New edition covering the latest tax law changes, recent developments in procedures, and incorporating comments from over 500 tax professionals.
How To Review Tax Returns
(Second Edition)

The Field-Tested Update

By Edward Mendlowitz, CPA
& Andrew D. Mendlowitz

New edition covering the latest tax law changes, recent developments in procedures, and incorporating comments from over 500 tax professionals.

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About the Authors

Edward Mendlowitz

Edward Mendlowitz, CPA, is a partner at WithumSmith+Brown, PC and is one of Accounting Today’s 100 Most Influential People. Ed is the author of 27 books and has written over 1500 articles and blogs and developed and presented over 300 professional speeches, CPE programs and webinars. Ed won the Lawler Award for the best article in 2001 in the Journal of Accountancy, the Eddie Award in 2018 from Folio Magazine for his Art of Accounting series in Accounting Today, and the 2019 Innovation in Accounting History Education Award by the American Accounting Association’s Accounting Historians Section. His practice management techniques are posted weekly at CPATrendlines.com, accountingtoday.com and have been reported on in The Wall Street Journal, the Journal of Accountancy and many other publications. His twice a week blog is posted at www.withum.com/partners-network-blog

Ed is accredited as a personal financial specialist, in business valuations and in financial forensics by the AICPA; is admitted to practice and has argued cases before the United States Tax Court; testified twice before the House Ways and Means Committee on Tax Reform, Fairness and Equity; is a professor in the Fairleigh Dickinson University MBA program; is on the editorial board of QuickReadBuzz blog, the co-editor of The CPA Journal’s Personal Financial Planning column, and has been on the Bottom Line / Personal Panel of Experts for Taxes since the publication’s inception and is the author of their monthly tax blog. Ed has also been a team captain and conducted quality and peer reviews of CPA practices. In 2017 Ed was inducted into the Estate Planning Hall of Fame.

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Acknowledgements

This handbook 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.

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Special thanks to my friend and colleague Sidney Kess, tax educator extraordinaire for his constant comments, insights, tips and lively discussions about serious practice management issues.

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

This handbook primarily was written and organized by my son, Andy, from an unbelievable array of notes, speech handouts, 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 handbook. 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 handbook 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 handbook, is done with the needed support and love of my wife Ronnie.
Why This Handbook: 10 Facts and the Conclusions

1. Fact: There are more preparers than reviewers.

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

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

4. Fact: If a new procedure can be introduced that would decrease the reviewer’s time while adding a greater amount to the preparer’s time it should be considered and likely will make the reviewers more effective and improve overall firmwide tax season performance.

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

6. Fact: Processes need to be established that will create uniformity of work.

7. Fact: The right procedures and processes will improve preparation quality.

8. Fact: The better the quality of the return’s preparation, the less time it will take to review it.

9. Fact: Any method of improvement of the review process has to start with the preparer.

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

The Conclusions: The firm needs to put procedures in place that will improve preparation quality so that review time will be reduced while maintaining or improving quality, even if it means increasing the time of the preparers.

To do so, the firm must become sensitive to the role of the reviewers and the important part they play in assuring that the best tax returns are delivered to the clients.
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 handbook will discuss methods to reduce review time, establish who should do the review, distinguish between content and issues review and other review methods, 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. 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, I have presented tax season management programs to over 12,000 CPAs through many organizations nationwide since 1980.

Actually, until December 2010, I had 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. In 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 has 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. Since then, sold out webinars have been presented through different organizations. I understand that are now other organizations offering such webinars.

That shows that there is a need and hunger for information on how to more effectively review returns, and this handbook is the response. Read the handbook, 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.
Preface to This Edition

Since the publication of the first edition of this handbook, I have had much feedback from readers as well as attendees of my webinars. It appears that while reviewing returns is a very important function the overall quality of the returns is not improving except for those that “get my message.” I know what I am suggesting works, because readers have called me to tell me so.

My message is quite simple – in order to have the reviewers do the type of job that is needed for them to do, you need to improve the quality of the preparers, train better, be steadfast in adhering to the system, and make compliance with the system and quality standards the main thing. You also need to create effective and efficient review systems that use the top skills of the reviewer. I think this is quite simple. By and large we have smart people preparing tax returns with almost all being college graduates and many with advanced degrees and CPA certificates. Yet, error rates by preparers in many firms are greater than 50 percent and reaching close to 100 percent in some. This seems totally stupid and idiotic to me. It means that as a profession we cannot seem to get error-free work from our staff. Does this make any sense? It doesn’t to me. Why isn’t this changing?

