

# Hire the right number cruncher

A good tax preparer can save you money and keep you out of IRS trouble.

**T**he National Consumer Law Center, an advocacy group based in Boston, worked with organizations in Philadelphia and Durham, N.C., last winter to send mystery shoppers to 17 storefront tax preparers. The groups were investigating marketing practices related to “refund anticipation loans,” those high-interest, short-term loans secured by a taxpayer’s refund, to see whether fees and interest rates were being clearly disclosed. But the groups stumbled onto another, equally troubling problem: Some tax preparers seemed woefully unqualified to fill out a simple return.

For example, when a tester in Philadelphia handed a tax preparer a Form 1098, a statement of mortgage interest, the preparer had to ask coworkers what to do with it. The same preparer made numerous errors on the mystery shopper’s return, including failing to recognize \$3,500 in unemployment compensation as income and neglecting to include \$25 in interest income. In Durham, N.C., a preparer told a mystery shopper not to report a dividend as income. “Essentially, they were advising the tester to commit tax fraud,” says Chi Chi Wu, an attorney with the law center.



Would you trust these people with your tax return? There are tens of thousands of tax preparers in the U.S., many of whom have scant training, education, or experience.

There are tens of thousands of tax preparers in the U.S. who, for a fee, will take your paperwork, crunch the numbers, and file your return. But they toil in an industry that’s largely unregulated. The Internal Revenue Service has requirements for enrolled agents, but it does not specify licensing, testing, education, or training qualifications for other types of tax preparers. Only three states—California, Oregon, and Maryland—require licenses.

A person with scant experience or education can call himself a tax preparer. And even among credentialed professionals, skill levels and experience vary. The best preparer for you will be one with experience in the peculiarities of your financial

situation, someone who can minimize your tax liability. “Hiring the wrong person can mean leaving money on the table,” says Jill Gianola, a fee-only financial planner in Columbus, Ohio.

The IRS says that 60 percent of taxpayers file a return signed by a preparer. Many people do their own, using tax software or a pencil and calculator. But even do-it-yourselfers should consider having a professional look over their forms every three years, Gianola says. That’s generally the limit for filing an amended return, so if there’s a mistake, you can refile and possibly get money back.

If you’re not the do-it-yourself type, you can choose a storefront tax-prep service, a CPA, or an enrolled agent, who is someone licensed by the IRS to do tax returns.

## Sizing up the tax preparers

They cover a broad range of qualifications. Don’t spend more than you have to, but make sure the preparer you pick meets your needs.

Type of preparer	Approximate cost	Can they represent you in an audit?
<b>Storefront chain</b>	\$90 to \$100 for a basic 1040A; more for additional forms.	Depends. For an additional fee, some offer an insurance policy that covers interest and penalties incurred because of errors they made.
<b>Accountant</b>	Varies by region, but expect to pay \$170 to \$240 for a 1040 with a Schedule A and a state tax return.	Usually yes. A CPA can represent you before the IRS and before the state where he or she is licensed.
<b>Enrolled agent</b>	Slightly less than an accountant.	Yes. Enrolled agents are legally qualified to represent you in all IRS audits and actions.

### LOW-COST STOREFRONT OPTION

For convenience, it’s tough to beat a storefront tax-prep service. Most accept walk-ins (although appointments are recommended), and they can be cheaper than other types of tax preparers. A simple 1040A form generally starts around \$90 or \$100; additional forms, such as a Schedule C, cost extra. Last year, the average fee per client at H&R Block, by far the largest chain with more than 13,000 offices, was about \$172.

However, two brand-name storefronts have been sued in recent years for pushing refund anticipation loans at astronomical interest rates. Those can go up

to nearly 500 percent APR, according to the National Consumer Law Center. And in 2007, the U.S. Department of Justice filed suit against 125 branches of Jackson Hewitt, the second-largest tax-prep chain, alleging among other things that preparers fabricated deductions and created false W-2s to boost refunds. Jackson Hewitt made a \$1.5 million voluntary compliance payment to the IRS and cut its ties with the owner of the franchises in question.

Still, Chi Chi Wu is hesitant to give all retail tax centers a black mark. "At least the chains have some training," she says. H&R Block and Jackson Hewitt require employees to complete training programs. And franchises in the study were less likely than independent storefronts to charge what Wu calls "junk fees," such as application and document prep fees.

