

The Enrolled Agent Tax Consulting Practice Guide

**Learn How to Develop, Market,
and Operate a Profitable Tax and
IRS Representation Practice**

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Dedication



This book is dedicated to all of the financial professionals who contributed their expert opinions to make this book such a success.

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Full Disclosure

All of the Enrolled Agents mentioned in this book are real individuals. None of the EAs received any compensation for being interviewed for the book. The author has no financial interest in and receives no compensation from the businesses or organizations mentioned in this book.

In the case studies and other examples, the clients' names have been changed to protect the privacy of the individuals.

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Foreword



By Kristin Delfau, EA MA

Author of: *Turbo-Mom's Guide to Saving Money Without Wasting Time*

One of the more entertaining moments I had when becoming an Enrolled Agent happened in the Prometric testing room: I was waiting to be called in with a dozen other people, most of them CPA candidates. The test administrator came out and said, “IRS test?” while looking at me—and promptly everyone, especially the CPAs, scooted their chairs away from mine.

Becoming an Enrolled Agent is truly special—it is not a course of study in college or something that you just “do.” Rather, it is a designation sought out by tax practitioners who truly care about their clients—and their own professionalism—in order to gain knowledge and credibility in an increasingly complex and rapidly changing field.

Becoming an EA is only half the battle—then what do you do with yourself and your designation? *The Enrolled Agent Tax Consulting Practice Guide* is an excellent, step-by-step approach to building your own practice. Unlike many other guides written about starting your own (insert generic adjective here) business, Christy’s book focuses on the specific needs of the tax preparation community. With solid and detailed advice on everything from how to configure your office space to how to market your practice, she makes it easy to understand the components of a successful practice. Her personal experiences—

both good and bad—are excellent learning tools to accompany her recommendations.

I especially enjoyed her chapter on choosing your clients wisely, which in the long term is much more profitable and much less stressful. It goes against the traditional approach to building a business, which is “take everyone who walks in the door and when you are profitable enough, weed out the bad ones later.” Eventually, the “bad” clients cost you so much time and billable hours that you do not have the energy to find more “good” clients. She emphasizes a great point: to help your clients and stay in business, you need to get paid—and *on time!*

Christy also delves into other areas of generating revenue for your practice. From S-Corp work to representation at audit, she takes a hands-on approach from how to set your fees to what to expect in the process. She is also one of the few authors to emphasize Errors & Omissions Insurance, which is essential in *any* tax practice, even if you are doing only twenty-five returns per year. The cost of coverage is reasonable and worth it in case you ever have to use it.

For Enrolled Agents, particularly sole practitioners, one of the toughest facets of the business can be marketing. We don’t like to think of ourselves as “in sales” and thus, often figure if we “hang out a shingle,” the clients will find us. Unfortunately, there is too much competition out there for that approach to work!

Instead, *The Enrolled Agent Tax Consulting Practice Guide* provides six helpful chapters on how to market your practice effectively and without going bankrupt doing so. I liked that Christy addressed the importance of niche marketing—we cannot possibly be experts in every facet of tax law, and that’s okay. It’s also reasonable to refer clients to others who specialize in fields

of tax law that are not your forte. You will build credibility within the profession and perhaps receive some referrals in return!

I am thrilled that Christy wrote this book to help both new and seasoned EAs build and grow their practices. Though it is relatively easy to locate continuing education and tax update classes online and around the country, it is rare to find a practical and well-written book on tax practice management. Christy Pinheiro has now written the book that I searched for years ago when starting my own firm—so use it to your advantage and go build your tax practice!

Introduction



Welcome to the first nationally-distributed tax consulting guide designed *specifically* for Enrolled Agents! I've met lots of tax professionals through the years. I've also worked as an accountant in multiple tax practices, two CPA firms, and one government agency. I feel that the main reason why most tax pros fail to strike out on their own is because they do not believe they can generate the client base that will give them the income stream of a regular full-time job.

This book is designed to help you develop and market your financial services to the public. The main issue that EAs face is how to grow and promote their practices. In talking with tax professionals, their questions are always the same:

“How do I build up my client base?”

“How can I avoid deadbeat clients?”

“How do I fire a bad client?”

“Are engagement letters really necessary?”

“How do I encourage more client referrals?”

“How much should I charge for services?”

