MARKS PANETH
ACCOUNTANTS & ADVISORS

Have You Outgrown Your Accountant?

Laura LaForgia

November 2014

Have You Outgrown Your Accountant?

As the saying goes, we are creatures of habit.

We often stay with the same advisors/technicians out of a sense of routine, comfort and/or loyalty. How long have you gone to the same banker? Dentist? Hairdresser? Over time, our inner circle of business contacts becomes personal acquaintances. However, while the most that could happen if you stay too long with the same hairdresser is perhaps you get a bad haircut, keeping the same accountant after you have "outgrown" him or her could cost you money – more than you may think.

Letting Price Lead

We are a society of bargain hunters. Usually the first question we ask any perspective service person starts with these six words “How much do you charge to…?” However, when it comes to selecting tax advisors, there is a point in your life where equal focus should shift to the value that an accountant may bring to your situation as opposed to putting sole focus on the price of traditional core services such as preparation. Quite often people ignore their intuition that tells them it is time to move on until either the government has reached out to them in some unpleasant way or someone questions whether there are more tax-efficient ways of doing things. Do not miss an opportunity to have your return reviewed by a qualified professional for planning that may equate to current and future tax savings.

When should someone no longer let price lead the service? The following are just a few signals that should alert you that your situation has become more sophisticated and requires a more focused approach by a qualified tax professional.

A Need for Follow-Through on Estate Planning

Taxpayers may have had estate planning done through their attorneys. However, someone needs to spearhead the follow-through process with appropriate action for the estate planning to be successful. A qualified accountant will work together with the estate attorney to make sure any trusts get funded, accounts get set up properly, gift tax returns are filed to report gifts, etc. For example, living trusts are often set up to avoid probate as part of an estate plan. However, if the assets are never moved into the trusts, the planning is worthless. Does your accountant talk to you about your estate plan and periodically review life changes? If your accountant is not partnering with your estate attorney on such matters, it is time to find someone to take control of situation.

Small Business Sales Tax Issues

An area where small business owners often miss the mark is in state sales tax. You may have started out as an employee with a fairly simple tax return. But now you leave your job and start your own business. Your company either directly sells in other states or has an online nexus in other states. As your company grows, you continue to use the same tax accountant, who may not be familiar with other states' sales tax laws, for your tax filings. You do not collect and submit state sales tax and are not aware that you, as owner, are liable for the sales tax. The states may come back to you years later for their tax money. So now years go by, the company folds, and the state taxing authorities come knocking on your door for unpaid taxes for which you are responsible. A firm with a strong state and local tax department will be able to assist you through each state's rules for nexus and sales tax.

Schedule D Reporting

Over the last few years, Schedule D sales transaction reporting forms have become more complex. In addition, the brokerage firms now must report cost basis on Forms 1099-B sales forms for most transactions. Does your current accountant question unusual cost basis items? Does he have a sense of what is going on in the stock market over the long term to be able to identify basis issues? Does he reconcile proceeds reported on Forms 1099B to avoid omissions and/or duplications of transactions? If you have sold inherited property, does he verify that the cost basis was adjusted for appreciation to decedent's date-of-death value ("stepped-up") when computing the gain or loss? Does he ask you about worthless securities and loans you may have made?

Current popular investment vehicles are master limited partnership investments ("MLPS"). These investments are limited partnerships that are publicly traded on a securities exchange. Tax reporting information, including basis adjustment information, is disbursed on a K-1 and supplemental sales schedule. However, these K-1s often have discrepancies which an accountant will work with the investment advisor and the partnership to correct. If clients hold these shares in multiple brokerage accounts, inherit shares or frequently sell, often the K-1s, in particular the sales schedules provided, may not be accurate. In addition, these MLPS may bring with them tax issues such as state sourcing, at-risk, unrelated business income, recapture, etc. Does your accountant have a clear understanding of how these vehicles work?

