

This is a preview of "How to Review Tax Returns,"
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HOW TO REVIEW TAX RETURNS

Edward Mendlowitz, CPA

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About the Authors

Edward Mendlowitz

Ed Mendlowitz is a partner in the New Brunswick, N.J., office of WithumSmith+Brown, PC, and has more than 40 years of public accounting experience. He is a licensed certified public accountant in the states of New Jersey and New York and is accredited by the American Institute of Certified Public Accountants (AICPA) in business valuation (ABV), certified in financial forensics (CFF) and as a personal financial specialist (PFS). He also has the AICPA CITP and CGMA designations. Ed is also admitted to practice before the United States Tax Court and has testified as an expert witness in federal and state court regarding business valuations, and before the House Ways and Means Committee on Tax Equity, Reform and Reduction.

A graduate of City College of New York, Ed earned his bachelor of business administration degree. He is a member of the AICPA, the New Jersey Society of Certified Public Accountants (NJSCPA) and the New York State Society of Certified Public Accountants (NYSSCPA). In addition, Ed was a founding partner of Mendlowitz Weitsen, LLP, CPAs which merged with WS+B in 2005. Currently, he serves on the NYSSCPA Estate Planning Committee, and was chairman of the committee that planned the NYSSCPA's 100th anniversary. The author of over 20 books, Ed has also

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written hundreds of articles for business and professional journals and newsletters. He is a contributing editor to the Practitioners Publishing Company's 1998/1999 706/709 *Deskbook*, and various and current editions of Wiley's *Handbook on Budgeting, Corporate Controller's Handbook* and the AICPA *Management of an Accounting Practice Handbook* and is on the editorial board of *Bottom Line/Personal* newsletter. Appearing regularly on television news programs, Ed has also been quoted in many major newspapers and periodicals in the United States. He is the recipient of the Lawler Award for the best article published during 2001 in the *Journal of Accountancy*.

Ed is a frequent speaker to many professional and business groups, including the AICPA, NJSCPA, NYSSCPA, American Management Association, the National Committee for Monetary Reform, University of Medicine and Dentistry in N.J. and many more. For 11 years, he taught courses on financial analysis, corporate financial policy and theory, monetary and fiscal policy and financial and managerial accounting in the MBA program at Fairleigh Dickinson University.

Andrew D. Mendlowitz

Andrew is an award winning journalist and author of the book, *Ireland's Professional Amateurs*. He is a graduate of the University of Maryland with a degree in journalism. He started his career while still a college student with over 250 freelance articles appearing in the Washington Post. Presently he works on contract writing assignments.

Acknowledgements

This book is based on my lifelong professional quest to develop methods that work. It is also the result of long term collaboration with clients, partners, staff and colleagues in a combined journey to be more effective and have more effective assistants and co-workers.

It is impossible to acknowledge every contributor, simply because I am unable to call up from the recesses of my brain everyone that gave me an idea or thread that has been woven into the fabric of my methods.

However, there are many that clearly come to mind and they include my partners Peter A. Weitsen, Frank R. Boutillette, William Hagaman, Jr., John Mortenson, Dave Springsteen, Ron Bleich, Ruben Cardona, Howard Stein and Shree Nadkarni.

Others include Kevin Fellin, Mary Jane Younghans, Joe Picone, Brian Lovett, Debra Schmelzer, Michael Slotopolsky, Scott Perlzweig, Martin Abo, E. Martin Davidoff, Robbin Weiner and my former partners, Seymour G. Siegel and Paul H. Rich.

Thanks to Rick Telberg for publishing this book which contains procedures I know has helped thousands of CPA firms in having a better and more profitable and pleasant tax season.

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This book primarily was written and organized by my son, Andy, from an unbelievable array of notes, speech handouts, and PowerPoint presentations I dumped on his desk or into his computer. Not being an accountant gave him practical insights to question me on procedures I assumed were common knowledge and for which he turned into a coherent and cohesive book. It was amazing to me how someone without any CPA firm experience could grasp the concepts and make them easily readable.

Some of the material in this book was adapted from *Managing Your Tax Season, Second Edition*, published by the AICPA, and I thank them for their permission to include it in here.

Everything I do, including this book, is done with the needed support and love of my wife Ronnie.