This book offers real answers to all of these questions. Read multiple interviews with established, highly profitable EAs. You will hear from *them* how they keep their practices in the black and keep clients (and money) rolling in. If you have the tax knowledge and a desire to succeed in this business, this book will help you realize your dreams.

Experienced EAs can offer valuable insights to help you succeed in your own practice. Enrolled Agents spend most of their billable hours doing three things: tax consulting, tax compliance, and representation. All of these services are inter-connected, but they are not the same.

1. Tax consulting occurs *before* the imposition of tax. This is also called *tax planning*. Most tax professionals do some amount of tax planning for their clients since it is the best opportunity to save clients money. Tax consulting is a great way to offer your clients a valuable service and also generate billable hours throughout the year.

2. Tax compliance is also commonly known as tax reporting. The preparation of tax returns falls under this umbrella. EAs prepare tax returns and build their core practice on tax return preparation. Tax compliance occurs *after* the imposition of tax. In most cases, when you are preparing a client's tax return, it is already too late to advise the client on how to reduce his/her tax burden. Some exceptions to this rule include retirement plan contributions, which can be done after year-end.

3. Representation is the last stage in the tax planning process. Representation occurs when a taxpayer's return (or other reporting) comes under attack by the IRS. Enrolled Agents are uniquely qualified to represent taxpayers, because they are the only federally-authorized tax professionals.

Many EAs genuinely enjoy representation, and have built entire practices upon serving the needs of these clients. IRS audits, OIC¹ submissions, and formal IRS Appeals all fall under the "representation umbrella." In order to represent a client, you generally must submit a signed Power of Attorney to the IRS (**Form 2848**).

This book assumes that you are already an Enrolled Agent, or that you are a tax practitioner planning to take the EA exam at a future date. Some of the information, such as the chapter on audit representation, will only apply to someone who is enrolled to practice before the IRS—a great privilege that we, as Enrolled Agents, share with CPAs and tax attorneys.

You may have just passed the EA exam, or you might be an experienced Enrolled Agent looking for tips on how to build your practice and make it more profitable. Either way, this book has something for you.

Chapter 1

The Wide World of Tax Consulting



“It’s tax time. I know this because I’m staring at documents that make no sense to me, no matter how many beers I drink.”

-Author Dave Barry

Tax Consulting is Big Business

Independent tax consulting is one of the best businesses in the world. You sell a high-end product that most people cannot live without—namely, tax preparation. Enrolled Agents offer other financial services as well, such as bookkeeping, payroll, IRS representation, tax planning, and so on. The possibilities are endless.

When you become an EA, you also have the luxury of choosing a part-time business or working year-round. You can work during tax season, or decide to offer year-round financial services. Many EAs are retired accountants or former IRS agents who now run highly profitable individual tax practices.

According to Paul Edwards, the *Self-Employment Expert*, a tax preparation business is one of the best home-based businesses to start in the United States.² EAs are tax specialists, so their greatest profit potential is in their ability to target a niche market. Edwards states in his book that the EA exam is the best path to becoming a successful, licensed tax preparer:

*The more lucrative alternative is to become a licensed tax preparer known as an **Enrolled Agent**. The EA designation is the only one granted by the federal government... The EA is entitled to appear before the IRS at hearings to represent clients. EAs may prepare taxes for individuals, corporations, partnerships, estates, trusts, and any entities with tax reporting requirements.*

—Paul Edwards, *The Self-Employment Expert*

If you enjoy finance, a tax consulting business may be just the right option for you. As taxes grow more confusing and the IRS gets more aggressive with its enforcement, taxpayers are looking for professionals who can prepare their tax returns and also represent them in the event of an audit.

Some believe that accountants will someday become obsolete. They say that computer software or “the flat tax” will make tax accountants unnecessary. The fact of the matter is that the idea of a “flat tax” has been around for decades. And computer software, like TurboTax® or TaxCut®, can only do so much. In fact, most tax professionals report that a big part of their business comes from amending self-prepared returns that taxpayers have messed up trying to prepare themselves.

There are twenty million businesses in the United States alone; all of them need some type of financial guidance. Even in bad economic times, there are many opportunities for EAs to find clients. Tax planning, bookkeeping, payroll, and consulting are just some of the services EAs may offer.

