Choosing a Tax Advisor

There are two main characteristics you look for in a tax professional. I call them the two "*C*s":

1. Competence and
2. Communication.

The accountant/client relationship is a symbiotic association, where the accountant has the knowledge, and is able to communicate the information that the client needs to take full advantage of that knowledge.

There are three designations for tax professionals (other than attorney's) that might affect your choice.

The first is the C.P.A. (Certified Public Accountant). The CPA is an individual who has successfully completed the Uniform CPA Examination. This exam is a computer based exam given at various testing centers around the country, and consists of four sections: Auditing and Attestation, Regulation, Business Environment and Concepts, Financial Accounting and Reporting. The exam is not principally concerned with taxation; therefore the CPA designation, while important, does not necessarily guarantee competence in tax matters. The CPA is required to meet stringent standards of state licensing, ethics and educational requirements, and this should give the client some comfort that the CPA is honest and professional.

The second designation is that of the E.A. (Enrolled Agent), and is bestowed directly by the Internal Revenue Service. They explain it this way:

> *An enrolled agent is a person who has earned the privilege of practicing, that is, representing taxpayers, before the Internal Revenue Service. Enrolled agents, like attorneys and certified public accountants (CPAs), are generally unrestricted as to which taxpayers they can represent, what types of tax matters they can handle, and which IRS offices they can practice before. In contrast, practice before the IRS is much more limited for other individuals such as unenrolled tax return preparers, family members, full time employees, partners, and corporate officers.*

To become an Enrolled Agent the individual must take a grueling 3 part test that centers on taxation and ethics. The Enrolled Agent, like the CPA, has ethical and educational requirements to uphold.

The third designation is new, and is part of the new Internal Revenue Service initiative to register, regulate and provide oversight to all paid tax preparers. This is the new "Registered Tax Return Preparer" designation. To achieve this title, the individual must take a competency exam and maintain continuing education requirements, both will be monitored by the Internal Revenue Service.

Only CPAs, Enrolled Agents and Attorneys are allowed to practice and fully represent clients before the Internal Revenue Service. The new "Registered Tax Return Preparer" will be able to provide audit representation on returns they have prepared and signed. In audit situations the difference in these designations can be significant as CPAs now have a limited attorney-client privilege that Enrolled Agents and Registered Tax Return Preparer's do not enjoy.

The best place to start your search for a tax professional is with a referral from a colleague. Ask who your friends are using and if they like that person, and why. You can also check with your state society of CPAs or with professional organizations, they will often have referrals available. When you get the name of a few folks, decide who you want to talk to and make an appointment with each for a free consultation. I would not hire any professional if that person will not grant free consultation time. Try to interview several tax advisors before you decide.

You will probably ask first if the accountant has experience with and clients in your particular artistic endeavor. This is the most important question, and it will lead into a conversation that will let you know if this person "gets it." Feel free to ask for references. Bring along some specific questions about *your* return to ask; this allows you to really kick the tires. If you bring along a copy of your past year's return, you can ask the accountant to quickly review it and see if he or she has anything of interest to say about it. This is a great way to see if the accountant spots some missed deductions or comes up with some tax planning ideas.

I hate the question "What can you do for me?" and I'm sure I'm not alone. It's better to ask specific questions, such as:

- ✓ "Reviewing my returns from last year do you think I missed any deductions?"
- ✓ "Do my deductions from last year seem reasonable?"
- ✓ "Do you see any audit flags?"
- ✓ "Reviewing last year's return, do you have any ideas on how I could reduce my taxes this year?"
- ✓ "Do you consider tax planning a part of the preparation process?"
- ✓ "Are you available for questions during the year and do you charge extra for this service?"
- ✓ "Do you have a Website?"
- ✓ "Can you do a video conferencing if I am away on business?"
- ✓ "Do you answer e-mails every day?"
- ✓ "Do you give out your cell phone number?"
- ✓ "How many client audits do you have every year, what percentage of your clients are audited?"
- ✓ "Do you have other clients that are in my profession and do you enjoy working with them?"
- ✓ "How do you bill, and when do you get paid?"
- ✓ "Approximately how much will it cost for you to prepare my tax return?"
- ✓ "I often have other states to file in. Are you familiar with tax returns from other states?"
- ✓ "How do you help clients that get audited?"
- ✓ "Have you ever read any of the IRS MSSP audit guides?"
- ✓ "Do you have checklists or other worksheets that will help me prepare my information for you?"

- ✓ "Will you be preparing my return personally?"
- ✓ "Do you make it a practice to sit with your clients and review the information before you prepare the return?"
- ✓ "How early should I make an appointment with you?"
- ✓ "How long does it usually take you to complete the return?"
- ✓ "Can I communicate with you directly via e-mail to make an appointment or to ask questions?"

When you finish an interview like this you will know if you have any rapport with the accountant (part of my second important *"C"* – communication). If you don't feel comfortable talking with your accountant, you won't be inclined to ask questions. When you do not ask questions, you will not get the best result on your tax return. It is through conversing with my clients that I have found we really ferret out all the deductions. Checklists are great but they only go so far.

A final reminder: Even thought you have someone else prepare your return, you are the person ultimately responsible for the information on it. There is a statement on your 1040 tax return printed over the place where you sign that reads: "Under penalties of perjury, I declare that I have examined this return, and accompanying schedules and statements, and to the best of my knowledge and belief they are true, correct and complete."