If you do decide to go with a retail service, heed these tips:

- ▶ Ask about your preparer's qualifications and how long he or she has been doing returns. If your return is more complicated than a simple 1040A, a junior person might not be able to handle it properly, so ask if a manager will review it.

- ▶ Find out how your preparer keeps up with changing tax laws. Good answers: "I take continuing-education courses" or "I attend seminars." Bad answers: "I read the newspaper" or "I don't."

- ▶ Refuse pitches for "refund anticipation loans" and "refund anticipation checks." Both are costly and might speed your refund by only a few weeks at most.

- ▶ Get an estimate of costs up front. Some storefront services in the law center's study resisted quoting a price. By the time the return was completed and the price was quoted, it was too late to challenge the fees or comparison shop.

#### **FINDING THE RIGHT ACCOUNTANT**

When you hire a certified public accountant, you know what you're getting: someone who has completed 150 credit hours of undergraduate coursework and who has passed a 14-hour licensing exam covering auditing, regulations, and financial reporting. CPAs must also complete a minimum number of hours of continuing education to maintain their state licenses. Some CPAs are also credentialed financial

planners, and a small number sell investments and insurance.

But not all CPAs specialize in taxes, and many do not prepare individual tax returns. In addition, many work for large firms with several layers of staff. If you use an accounting firm, ask who will actually be working on your return. "Is it going to be a staff person who isn't licensed or a junior CPA?" says Michael Rozbruck, CEO of Tax Resolution Services, a tax negotiation and mediation firm in Los Angeles. It could even be someone in another country, as some big companies outsource data-entry tasks and income-tax preparation to offshore firms, he says.

Accounting firms generally try to match the complexity of the return with the skills of the preparer, Rozbruck says. But ask whether someone senior will review your return, even if it's relatively simple, before it is submitted to the IRS and your state.

To find an accountant, ask around or go to the Web site of the American Institute of Certified Public Accountants ([aicpa.org](http://aicpa.org)). Under "Consumer Information" click on "Find a CPA." Choose the "Personal Financial Specialists" category. Also search under "state boards of accountancy" for a list of each state's licensing board. Check your state's board to see if your CPA's credentials are current.

#### **IRS-CERTIFIED ENROLLED AGENTS**

While a CPA's knowledge can be wide, an enrolled agent's can be deep: He or she specializes in doing tax returns, period. To qualify for the EA designation, which is bestowed by the IRS, a person must pass three 4-hour exams on tax codes and calculations or have worked for the IRS for at least five years in a position that required interpreting and applying the tax code. In addition, EAs must undergo a background check and complete at least 72 hours of continuing education every three years.

They may or may not have a college degree, and they come from a variety of fields; many are lawyers, accountants, financial advisers, or bookkeepers. To find an EA, go to the Web site of the National Association of Enrolled Agents ([naea.org](http://naea.org)) and click on "Find an Enrolled Agent."

For both CPAs and EAs, these tips will help you make the best match:

## **Simple errors can flag your return**

The Internal Revenue Service keeps a list of the top goofs for individual returns. Avoid these blunders:

- ▶ **Mathematical errors.** Double-check the calculations on every tax form before sending in your return.

- ▶ **Using the wrong tax rates.** Qualified dividends and capital gains are generally taxed at lower rates than regular income.

- ▶ **Mismatched names and numbers.** If the names of your dependents and their Social Security numbers don't match, expect to hear from the IRS.

- ▶ Schedule a short face-to-face meeting before committing; most CPAs and enrolled agents won't charge for this. Look for someone who makes you feel comfortable. "Hiring someone to do your returns is an extremely personal issue," says Tom Ochsenschlager, vice president of taxation for the American Institute of Certified Public Accountants. "This person usually knows more about you than your priest or rabbi." If the preparer brushes off your questions or gives long-winded explanations you don't understand, go elsewhere.

- ▶ Find out how experienced he or she is in handling the types of tax issues you face. "The tax code is a vast body of law, and no one is an expert on the whole thing," notes Stephen Fishman, a San Francisco attorney and author of "Deduct It! Lower Your Small Business Taxes" (Nolo, 2008). "Someone who does a lot of returns similar to yours is a good thing to have."

If you have special tax needs—for example, you own a business or rental property—get referrals from others who are in a similar situation. "Seek someone who does dozens of these returns and has much deeper experience in that area," Gianola says.

- ▶ After your return is completed, ask what you can do to lower your tax bill next year. The right pro should be able to help you with tax planning for the future, not just input your numbers into a computer program and print out your returns. \$