Options for Starting a Tax Practice

At the beginning, you will have to consider how to start your tax practice. You can purchase a franchise or an existing tax practice. You can also decide to “go solo” and strike out without doing either.

1. Going Solo: This is the most difficult route, but also the least expensive. If you already do tax returns for family and friends, consider a quick marketing blitz to those people. Ask them to refer their friends to you. Place classified ads on Craigslist and other sites, and visit local businesses and let them know you are available for their bookkeeping and tax preparation needs. Walking into local businesses in-person seems to work the best.

Going solo might be the hardest way to start, but if you have the capital to grow organically, or if you have a second income that helps support your lifestyle while you grow, it may be the best way to go. You won’t have any legal obligations to a franchiser, and you won’t have the financial burden of purchasing another

tax practice. If you decide to go this route, estimate at least five years to build up your client base.

2. Buying a Franchise: Buying a tax franchise, like *H&R Block* or *Jackson Hewitt*, is an easy way to have instant name recognition. A franchise is a legal arrangement where the franchisee (you) agrees to pay a fee for the legal right to use the franchiser's business name or trademark. In most cases, the franchise fee is ongoing, meaning that you must pay a portion of your profits to the franchiser year after year.

Franchises have a better opportunity for success the first year they are in business, mainly because of name recognition. But owning a franchise is costly. You must consider all the costs associated with the franchise before you purchase. You will likely be required to pay franchise fees, royalty payments, and advertising fees to the franchiser.

You may also have significant restrictions on how you run your business. And you may be restricted on where you can actually open your business.

3. Buying an Existing Tax Practice: You may want to consider purchasing an existing tax practice. Tax businesses that have been in existence for at least five to ten years have a better profit potential and higher customer loyalty. If you purchase a tax practice that is in an existing location, consider the location of the practice.

How is the foot traffic? Is there ample parking? What does the neighborhood look like? Is the building in disrepair? Has the area taken an economic downturn lately? All of these questions are important to consider if you are going to purchase a tax practice "in place."

Check the average age of the clients. If all the clients seem to be over fifty, this may be a practice that is not growing. A successful practice has a good mix of age groups, business types, and income levels.

Find out why the seller is relinquishing the practice. Is it because of illness, death, or retirement? It is very important that you understand why the practice is being sold. The last thing you want is to purchase a practice from someone who was disbarred or is currently under review for ethics violations.

Look at the last five years of financial statements and tax returns. Examine the client listing, and count how many clients are return customers. The real value of any practice is in customer loyalty. A high turnover in the client base might signal a situation where the practice has serious issues.

Make sure that you get advice from local professionals and lawyers and bankers. Ask how the practitioner is viewed in the community. If the practice's reputation is not good, find out why.

Does the purchase include hardware, software, and staff? Purchasing a practice outright is a serious investment in both time and money. Make sure that you can handle all of the complicated tax returns before you purchase another practice. Be realistic about your skills; if you don't have a lot of corporate experience, do you really want to purchase a tax practice that is 50 percent corporate work?

All of these questions must be answered fully before attempting to purchase a tax practice. It is probably a good idea to use a formal intermediary, such as an attorney or a broker who specializes in the sale of accounting firms.

Tax Consulting: Advantages

There are definite **advantages** to tax consulting, such as:

1. Enrolled Agents provide a product that almost everyone needs, namely, tax preparation and audit representation. People need help understanding tax law more than ever, because Congress has made tax law so convoluted. Add in complexity of state taxation, and it is a wonder that anyone attempts to self-prepare his own return.

2. It is easy to flesh out an existing tax practice with ancillary financial services. You can add bookkeeping, payroll, tax planning, representation, business valuation, as well as other profitable services. It is easy to build a year-round tax practice. You can also opt to work part-time, just during tax season. Financial services offer some of the best flexibility of any profession.

3. Tax consulting is extremely lucrative. Most EAs charge \$100 an hour (or more) for services. Although not all of your time is going to be billable time, you can still earn a very good living doing tax consulting. If you specialize, you can earn even more. Corporate taxation, partnerships, and estate tax returns are tax specialties that can generate huge revenues.

Self-employed Enrolled Agents earn salaries of about \$49,000-\$116,000 per year, on average.³ Over 25 percent of tax practices in the United States gross more than \$150,000 a year.⁴ This amount goes up for practices that offer more financial services. Enrolled Agents who are also Enrolled Actuaries make substantially more than those who are not. The amount that you can earn also varies considerably by location and years of experience.

