with an additional $3,000 (if married filing jointly, or $1,500 if married filing separately) of losses to offset regular income like wages, interest and dividends. Additionally, losses realized in retirement plans can't be deducted on clients' individual returns. Remember to advise clients who are adamant about selling that they can't buy shares of the same stock within 30 days or the potential loss won't be deductible and will be added to the new stock basis instead."

Kurt Ohliger, tax partner with Syracuse, N.Y.-based Dermody, Burke & Brown, recommends reviewing prior-year work papers to develop detailed "prepared by client" information lists. "Get those lists into the clients' hands well in advance of year-end," he says, further recommending identifying procedures, calculations, or analysis in the prior year that can be eliminated or pushed back to the client.

"Given the current market and economic conditions, as well as the potential for significant increases in both the capital gains rates and marginal tax rates on ordinary income and the potential elimination of the lower tax rate on qualifying dividend income, the normal tax planning strategy of 'defer income, accelerate deductions' might require a role reversal for 2008: 'accelerate income, defer deductions'," Ohliger says. Clients may want to accelerate capital gain income into 2008, accelerate ordinary income into 2008 to avoid potential increases into the marginal tax rates in 2009 or thereafter, he adds.

Has your firm been proactive or reactive?

Acceleration of ordinary income combined with deferral of certain itemized deductions may also help mitigate the impact of the AMT. There are also the traditional year-end planning items relating to maximizing the now enhanced Section 179 expensing amounts and the newly revived bonus depreciation for qualifying property, both provisions of the "Economic Stimulus Act of 2008," he says. Qualifying individuals with traditional IRAs might want to consider converting to Roth IRAs, since if the IRA has experienced a significant reduction in value, there will be less taxable income upon conversion to the Roth IRA.

"It's usually a good idea for clients to accelerate your deductions, especially if they expect to be in a lower tax bracket next year," says Hoffman, who also offers other tips. "Clients can pre-pay real estate and state and local income taxes, accelerate charitable giving, and others, though if they fall under the AMT some of these might have negative consequences. If clients have or anticipate having a taxable estate, they should exhaust the $12,000 annual gift giving exemption. They do need to be careful that no prior gifts were made during the year, including contributions to 529 Plans or life insurance trusts. If clients happen to hold appreciated stock, they can donate it to certain charities and receive a charitable deduction equal to the fair market value of the stock." One big change this year is that the extended deadline for partnership tax returns has been moved from October 15 to September 15, Hoffman points out. "The change in the partnership deadline will shift busy season further into the summer months, which could create new staffing issues and work/life balance concerns," he says.

Final Advice

If done right, even this watershed season of change can pay off.

"Businesses in general are more price-sensitive. This can be a challenge because we cannot simply place a cost-of-living increase in recurring fees for the firm's clients," Wyson points out. "On the positive side, because we specialize in working with middle-market companies, prospective clients who have paid a premium to retain a national firm in the past are now looking to independent firms with the same level of experience and service but at a lower rate." PA

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➢ For related material, see "Analysts Forecast 2009 Tax Brackets and Deductions" on the September 18, 2008, Newswire of Webcpa.com.