"Married Filing Separate" Issues

When a couple gets married, each spouse may want to keep his or her own accountant. In addition, one spouse may feel that he or she should file separately to maintain "financial independence". Recently, a client, who files "married filing separately" ("MFS"), asked me to assist his wife in her 2011 tax audit. His wife's return was pulled for audit because she (and her accountant) did not realize that the mortgage interest limitation was

MARKS PANETH
ACCOUNTANTS & ADVISORS

not $1.1 million for someone filing separately. As MFS, you are limited to a mortgage interest deduction of half that amount, $550,000. It does not matter if the spouse does not have a mortgage and the other $550,000 goes unused. After reviewing her return and discussing it with both parties, I advised them that her drawing her line in the sand to be "financially independent" was costing them thousands of dollars every year. With that quantitative information, they were better able to evaluate their reasoning for filing separately as well as using separate accountants. While there are times when it is advisable to file separately, it is usually beneficial from a tax perspective to file jointly. A sophisticated software program is able to determine the best financial result fairly easily, provided the accountant has the information for both spouses. Does your accountant discuss filing options with you?

Changing Accountants in the Electronic Age

Quite often, taxpayers are aware that they have outgrown their accountant but stay because they feel that changing accountants will be costly and time-consuming. While there are administrative costs incurred to set up a new client with a new accountant, the process is much simpler than even just a few years ago. Once proper written authorization has been received by the client, prior year information can be scanned and transmitted securely to the successor accounting firm. Quite often when tax software systems are compatible, the former accountant can send the computer software file with prior year data that can be converted and rolled over by the new accountant into his or her system. This saves the new accountant a great deal of time, because he or she will not have to enter rollover data from scratch. If you leave your prior accountant on good terms, changing accountants should be relatively painless.

If you feel that your accountant is not giving your taxes the focused attention they need but is otherwise quite capable, have a conversation with him. It may just be a misunderstanding on what he feels he is engaged to do. As your business and financial situation grows, review if your accountant is keeping up with your situation. Are you and your accountant still a good fit? In addition to handling traditional core services, focus should be placed on adding value. If you have determined that it is time to change accountants, all parties should work together to make the process painless.

Have You Outgrown Your Accountant?

About Laura LaForgia

Laura E. LaForgia, CPA, MST, is a Partner at Marks Paneth LLP. She specializes in tax issues related to high-net-worth individuals and family groups as well as estates, trusts and private foundations. She provides guidance on matters relating to income tax, estate and gift tax, foreign transaction reporting, multi-state taxation and financial planning. She has extensive experience working with successful executives in the legal and financial services industries.

Contact Laura LaForgia:
Phone: 212.710.6214; Fax: 212.710.6215
llaforgia@markspaneth.com

About Marks Paneth

Marks Paneth LLP is an accounting firm with over 500 people, of whom 65 are partners and principals. The firm provides public and private businesses with a full range of auditing, accounting, tax, consulting, bankruptcy and restructuring services as well as litigation and corporate financial advisory services to domestic and international clients. The firm also specializes in providing tax advisory and consulting for high-net-worth individuals and their families, as well as a wide range of services for international, real estate, media, entertainment, nonprofit, professional and financial services, and energy clients. The firm has a strong track record supporting emerging growth companies, entrepreneurs, business owners and investors as they navigate the business life cycle.

The firm's subsidiary, Tailored Technologies, LLC, provides information technology consulting services. In addition, its membership in Morison International, a leading international association for independent business advisers, financial consulting and accounting firms, facilitates service delivery to clients throughout the United States and around the world. Marks Paneth, whose origins date back to 1907, is the 33rd largest accounting firm in the nation and the 10th largest in the mid-Atlantic region. In addition, readers of the *New York Law Journal* rank Marks Paneth as one of the area's top three forensic accounting firms for the fifth year in a row.

Its headquarters are in Manhattan. Additional offices are in Washington, DC, Westchester, Long Island and the Cayman Islands. For more information, please visit www.markspaneth.com.