Tax Consulting: Disadvantages

Of course, along with advantages come *disadvantages*. Here are some disadvantages to tax consulting:

1. Your work cannot be relegated to an unskilled employee. You are required to sign the returns, speak with the IRS, and do most other sensitive tasks yourself.
2. If you get sick and cannot work, your income flow stops. You need to work hard at the beginning until you have enough revenue to be able to hire an assistant or receptionist. You can mitigate this issue by working with a partner, or having employees who are either licensed or have good tax training.
3. Dishonest clients are risky because they may put you in a situation where you (unknowingly) file a false return, and bring the wrath of the IRS's *Office of Professional Responsibility* upon your head. Although you may be able to defend your decisions, it's harder if you do not regularly use engagement letters. Trust your gut instinct about which clients are more trouble than they are *worth!* You are always going to have some risk from unscrupulous clients.
4. Tax law is extremely complex and getting more intricate every year. It takes a sharp mind to be able to keep up with the constant changes. You must be dedicated to continuing education. Every year, you must learn tax law changes. There are no shortcuts.

There are risks and rewards in every business. You can make a very nice income as a self-employed Enrolled Agent as long as you have the client numbers and billable hours to support your practice. The first step is to get those clients in the door. The rest is up to you. Now let's cover some basics.

Home Office or Commercial Location?

At the beginning, your finances dictate your office location. A tax preparation business can be started from home with a personal computer and a good tax software program.

Approximately 38 percent of tax preparers work from a home office. The number of tax preparers who practice out of a “brick and mortar” business location is 63 percent.⁵

Most Enrolled Agents *start out* either:

1. Working from home with a home-based tax practice or
2. Working for another tax practitioner, such as an EA or a CPA, to gain valuable experience before striking out on their own.

Some EAs are part-time preparers, and generally work out of their home. I've met a number of part-time EAs that do about 50-100 tax returns each season, working out of their home. Often, these EAs also work regular full-time jobs, and prepare tax returns after work and on weekends.

If you do decide to work out of a home office, you need to set firm boundaries. Create a business atmosphere in your home office. Clearly define your workspace, and do not allow your personal home life to mix. Your office should be isolated from family gathering places—away from the living room or kitchen.

Use a separate telephone line for your business. Make sure there is some type of barrier to your office. It can be a door, a temporary partition, or even a hanging drape.

You must make sure that your home office has a basic work area. Make sure there is room for a desk or table and your computer. You should purchase a filing cabinet to store taxpayer files. You will probably purchase paper by the case, and you will need a

place to store other office essentials. You should have a cabinet or closet to hold office supplies.

Even if you decide to “go paperless,” you still have to hold onto some original documents. This is especially true if you offer other services. Notary services and insurance services are two examples where you are required to hold on to original documents.

Even if you don’t meet with clients in your home, you need to set aside a special place just for your work. Make sure your home office is clean, organized, and free of clutter. Get a pretty plant or a nicely-framed print. If your home office is full of books, toys, or exercise equipment, it is harder to concentrate on your business. Clean up your workspace, and try to avoid distractions. This will allow you to stay more focused even in a home office setting.

Purchase a paper shredder to properly dispose of any documents that include confidential information, such as bank statements or credit card bills. In fact, make sure that your entire home office is secure. Consider investing in an alarm system. Security companies (like ADT or Broadview Security) charge as little as \$30 a month; it is an investment in your safety and well worth the money.

There are some serious drawbacks to working out of your home. Are you prepared to accept strangers into your home? If this is a concern, you may want to do all of your consulting at the *client’s location*. The National Association of Tax Professionals reports that 2 percent of tax preparers work only in the client’s location. Many freelance bookkeepers also work exclusively at a client’s business.

Working from a Home Office—Drawbacks

1. Lack of Privacy. If you live in a small apartment or have children at home, you may feel that a home office is not private enough. Pets, family interruptions, and home life may interfere with your ability to work effectively.

