A Dozen Tips to Prepare for Tax Season

By Charles E. McCabe

1. **Tax Office Policies & Procedures (P&P) Manual:** Developing a detailed P&P Manual is very important for tax firms that employ more than a couple of people, and is essential to operate more than one office effectively. As employees are added, communication and management becomes more complex. Tax preparers and other tax office employees can no longer turn to the tax business owner whenever they have a question about how a particular situation should be handled. Yet, the owner wants things to be done his or her way. Employees need standard answers to scores of questions such as:

   - How should the telephone be answered?
   - How should client problems be resolved?
   - How should tax returns be priced?
   - How are tax returns prepared, checked, processed and e-filed?
   - How are IRS Due Diligence requirements met?
   - How are payments and bank deposits handled?
   - How are daily results reported?
   - How are tax preparers paid?

   The list goes on and on. The cornerstone of employing best tax business practices is the use of systematic methods, documented in writing in a "Policies & Procedures Manual." This "P&P Manual" serves as an essential training tool, as well as a reference guide for tax preparers and other tax office employees.

2. **Tax Preparer Employment Agreements:** Employment agreements should be prepared or updated prior to interviewing and hiring or rehiring tax preparers. Tax business owners who do not bind tax preparers to certain enforceable restrictive contractual agreements are risking their tax preparers taking clients with them should they leave. A non-compete provision that is construed as being unreasonable will not be upheld by most courts. In fact, non-compete agreements that extend beyond the employment term may not be legal in some localities and some states, such as California. However, tax preparers should always be prohibited from competing while employed. Developing an independent tax practice while employed as a tax preparer is a conflict of interest and should not be allowed. If an experienced tax preparer applies for employment and has a handful of long-term personal clients, buying the clients might be an option. Another alternative might be to exclude existing clients specifically by contract addendum from your non-compete provision. The most important contract provisions are "Non-Solicitation" and "Confidentiality" clauses that survive beyond the term of employment. Such restrictive covenants can effectively prevent tax preparers who leave from taking clients with them. Taking a list of clients' names and contact information should be an enforceable violation. Employment agreements are complex legal documents, and they are expensive to have prepared by a qualified labor attorney. Fortunately, it is not necessary to "reinvent the wheel." A copy of the employment agreement of one of the national tax firms might be

obtained to provide insight. Or a provider of tax practice management products, such as The Income Tax School (ITS), could be a source. Employment agreements are included in the ITS Tax Business Personnel Manual. In any event, a qualified labor law attorney who is familiar with your state and local laws should be engaged to ensure that all restrictive covenants in your employment agreement are likely to be upheld by the courts of the the jurisdictions in which your firm operates.

3. **Tax Preparer Compensation:** Ideally, tax preparers (and other employees) should be compensated based on the results they attain for your business, i.e., by "performance-based compensation." However, if tax preparers are paid solely on a commission basis, customer service could suffer. An alternative would be to pay a base wage plus a small percentage of the revenue realized from the returns prepared. The attainment of a professional credentials such as the Enrolled Agent (EA) or the ITS Chartered Tax Professional (CTP) should be a consideration. If feasible, the preparer's client retention rate should be factored into the compensation formula. Ideally, 90% of their clients should return each year. For a client base comprised of "Fast Refund" (EITC) clients the goal might be only 80%.

4. **Pricing Policies:** The Schedule of Charges and/or hourly rates should be reviewed and any changes made prior to training tax preparers. If possible, prices of local direct competitors should be determined through "competitive espionage." Alternatively, the results of a national tax preparer price survey might be obtained by becoming a member of a professional association such as the National Association of Tax Professionals (NATP) www.natptax.com. Your challenge is to adopt prices that will yield the greatest amount of revenue. Prices that are too high, will prevent clients from choosing your tax firm, or reduce your client retention rate. However, if you have no price complaints, your prices are probably too low.

5. **Recruiting & Training Tax Preparers:** The best practice used by every national tax firm and many local tax firms is to operate a tax school**.** This ingenious method of recruiting and training seasonal tax preparers was invented by H&R Block more than 60 years ago to support their continued growth. Today, most independent tax firms that operate a tax school, recruit people-oriented students who must pay a modest fee to cover the cost of their books and materials. There should be no obligation for students to work for the tax firm and no commitment for the firm to hire graduates. The instructor has the opportunity to observe students while teaching the tax course and determine which ones would make good employees. This screening process can enable the tax firm to avoid costly hiring mistakes. Qualified graduates who have demonstrated competency in tax preparation and who also meet the tax firm's employment criteria are hired. This process provides the tax firms with a pool of qualified entry-level seasonal tax preparers who have been pre-screened and are likely to fit in with the company culture. ITS offers a turn-key Tax School Operator's Kit including student textbooks an instructor's manual and an operator's manual. ITS Tax School licensees can teach live classes, have their students use the ITS online tax course system with the licensee providing instructor support, or provide e-learning combined with classroom reviews. An option for tax firms that need to train just one or two employees is for them to take the ITS Online Comprehensive Tax Course directly from ITS. For more information, visit the ITS website page describing the ITS Tax School Options.

6. **Office Site-selection & Leasing (if applicable):** Income tax office site selection is a critical decision processes that can make the difference between success and failure. When planning to open or relocate a tax office, the target community must include enough taxpayers to provide the number of clients needed at a market share that can reasonably be attained to realize the required revenue for a successful office. Once the market is determined, the office location is the next crucial decision. A professional office building might be appropriate for an executive-level tax service; but for a mass-market tax service a retail storefront with high visibility will usually be necessary to succeed. Site selection involves many key considerations such as type of shopping center or office building, population and demographics of drawing area, traffic, visibility, parking, access, etc.

