

# Do Your Clients Really Understand the Work that Goes into Their Tax Returns?

By Jonathan P. Whiting, CPA

**A**s tax practitioners, we are faced with more challenges today than ever before. Our roles as consultants are expanding, technology continues to advance rapidly, tax laws continue to increase in complexity, taxing authorities are requiring additional reporting and disclosure, and society expects prompt and accurate service for a competitive price.

One of the challenges we have all faced at one time or another is explaining to clients the amount of work that goes into the compliance portion of a tax practice. Although clients value our service, there are times when they need to understand what goes into the fees charged for tax preparation services. To address this issue, it may be helpful to first take a brief look at history.

The Internal Revenue Service (IRS) was established during the Civil War in 1862 by President Lincoln and Congress to create an income tax to pay war expenses. The tax was repealed 10 years later. Then on Oct. 3, 1913, President Wilson signed the Underwood Tariff Act into law. Section Two of the Act created the modern income tax. The original tax code was 25 pages; the first Form 1040 was three pages; and the instructions were one page.

Since the original tax code, there have been three revisions, which codified separate tax laws into the Internal Revenue Codes of 1939, 1954, and 1986. The Tax Reform Act of 1986 (the Code) is the current tax code under which our country operates. Since enactment, there have been numerous modifications, additions and deletions to the Code.

On June 7, 2001, President Bush signed into law the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) that imposed a complicated array of unprecedented time-delayed benefits with varying effective dates that spanned 10 years. Some of the provisions were retroactive; some took effect the next year, some five years out, and some 10 years out. EGTRRA created new challenges for tax practitioners to keep track of all the changes, when they would become effective, and when they expire.

Then, on May 28, 2003, President Bush signed into law the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA), which introduced a host of new rules, accelerated benefits, and had retroactive, temporary and phased-in/phased-out effective dates. JGTRRA overlapped with EGTRRA, creating a roller coaster of tax changes up until 2010.

The temporary phase in and phase out of the tax laws introduced another new challenge for tax practitioners—tax extenders, which are expired tax laws that consistently become reinstated for another year or two.

Finally, in March 2010, President Obama signed the Affordable Care Act. This bill also included staggered tax law implementation for tax years beginning in 2010.

In addition to challenges created by Congress, the IRS has added its share of tasks. In the past 10 years, the IRS has developed ways to increase taxpayer transparency upon filing of returns. Examples include Schedule M-3 book/tax reconciliation; additional questions and schedules on business returns, including detailed reporting of related parties; and a revised Form 990; not to mention massive requirements for foreign income and transaction reporting.

Now let's turn to what clients have experienced over time. Generally speaking, 15 years ago, our business clients provided us with accounting records. Today, those business clients provide us the same information, just in a different format. Likewise, 15 years ago, individuals gave us what was mailed to them and provided us with Schedule A deductions. Today, these clients still provide us their mail and the same Schedule A deductions. The items deductible on Schedule A have remained fairly consistent. Thus from a client's perspective, history has remained relatively unchanged, representing a "gap" in perspective regarding tax preparation services. It is our responsibility to fill that gap.

Educating clients on the complexities of the work performed to complete their tax return will help fill this gap and help them understand the fees they pay. For example, the Form 8960 to calculate the net investment income tax is one page. However, the instructions are 20 pages. Treasury Regulation 1.1411-0, which is the table of contents for provisions applicable to net investment income tax, is 10 pages. When clients review their income tax return, they see one page with a few numbers presented.

It is difficult at times to communicate the amount of work involved in compliance services to clients. However, if we remain cognizant of the gap in perspective, and educate our clients, it may help solidify the value of these services.

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