2. Managing Children and Pets. How will you manage your children when you are working from home? If they are in school, you can work during those times. Managing your pets might be difficult, too. Many people are allergic to dogs and cats; what happens if your client comes over and starts sneezing uncontrollably? Some people are deathly afraid of dogs. What if your dog starts barking while you are on the phone? Keep pets outside, or away from your office altogether. Try to anticipate problems in advance.

3. Lack of Security. Are you comfortable bringing strangers into your home? Do you feel unsafe allowing clients inside your private residence? This is especially important if you are female. If you're uncomfortable allowing clients into your home, offer to do initial interviews elsewhere. If the client has a business, do the interview there.

4. Professional Image. Are you sure your home office is appropriate for client meetings? Is your house cluttered, dirty, or smelly? If you feel that your home office is not professional enough, consider investing in a virtual office (covered later).

5. Local Restrictions. Sometimes, local zoning laws will not allow you to run a business from your home. Make sure that you verify that you can run your business from your home. It goes without saying that most of the time you will need to purchase a business license in order to run your business, even if you are just working from home.

The Virtual Office

A virtual office is an inexpensive solution to a common problem. Virtual offices usually start at about \$100 a month. The virtual office allows users to have a prestigious mailing address at a fraction of the cost. Basically, virtual offices allow you to have a business *address* and partial use of an office. They are professionally staffed.

One of the biggest benefits of a virtual office is the use of a receptionist. The receptionist is trained to answer your dedicated line with your business name. This is included in the cost of your office lease. The calls are routed to voicemail, or forwarded to another phone number.

This is a huge benefit for very little cost. No payroll, no health benefits, and the receptionist can sign for packages and other deliveries. It's a very nice option for those who have a little money and cannot afford a permanent commercial location. If you have a virtual office or home office, you will have to do most of your promotion on the Internet or in other ways.

Usually, you get a business phone line, a shared receptionist, voicemail, and a business address. Most of the time, you are granted the use of shared meeting rooms or other office space. The offices are leased for "on-demand" use. Virtual office users do not lease space full-time.

The most frequent virtual office users are accountants and attorneys. In a poor economy, the use of virtual offices actually goes up. As accountants give up their commercial business offices to save money, they are looking for an inexpensive (and yet professional) solution.

Virtual offices are available in every major city. You can check Craigslist, the Yellow Pages, or your local newspaper. All of them should have advertisements for virtual offices in your area.

Virtual Office Testimonial

Our business is a start-up company. We can't afford to commit ourselves to a traditional lease. We chose to lease a virtual office instead. We prefer the flexibility of being able to hire meeting rooms only when we need them. We use the phone, voicemail, and mail forwarding services. It's been a very cost-effective solution for us.

A Permanent Office Location

Once you become successful enough, you can break out and get a permanent office. A stable office location is important to your success, and it shows a level of professionalism that a home office does not. Most Enrolled Agents agree that working out of an office gives them more flexibility. EAs generally charge more when they work at an office.

The location of your business will impact your billable rate. The better your location, the better your clientele. The location of your permanent office is an extremely important decision. Ask yourself about the type of client you want to attract. Location is the most important factor.

Is your hometown the most lucrative location for your tax practice? Consider a tax practice outside of your own hometown. All too often, beginners are attracted by a cheap commercial location, only to find that the clientele is subpar, nonexistent, or low income. Do not be wooed by a beautiful office location with little marketing potential, either. A gorgeous office in an obscure

location is not a good choice. A pleasant office in a well-traveled area is the best bet.

A tax practice in a low-income neighborhood will encourage more EIC (Earned Income Credit) tax returns and you will probably have to offer RALs (refund anticipation loans). Tax practices in poorer areas do better if they offer RALs. There is also a higher risk of EIC fraud.

An office on a busy street encourages more walk-ins. An office in a professional building will encourage more upscale business clients, but fewer walk-in clients. Check out your neighbors. Look for banks, insurance agents, law firms, architectural firms, and other professional service companies. These are the type of businesses that attract high-end clients.

Study the demographics of your location. Target your specific market. Look at age, housing, profession, and economic status. Your local Chamber of Commerce should be able to help you. Do some serious research before you choose your permanent location.

Your office should be convenient for your clients. Always make sure there is plenty of parking. Nothing infuriates a client more than having to circle the block ten times looking for a parking spot. Then they arrive late for their appointment, and it's an inconvenience for you, too.