One reason the quality isn’t improved is the adoption of “modern” and cliché named systems that institute procedures that totally thwart improvement. They lose sight of the way to make money preparing tax returns, yet they promote their methods as the way to make more money. A crux of these systems is to continually push work forward, never backwards, so that there is no duplication of efforts, no lost time, no repeat touches or handling. On some level this sounds great and with expensive training courses brainwashing their customers, creating raving fans that go back to their practices as converts to this new method. The inherent problem is that the quality is not improved at the first level of tax preparation – the preparers.

The methods described in this handbook work and work very well. Any reader who disagrees with this is welcome to call me and tell me either I am crazy or ask me to explain why it isn’t working for them. The bigger issue of preparer quality is recognized in this handbook and easy methods of quality improvement are described, explained and illustrated. Preparer quality improvement is the first step in improving the role of the reviewer and making their job easier, better, fun and more able to provide a superior product and service to our clients.

Training reviewers to do better work is what this handbook is about. However, a main thrust of the initiatives described in this handbook is to put the reviewers in charge of preparer training and enforce absolute respect and adherence to the system, while recognizing that the reviewers’ time is more valuable, costly and dear than the preparers and that reviewers should use their brains, not their eyes. All of this is covered thoroughly in this handbook.

I enjoyed sharing these methods, know they are successful, recognize that they contradict some expensive “new way” practice management methods and welcome feedback from readers,
especially those who do not agree with what I suggest. I always feel good about compliments, but learn from the complainers, so please complain.

A final word is that I believe the logic of what is recommended in here is crystal clear. If I am right about this and you agree, then why don’t you adopt these methods?
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. Choosing how to properly use the reviewers’ time and interface them with the staff can contribute immensely to a smooth tax season.

The compression of tax season work in a relatively short period causes management and staffing problems. It also 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, 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 handbook 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 firmwide improvements. Use this as an opportunity for growth. Train the reviewers and empower them to go for it!
Chapter 2: Tax Return Preparation Could Be a Commodity or a Professional Service

QUESTION: Are tax returns commodities or the result of a professional service?

ANSWER RE: COMMODITY:

If you believe tax returns are a commodity, then you will also believe there is no product differentiation and the business should go to the lowest cost provider. There is nothing wrong with you thinking this way and running your practice accordingly. However, you should still want to provide a complete and error-free tax return. Therefore, there could be great value to you to reduce your costs by limiting errors, re-dos and unnecessary touches. Adopting some of the procedures in this handbook will make you richer since your costs will be reduced. So should your turnaround time. Likewise, with reduced calls from clients asking about a possible error.

Those in the commodity business of tax return preparation usually handle a high volume of easier tax returns but can also have clients with complicated returns. Additionally, those that are more entrepreneurial could use the quality products they deliver to generate additional revenue from their clients for nontax preparation services. Accordingly, a quality product is essential to maintain firm clients and use them as a base for growth.

ANSWER RE: PROFESSIONAL SERVICE:

If you feel tax preparation is providing a professional service to your clients, then might I ask what value do you add to the client? Might I also ask how is your return better? If there is no value or the return is not better, then where is the professional service?

The value adding is accomplished at two stages in the preparation process. One stage is by the partner that either receives the information at a meeting with the client, or when they do a top side review before they sign the return. The other is by the reviewer whose job it should be to look for tax savings opportunities for the return and possibly a previously filed return; and then for planning opportunities for the current and future years.

I might note that there shouldn’t be successful opportunities to add value each year, but there should be over a five-year period and that should more than justify engaging your firm by the value added.

Value is not just added by finding tax savings opportunities, but by being available, responsive to clients’ concerns and needs, doing a timely and error-free job, assurance by the client that they are not missing opportunities and by the accountant adding to their database of the client’s
activities, personality, feelings and risk propensity that can be accessed when needed to advise
the client on a proper course or direction.

The role here of the reviewer would be to use all their talents, knowledge and experience to
uncover tax savings opportunities. This can more easily be done when their time is spent
looking for such opportunities rather than trying to correct errors made by lower level staff
people that have prepared error laden returns.
Chapter 3: 10 Reasons Why You Should Want to Improve Your Review Process

1. You should want to deliver a better product to your clients
2. You should want to increase your reviewer efficiency and effectiveness
3. You should want to improve the quality of the returns submitted to the reviewers
4. You should want the partners to do a better-quality top side review
5. You should want to have a much better tax season
6. You should want to reduce pressure and stress during tax season
7. You should want to work better and smarter during tax season
8. You should want to have more fun during tax season
9. You should want to make more money from tax season
10. You should want to not be so tired during and at the end of tax season
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