

How to Find a Good Tax Preparer: Ask These 8 Questions

How do you go about finding the right tax preparer for you? As with any other professional, like a doctor or dentist, the best place to start looking for a tax professional is within your own circle. Ask for referrals. The only time you should ever accept tax advice from a family member, friend, neighbor or co-worker is when it comes to choosing a tax preparer. Here are some questions to ask a prospective tax preparer.

1. Have you registered with the IRS, and do you have a Preparer Tax Identification Number (PTIN)?

This is the first, and most important, question to ask. Only someone who has registered with the IRS and received a PTIN is allowed by law to prepare federal income tax returns for a fee. Regardless of any other initials tax preparers may possess, they must have a valid PTIN or they cannot legally accept a fee to prepare your tax return. Paid tax return preparers are also required by law to sign all returns they prepare and to enter their PTIN on the returns.

If you engage a paid preparer who does not have a PTIN, or who does not sign your finished return, you will open yourself up for potential IRS penalties. The IRS promises to aggressively seek out individuals who use unregistered, and therefore illegal, preparers.

2. What are your credentials?

When choosing a tax preparer, you can choose to have an Enrolled Agent, a Certified Public Accountant, an attorney or an “unenrolled” (but not unregistered) tax professional prepare your returns. Tax preparers who register with the IRS and pass a test will be designated a Registered Tax Return Preparer. These preparers must log a minimum of 15 hours of continuing professional education in federal taxation each year to maintain the designation. Currently registered preparers have until 2013 to pass the test.

An Enrolled Agent is not an employee or representative of the IRS; he or she is an independent tax preparer who is “enrolled” to act as a taxpayer’s “agent” in dealing with the Internal Revenue Service. EAs must pass a very difficult test on federal tax topics and maintain an average of 16 hours of continuing education in federal taxation each year. When regulation is fully phased in, only the RTRP and EA will have proven their competence and currency in federal tax law.

Do not assume a CPA is a 1040 expert. While a CPA or an attorney may be knowledgeable and competent in preparing a 1040, you cannot tell this by their initials alone if they are thoroughly trained, even if they have a PTIN.

3. Can you give me an idea of what it will cost?

It is important to know how your fee will be determined, since some tax pros charge based on the number of forms and schedules included in the returns, others bill at an hourly rate, and some use a combination of those approaches.

A survey of almost 8,000 tax preparers conducted by the National Society of Accountants showed the average fee for a 2010 Form 1040 with Schedule A and a state tax return was \$233. The more forms, schedules and worksheets prepared, the higher the fee. The average cost to prepare a 2010 Form 1040 and state return without itemized deductions was \$128.

Fees vary by region, too. They are higher on the West Coast and in the Middle Atlantic, and lower in the central regions. And, as you might expect, CPAs will charge more for a 1040 preparation than non-CPAs. As a general rule, the more organized you are, the lower the fee. If the preparer has to spend time wading through a shoe box full of receipts, this will be reflected in your bill.

Don't assume a commercial tax preparation chain will charge a lower fee than an independent professional. You will be surprised at what they cost. And never use a preparer who tells you the fee will be based on a percentage of your refund.

4. What type of returns do you prepare?

Are you a police officer, firefighter or a construction worker? Are you a self-employed over-the-road truck driver? Do you have rental property? Do you trade in "puts and calls"? If so, you need a preparer familiar with the unique tax benefits and deductions available for your trade, profession or business, and for any special activity, situation or circumstance that applies to you. Many tax professionals specialize in returns for active investors, gamblers, renters, the self-employed or members of a specific profession. When seeking referrals, be sure to check with co-workers or colleagues in the same field.

Do you work in one state (i.e. New York) and live in another (i.e. New Jersey)? Be sure the preparer is familiar with the returns of both your resident and non-resident states.

5. Do you belong to a professional membership organization?

Members of organizations like the National Association of Tax Professionals, the National Society of Accountants, and the National Association of Enrolled Agents have

access to high-quality continuing professional education and those organization's research departments, and are held to a special Code of Ethics.

You can check the websites of NATP or NAEA to find a member tax preparer in your area.

6. How long have you been preparing 1040s?

Find out about the training and experience of the preparer. For example, I have been preparing 1040s for 40 tax seasons. I learned how to prepare 1040s by preparing them as an "apprentice" to a veteran tax pro. I briefly worked as a small business consultant for a prominent international CPA firm. Each year I take from 16 to 32 hours of continuing professional education in federal and state tax topics, even though until this year I have not been required to do so.

7. What if I am audited?

What is the preparer's policy if the return he or she prepared for you is questioned or audited? Will the preparer respond to letters of inquiry from the IRS or state tax agencies? Will the preparer attend the audit with you, or in your place as your representative? If the IRS or state discovers an error on the return that was the preparer's fault, will he or she pay any penalty assessment?

You should know that if the preparer has to correspond with the IRS or state or attend an audit, there will typically be additional fees for that.

8. Are you available during the year if I need help?

Does the tax preparer pack up and disappear during the "normal" year, remaining incommunicado until the next tax season, or will he or she be around to answer any tax questions or provide tax planning advice and assistance with a financial transaction you are considering?

Your preparer certainly does not need to be on 24-hour call, but should be available to answer questions or provide information as needed via telephone or email throughout the year.

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