The physical condition of your office will also impact client perceptions. Make sure your office is in a modern building, or at least one that has functioning electrical, plumbing, and restroom facilities.

Do you plan to expand? Does the office have extra space? Perhaps you plan on hiring a bookkeeper soon. Take this into

account when you choose your office. You need to make sure you have space for a receptionist or bookkeeper (or both) if you plan on hiring within twelve to twenty-four months.

Your office should have, at a minimum, a workspace for you, storage space for client files, a waiting area for clients, and an assembly area that will allow you to compile returns. You can use movable partitions, such as cubicle walls, to break up the space. Try to plan at least three years in advance. Make sure your office can accommodate a growing practice, if that is what you want.

Does your office have signage? Is your office visible from the street? Is your office inside a professional building? Is there potential for you to pick up business clients within the building? Make sure there is not another tax accountant already working in the same location.

If you have signage that is visible from the street, make sure your sign is crisp, easy to read, and without peeling letters or paint.

Make sure you have a coat rack, or another convenient place for people to put their belongings. Have coffee, bottled water, and tea available. Consider purchasing snacks during your busiest time; offer them to your clients as they arrive. Make sure your bathroom is sparkling clean with plenty of supplies. This includes a packet of tampons and sanitary napkins.

You may want to purchase a small package of diapers and baby wipes if you serve a lot of families. These small touches are very inexpensive, but make a big difference. Clients notice. We will cover more about office decor later.

In a while, you will read interviews with other Enrolled Agents who took the plunge and opened up their own practices from scratch. This takes a lot of hard work and long hours, but it is

possible to succeed by just going out there and setting up your own practice.

The US Tax System

Most taxpayers believe that the IRS decides tax law, but actually it is Congress that writes and passes tax law. The IRS is charged with enforcement and interpretation of tax law.

The US Courts also “interpret” tax law in the course of regular litigation. The courts are not bound by *Revenue Rulings* or *Revenue Procedures*, and both of these are frequently challenged by taxpayers (and their attorneys) who believe that the IRS has misinterpreted Congress’s *intent*. Enrolled Agents are bound by Circular 230 to uphold the tax laws of the United States. However, this does *not* mean that you must strictly follow IRS publications.

As we all know, there are many interpretations of current tax law. Your responsibilities as a tax professional include keeping up-to-date on current case law. Following tax court decisions can help you represent your clients, and may help you be more aggressive, while still staying within the law. Every Enrolled Agent knows that the US Tax Court is more favorable to the taxpayer than the IRS. This is why so many cases end up in tax court every year.

Tax professionals agree that the current poor economy has forced the IRS to step up collection efforts. Although IRS employees are, for the most part, fair and reasonable, every tax professional has at least one anecdote of an IRS auditor who was ignorant, rude, or overbearing (or all three!).

William V. Roth, Jr., a former US senator, co-authored *The Power to Destroy*, a scathing book about IRS collection practices. The book is full of taxpayers who have been driven to the brink of financial ruin by overly aggressive collection activities. There are

even stories of taxpayers who committed suicide because of the IRS.

“The IRS has extraordinary collection powers. There is no other agency of government that has the power to collect debt, or to sell property prior to a judicial proceeding.”⁶

Jerome Kurtz, former IRS Commissioner

Studies show that average Americans are terrified of the IRS, sometimes with good reason. We know that the IRS targets low income and middle income taxpayers unequally.⁷ The IRS disproportionately targets tax returns showing the Earned Income Credit (EIC). In 2002, one out of every forty-seven low-income taxpayers was audited. For taxpayers making over \$100,000 a year, only one out of every 145 was audited.

And more recently, the audit rates for those with incomes over \$1 million fell to 5.6 percent in 2008 from 6.8 percent in 2007. The overall number of millionaires audited declined from 23,200 to 21,874, even though the actual number of millionaires went up.⁸

Although the IRS does not explain how or why it chooses a certain segment of the population for audits, some tax professionals believe there is a more sinister motive. Some believe that the lower classes are being targeted because they are the least likely to be able to afford representation.

Every tax professional knows that taxpayers who represent themselves during an examination are treated differently than taxpayers who have competent representation. Since most audit cases cost at least a few thousand dollars, low income and middle income taxpayers will usually try to represent themselves.

Unfortunately, by the time tax professionals get involved, usually the audit case is beyond repair. In the end, a great deal of our job is simply damage control.