Foreword

Ed and I have been partners for 25 years. When we founded our firm I was designated the Tax Partner and Ed was the “Everything Else” Partner. One of my primary responsibilities was to be the reviewer of all of the firm’s tax returns. Most of what I have learned over the years about the quality of tax returns comes from Ed.

A quote from Ed that I have heard many times over the years is that “When a client receives his or her tax return, at that moment it is the single most important thing on the client’s mind.” In fact the tax return may be the only tangible product that a client ever receives from an accounting firm. The return had better be right and presented professionally in an appealing package. (Ed once bought me a spool of blue ribbon to tie around the tax return folder we sent to clients, but in the heat of tax season I decided that I couldn’t properly tie the bow.)

In the beginning I observed Ed filling in numbers on pre-printed four column accounting paper with his Cross pencil doing tax projections and tax comparisons of finished returns. My initial reaction was that this was crazy and probably a waste of time. Boy, I have surely changed my tune, especially now that it is done with computers and Excel software. More importantly this is a vital step in the tax review process as he explains inside this book.

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One evening a few days before April 15, Ed was ready to send out the tax return of our richest client. It was quite involved and probably at least 100 pages. He asked me to flip through the pages to see if I could notice anything that could be an error or a red flag that would be picked up by the IRS. I found something! This then became a required tax review technique at our firm. Years later Ed and our new partner, Frank Boutillette, encouraged (actually forced) me to do two things – close my door for an hour and a half early in the morning and do the same shortly after we returned from lunch. This was to allow me to fully focus and devote uninterrupted time to the review of tax returns. You see, there were a number of preparers feeding returns to a single reviewer (me) and that was causing a log jam in getting returns out the door.

The other request was to review the returns on screen (now that I have a second monitor) rather than looking at printed pages before the return was final. Both of these “suggestions” worked tremendously and resulted in a higher and more efficient performance level and a better service to the client. In this book Ed is offering original ideas and sage advice about the entire tax return process. Read it closely and adapt it to your practice. You will be happier, more relaxed and richer for doing so.

*Peter A. Weitsen, CPA, PFS
Partner, WithumSmith+Brown, PC*

Facts, Conclusion and Mission

Fact: There are more preparers than reviewers.

Fact: Most preparers are at a lower level of expertise than reviewers.

Fact: If a bottleneck is going to develop it will be at the reviewer level.

Fact: Tax season is usually much busier than the rest of the year and can be very hectic.

Fact: Processes need to be established that will create uniformity of work and reduce review time, while increasing quality.

Fact: The reviewer is the guardian of the tax returns' quality.

Conclusion and Mission: The firm needs to put procedures in place that will reduce review time while maintaining or improving quality, even if it means increasing preparation time for some team members.

Introduction

Reviewing tax returns is a key part of tax preparation. It also is an area vulnerable to major bottlenecks and backlogs. Inevitably, firms have more preparers than reviewers. The latter are highly skilled professionals who are more difficult to train or find. Therefore, you must consider ways to reduce review time, even at the expense of adding preparer time.

This book will discuss methods to reduce review time, establish who should do the review, distinguish between content and issues review, identify specific items for the reviewer to check, and offer administrative procedures to facilitate the review process.

Reviewers are not born complete and ready to go, they are developed. The problem that I see with many firms is that they take a reasonably good tax return preparer, with above average tax knowledge and they make them a reviewer, either on purpose or by default. In many firms a partner doubles as a reviewer. In some cases this partner does not even have what I would consider reasonable tax knowledge, but they do the job because it needs to get done. This is not acceptable and does not assure a good product.

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Part of the problem is that there is no information or training specifically for reviewers, until now.

Being highly involved in managing tax season programs (since 1980 I have presented tax season management programs to over 5,000 CPAs through many organizations nationwide).

Actually, until December 2010, I have never heard of a program dedicated to tax return reviewers when I created a webinar. In preparing I wanted to include a reviewer's checklist. While all my travels and experience in this area not only have I never seen one, but I reached out to many colleagues in other firms and no one had one. I decided to create one, with Peter Weitsen's assistance (as he did with most of the checklists I've posted), to include in the webinar. I posted a comment on the New Jersey Society of CPA's Open Forum that I had one and would send to anyone requesting it. The first day I had 200 requests and within three days there were over 500 requests and downloads. The webinar ended up being presented five times from the end of December through mid-March 2011 with most of the programs sold out. I've also had many attendees call me with comments and questions.