   Lease negotiation is the next major challenge once a desirable office is identified. There are many pitfalls in negotiating a lease, and hiring a lawyer to help is not necessarily the best approach. Economic considerations include rent and pass-through charges, security deposit, up-fitting cost, rent abatement, cost of utilities, repairs & maintenance, signage cost and any other expenses the tenant must pay. Occupancy considerations include permitted use, sign privileges, hours of operation required, tenants' rules & regulations, and other factors. Legal considerations include the lease term, options to renew, default provisions and the ability to cure, notice required, venue, casualty provisions, personal guarantee, right to sub-rent and assignment rights. There are many leasing pitfalls; and there are strategies to counter these landmines. Tax office site selection and lease negotiation are covered in detail in the ITS Tax Office Expansion Guide.

7. **Ordering Tax Season Equipment & Supplies:** When purchasing is put off until the last minute, the result is often inferior quality, higher costs and late delivery. The first step is to take inventory of all existing equipment and supplies to determine shortages and avoid ordering excess items. Estimates for each item should be obtained from several suppliers and purchase decisions should be based on value for the quality desired. For printed supplies, it might be cost-effective to order a supply for two years, if the incremental cost per additional unit (e.g., 500 vs. 1,000) would result in the average cost per unit being much lower. For printed literature, dates and prices should be avoided to ensure that literature will not become dated and unusable.

8. **Tax Office Set-up:** Everything that will be needed for a tax office to operate efficiently should be in place before the start of tax season. Exterior signage should be cleaned and illuminated. Windows should be cleaned and all interior fix-up and cleaning should also be completed. A good practice is to prepare and complete a pre-season checklist of all necessary tax office equipment, fixtures and supplies. Tax preparers should start the tax season in a clean, professional environment with everything they need to do their job efficiently.

9. **Tax Preparer Pre-Work Training:** Obviously all tax preparers should continue their professional tax education and learn the new tax laws annually. However, tax preparers also need to know more than just how to accurately prepare tax returns. They should also receive training prior to each tax season in tax office policies & procedures and client service. The P&P training can be based on the P&P Manual, which they should be asked to study before coming to the training session. P&P training should be a review of the most important P&P topics and, possibly, a test to make sure employees have read

the Manual. Client service training would include a review of the firm's client service policies & procedures and, ideally, exercises in resolving typical client complaints and problems. Training in tax software should also be provided, including tips and shortcuts to increase efficiency in tax preparation. These topics are all covered in detail in the ITS Tax Office Operator's Manual.

10. **Tax Season Marketing:** A tax season marketing budget should be determined and a plan should be completely formulated 2 to 3 months prior to tax season. This will ensure that marketing strategies and tactics are budgeted and well thought out, and will allow time for refinement as tax season approaches. The plan can then be implemented in a timely manner during tax season. Employees can also be informed about all marketing activities during pre-work training so they will be aware of special promotions, discounts, etc., and will understand their roles in implementing the plan. The marketing plan should consider the following: (1) advertising, including electronic and print media, direct mail, directory (online), and digital marketing; (2) public relations, including news releases, writing articles, speaking engagements, radio & TV appearances and community service; (3) sales, which includes networking, seminars, cold calling and telemarketing; (4) promotions such as grand openings, group tax programs and client referral programs; and (5) local Internet marketing including search engine optimization, link building, article marketing, etc. All of these topics and more are covered and examples provided in the ITS Tax Business Marketing Handbook.

11. **Client Retention:** Year-round communication is essential. Tax organizers should be mailed or e-mailed by mid-December to clients with more complex returns. A more comprehensive January client newsletter should be produced with tax tips and articles (could be purchase from your professional association or other source), as well as information about services offered, features and benefits, guarantee, locations, hours, website, etc. A procedure should be implemented to call prior clients before the dates they were in last year to schedule appointments. Letters or post-cards should be sent to prior clients of any offices that are being relocated. Procedures should be developed to obtain client e-mail addresses. The firm's website should include valuable resources such as tax calculators, a portal and links to IRS sites and services. Ideally, an interactive e-commerce website will be developed. Of course, quality client service and retention of tax preparers are key factors in realizing high client retention factors.

12. **Year-end Tax Planning:** Tax clients who have more complex tax returns could be invited to come in for a year-end tax planning session. This meeting provides another "touch point" opportunity to ensure client retention. Tax planning can also be a source of additional revenue if fees are charged for the session or if fees or commissions are earned for financial planning. A tax and financial planning checklist could be used to conduct these sessions, with consideration for such strategies as the following:

    1. Deferring income
    2. Prepaying deductible medical, business, education and employee expenses, unless the impact of AMT would be negative
    3. Selling securities to book paper losses and offset any capital gains and realize a capital loss of up to $3,000 to offset ordinary income. Consider the different

tax treatments of the sale of long and short-term stocks, and the taxability of December capital gain distributions from mutual fundsIf applicable, consider a "bond swap" to increase your bond rating and book a loss to offset other gains

4. Making charitable contributions of stock or other property (be aware of AMT)
5. Maximizing contributions to retirement account
6. Ensuring compliance with IRS withdrawal rules for taxpayers who reached age 70-1/2 by June 30th of the current year; consider making the required distribution for a qualified charitable distribution (QCD) from your IRA account in order to avoid reporting the additional income
7. Consider the tax advantage of gifting stock to children before selling to reduce tax to the Kiddie Tax rate
8. Capitalize on income tax and Social Security tax savings through employer Flexible Spending Accounts, if applicable.

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