Regardless of the situation, you must be prepared to represent your client to the *best of your ability*. The best protection taxpayers have against the IRS is for their representatives to be well-informed about current tax law.

Many of us have won audit cases simply on technicalities. A good friend of mine, a CPA working out of Sacramento, told me about a case where the IRS auditor let the audit deadline expire. The CPA won the audit case simply because the auditor forgot about the case and let the statute expire (this is called “*blowing the statute*” in IRS circles).

Many EAs specialize in IRS audit representation. Some are even former IRS employees who know a great deal about how the IRS functions on the “inside.” These former IRS agents go on to form highly lucrative tax consulting firms of their own. You will hear from one former revenue officer, Darrell M. Carp, EA, later on in this book.

Ten Skills Required for Tax Consulting

1. You Must Have Good Tax Preparation Skills.

We all have to start somewhere, but don’t try to break out on your own until you have good knowledge of taxation. If you can’t figure out how to prepare a long form (**Form 1040**) by hand, you should probably wait a few years before you start your own tax practice.

This may seem obvious, but basic skills are required in order to start a tax business. You must be able to do taxes accurately and reliably. You can’t make a \$50,000 mistake your first year—it could put you out of business before you even start! Take the

time to get the experience you need by working for another preparer, or working for a financial company where you get exposed to tax law.

If you offer tax preparation, bookkeeping services, or payroll services, you need to remain up-to-date on changing tax law and reporting requirements.

The positive side of this is that you don't need any type of degree; all you need is some experience or a few tax courses to get started. Most tax preparers start out by taking a class. Beginner's tax courses are offered by most of the major tax franchises as well as most junior colleges. You can also choose to take a home study course. The Universal Accounting Institute⁹ has a well-respected online program. The benefit of a home study course is that it is easier for working people to accommodate their existing schedules.

Private courses can also teach you how to start your own practice, which other courses may not. This is especially true of the tax courses offered by H&R Block and other franchises. That is because the main goal of the franchise tax courses is to train potential new employees for the coming season.

However, if you want to gain valuable experience working with the public, you still may want to consider taking the H&R Block or Jackson Hewitt course. If you do well, you will be invited to work for them during the tax season. This is how many tax preparers get their start.

In addition to your regular continuing education requirements for the EA license, you will need to remain up-to-date on your state's payroll laws. You may want to offer sales tax return preparation, as well. In that case, you would have to stay current

on requirements for your state and locality. Continuing education comes with the territory.

Professional certification impresses clients and allows you to charge a premium for services. People expect to spend more for someone who has a professional certification. Even if you do not have a college degree, post your enrollment certificate in a nice frame on your wall. (Don't be cheap! Use professional framing—clients *will* notice!)

Clients are awed by appearances (sometimes even more than by substance!) It makes a big difference when clients see that you have a certification. Of course, if you have a college degree, post that, too. I also post my membership certificates to the NATP and NAEA.

2. You Must Have Basic Money Management Skills.

This may seem obvious, but the reason why many EAs fail their first few years is because they *overestimate* their profits and *underestimate* their costs. You need to understand how to track costs and manage the money you make.

Track your spending and expenses carefully (with good bookkeeping software, such as QuickBooks or Peachtree). Watch your cash flow. In the beginning, focus on producing income and be conservative with purchases.

Make sure that you bill clients and collect payment in a timely manner. When clients are slow to pay, look for new clients to replace them. You're in business, too—don't forget that your services are valuable and should be treated as such. Your tax practice is not a charity. If a new client comes in and wants you to perform services without a retainer, look out! You may be throwing your valuable billable hours down the toilet.

3. You Must Have Self-Discipline.

Since you are self-employed, it's great that you won't have a boss breathing down your neck. But for some people, this is actually a bad thing! In order to be successful in a freelance business, you need motivation to work, promote yourself every day, and stick to a schedule.

Not all of your time will be billable time, especially at the beginning. You should spend at least 15 to 20 percent of your time marketing your services and finding new leads.

4. You Must be Able to Market Yourself.

Some people find self-promotion distasteful. If you do, get over it—*quick!* The success of your tax practice is dependent on how well you market yourself to the public. Take a deep breath. Get over your shyness or any fear you have of meeting new people. This is a very customer-service oriented business, and the sooner you learn how to market yourself to the community, the better.