This shows that there is a need and hunger for information on how to more effectively review returns, and this book is the response. Read the book, reread sections, use it as a reference source and email or call me if you have any questions or want to discuss anything about your review process. Your comments will be appreciated. Good luck on making your review process more effective.

CHAPTER 1:

Nature of Tax Return

Preparation

Tax season is a microcosm of everything done in an accounting practice. One of the primary concerns of a business is having the proper processes and quality control procedures. Many firms, however, do not have uniform tax return review procedures, and even when they do, they are not always adhered to. Choosing how to properly use the reviewers' time and interface them with the staff can contribute immensely to a smooth tax season.

Because of the compression of work in a relatively short period, tax season provides an excellent opportunity for a continuous quality control initiative, the goal of which is reducing errors. Reviewers play a key role in reducing errors and setting and improving firm standards since they get to see the work of a large number of staff in a very short time period. This gives the reviewers insights into the work habits,

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pride, passion, quality, responsibility and ownership of these staff. The large volume going through the firm, and reaching the reviewers provides a unique opportunity to affect the overall quality of all the work done by these staff and not just the work on tax returns. If approached properly, tax return preparation can be the spearhead toward improving and elevating the quality of work done by everyone in the firm in every area they practice in.

Reviewers should be made aware of their role in these efforts. However, because of the huge volume and never ceasing deadlines, big picture quality methods are usually shunted aside in favor of getting the returns out. Firm management must become leaders in the quality effort and for that reason, they need to focus on the long-term benefits of processes that will elevate the level of work and enlist the reviewers into those initiatives.

Throughout this book are systems and procedures that are designed to raise the quality level of the firm as a whole. Coinciding with this are review methods and actions that will also, in the long run, reduce the time pressures of the reviewers, and also partners.

Tax return preparation work, if approached properly, will create lasting firm wide improvements. Use this as an opportunity for growth. Train the reviewers and empower them to go for it!

CHAPTER 2:

Review Procedures

= Quality Control

The purpose of tax return reviews is to assure the quality of the return.

Quality should be defined as an accurate product along with pertinent and applicable tax law benefits applied as well as planning opportunities identified so the client could maximize their financial wealth and security.

Throughout this book I refer to the review process just as that – the review process. However, in reality it is part of the Quality Control (“QC”) system. If you think of the review as QC would you look at tax return reviews differently?

Ask yourself if there is a difference between review and quality control? I think not! From my speaking to thousands of accountants across the

Six Important Questions To Ask Yourself

1. Should QC need to be made a top priority for the firm, and especially the tax preparation process?

The higher QC time is, the greater your costs to prepare the return, the higher the error rate by the preparers, the longer it will take the return to go through the process, the higher your WIP inventory, the longer it will take to get paid and the more unhappy your staff and the client will be. Further, the greater the number of touches the more likelihood there is of an error.

2. In your opinion, who should be responsible for QC?

- a. The reviewer
- b. The partner
- c. The preparer
- d. The person assembling the return
- e. The client
- f. The IRS or tax agency

CHAPTER 3:

Why Checklists Are Critical

This is an area I feel very strongly about, and it is a major reason for the success of the better firms and the lack of growth of smaller firms.

By my way of thinking, a system must be established to assure the greatest quality at every level, reduce the number of touches per return, and present the client with the type of return he or she is relying on you to deliver. This system only works if there is strict adherence to the processes and procedures, and this includes the careful and deliberate use of checklists.

Here are a few main bullet points that explain what I believe and what I want to convey to you.

Nine Truths About Tax Season Management

1. Delegating means leveraging work, which creates opportunities for the delegator and delegatee
2. Opportunities for the delegator and delegatee mean professional growth in a planned, organized order
3. Delegating means trusting that what is needed to be done will be done the way it needs to be done
4. Firm systems create a method of training, supervision, oversight, and confidence that the work will be done the way it needs to be done
5. The system makes it easier to delegate and manage because a structure is in place
6. Checklists are part of the system and make it easier to lay out what needs to be done and how it should be done and in what order, and reduces instructions and doesn't cause relearning the system each time a job needs to be done
7. Not doing the checklists the right way cancels everything I just said and creates added work and the need for more supervisio

CHAPTER 5:

Effectiveness and Purpose of Review

Following is a summary of review procedures often followed in the busiest time of tax season versus the way it should be followed.