5. You Must Have Basic Computer Skills.

These days, it's impossible to do business as a tax preparer without basic computer skills. EAs prepare tax returns on computers using tax software. Most of your bookkeeping clients will use QuickBooks. Consider becoming a QuickBooks ProAdvisor (more about this program later), because it will often generate referrals that turn into tax clients.

Most of your small business clients are going to expect a clean tax return and computer-generated reports. Take the time to become proficient in basic word processing and how to use the Internet.

6. Learn How to Manage Interruptions.

Everyone who owns a business has to manage interruptions. Some of these are beyond your control. Even in the most organized business setting, about 10 percent of the interruptions are important enough that you have to stop work in order to attend to the problem.

Practice reducing the remaining interruptions. Use voicemail, and don't answer your cell phone every time a client calls. If the matter is important, he or she will leave a message. Devise a standard for what qualifies as a reasonable interruption. Ask yourself—"is this really worth stopping my billable hours?" If you have a list of important clients, perhaps you can just answer inquiries from those few. The list should be short, and the number of interruptions should be infrequent and important.

7. You Must Have a Good Work/Life Balance.

If you have the strong desire to work for yourself and be your own boss, you can do it! But don't kill yourself at the office at the expense of your family and friends. Everyone knows that business gets tough during tax season, but even then, take at least one day a week to relax, spend time with family, and catch up on personal tasks. If you don't, "burn-out" will soon follow, and you will find yourself making mistakes.

Take care of yourself even more so during your busiest times, because your health, sanity, and the quality of your work product will be affected by how well you balance your work and home life.

8. You Must Have Good Communication Skills.

This is a *people* business. Develop a friendly attitude. Learn how to explain things to clients in a way that makes it easy for them to understand. Your clients may not understand tax law, but they

will appreciate it when you explain WHY they have to pay so much money to the IRS.

Communication skills may determine your eventual level of success. Many consulting firms believe that the ability to communicate is even more important than technical skill!¹⁰ So, by the same token—you may be the smartest, most experienced tax professional in your area, but if your closest competitor is warm and friendly and you're *not*, you will be losing clients to the competition!

9. Learn How to Approach People.

In order to be successful in your own business, you must get over your shyness. You have to learn how to sell yourself assertively. At the beginning, you can do everything that employees might do when looking for a job. Make appointments with local business owners and “interview” with them. Locate companies that you'd like to work with, and introduce yourself. Attend trade association meetings in the fields for which you specialize. Shake lots of hands.

To land the client that you want, offer a sample of your work (like a sample financial statement). Show them your outstanding work ethic and your superior skills. Dress professionally at all times. This means no jeans, no torn clothing, no ratty shoes, or stained shirts. Even if you don't have a lot of money, you can always purchase nice professional clothing at a local thrift store. There's no excuse for dressing inappropriately when you are trying to portray yourself as an accounting professional.

10. You Must be *Enrolled to Practice* Before the IRS!

Unenrolled preparers cannot accept IRS representation cases. Only Enrolled Agents, CPAs, and attorneys have the privilege to represent taxpayers before the IRS. That is because only EAs, CPAs, and attorneys are *enrolled to practice* before the IRS.

An unenrolled preparer may not represent taxpayers before the IRS (except in extremely limited circumstances). And if an unenrolled preparer *falsely claims* to be an Enrolled Agent, he or she is committing a felony. There are numerous instances where this has happened.

A recent case involved an unenrolled preparer¹¹ in Fairfield, California. He was arrested for falsely claiming to be an Enrolled Agent. He stands accused of falsely presenting himself as an IRS Enrolled Agent.

For this, he faces **sixteen felony charges**. The IRS caught him because he actually submitted **Form 2848** for clients and claimed that he was an EA *on the Power of Attorney*. This is such a serious offense that it usually garners jail time.

For *falsely* claiming to be an EA

The maximum penalty for each false statement is five years in prison, a \$250,000 fine, and a three-year term of supervised release. For misuse of the IRS name, the maximum penalty is one year in prison, a \$100,000 fine, and a one-year term of supervised release.

So you see, so many people *want* to be Enrolled Agents that they actually *lie* about it! Now, don't you feel proud that you are an EA? You should be!