April 1-15 has been selected to refer to the final and busiest period of tax season.

If yours starts earlier or ends earlier, substitute those dates for what I chose.

Some steps have been abbreviated.

CHAPTER 6:

Reviewer's Checklists

Following are two reviewer's checklists – for individual and business returns. I've tried to keep these as short as possible. The reviewer can always use preparer's checklists that are more thorough and complete.

One way for the reviewer checklist to be used is for the reviewer to give it to the preparer and tell the preparer to make sure that the reviewer will be able to easily find the information they need to in order to perform their review easily.

For firms that insist on having all the detail ticked and tied, a suggestion is to have another preparer pre-review the detail input. Having a person at the same level as the preparer review the input will push the work down from the reviewer; serve to help the same level reviewer hone their skills at locating the types and frequency of errors; and might create peer pressure to not have someone at the same level find their errors.

Top 12 Tax Return Preparation Errors

1. Number transposition and spelling errors.

This includes income and deduction amounts and client Social Security numbers, addresses and zip codes. Spelling errors should also be avoided – they indicate a lack of attention to what you are doing.

2. Unreported 1099 income.

Clients frequently leave out 1099s, but the preparer should make sure all 1099 items from last year are accounted for. Missing 1099s that were not final for last year should be accounted for.

3. Tax payments.

Entering incorrect and unpaid amounts can be avoided by requiring the client to provide “proof” of the payments. Entering “incorrect” amounts provided by the client is a major cause of tax notices.

CHAPTER 10:

Review of Complicated Transactions

One way of reducing the busiest time bottlenecks is by having complicated issues reviewed when they arise, or before tax season gets hot and heavy. Many times it can save a lot of time by the preparer, or partner, having a discussion with the reviewer before transaction is completed to make sure it is structured correctly. I've done this many times and have also got a great second opinion that helped the transaction get done better.

CHAPTER 13:

Accountability

Reviewers have to face accountability. They are judged several ways, but I feel the best way is not with a metric but by how the quality of the preparers improve during tax season and how the workload is managed.

Yes, the reviewers are responsible for the preparers' quality. The reviewers are expected to find errors and show the preparer what they are, how to fix it and to not have them reoccur. And this should be done quickly – not letting prepared returns hang around unchecked for a while. The quicker the turnaround time, the easier and better the training and better all around job by everyone.

One of my key elements is for the preparer to make EVERY correction – even the easy changes that a reviewer can make in a “second.” The preparers will learn by their mistakes, realize that their mistakes will have a bothersome cost to themselves by having to make arrangements to fix them, and I believe will reinforce the importance of quality with

CHAPTER 16:

Partner Review When Signing

The return is reviewed once again possibly by the tax partner, but finally by the partner who signs it. The tax projection would be reviewed as well to determine if the return is on target with the projection and information that was given to the client. Notes also should be made then about planning opportunities for the client.

Experienced partners easily uncover many errors by simply looking at the output and comparing it with the previous year's return. The Excel comparison is a tool to assist in this, speeds it up and provides an amazing amount of information to the partner in an instant of time.

Other errors spotted can include incorrect Social Security numbers, addresses, and spelling of clients' names and wrong or old mailing addresses.

Having the preparer look for these types of errors beforehand would:

CHAPTER 17:

Post Tax Season Assessment and Follow-up

The Tax Season Assessment should be reviewed twice. At the end of tax season *and* at the beginning. At the end, to review the performance. At the beginning, to set forth expectations. Look this over and consider adopting it as part of your quality control procedures...

- Was review time reasonable (less than 25% of preparer time)?

- Were review comments excessive based on complexity of return?

- Were returns routinely reassigned to preparer or did reviewer or someone else make corrections?

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More from Ed Mendlowitz

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- Tax Season Opportunity Guide
- How to Increase Your Billing Rates
- The 30:30 Training Method
- 101 Questions and Answers for Managing a Tax and Accounting Practice

Ed Mendlowitz is a regular contributor to CPA Trendlines at cpatrendlines.com and he blogs at partners-network.com. He welcomes reader questions and comments, and can be reached by email at emendlowitz@withum.com, or by phone at (732) 964-9329.

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