

# Expect the unexpected

## Our Tax Season Kickoff explores the uncertainty surrounding this season

By Antoinette Alexander

Another year has come and gone — and with the New Year comes the start of yet another tax season. Once again, the weeks leading up to the filing season's kickoff were fraught with uncertainties, but this season is getting off to an especially challenging start as tax professionals feverishly waded through the murky waters of legislative and tax law development delays to help clients with year-end tax strategies.

"It is continuing the trend of a proactive approach to tax and looking for opportunities to push advisory services," said Jordan Kleinsmith, associate product manager, enterprise, at Thomson Reuters. "That is the lead value item: It is almost decreasing the importance of preparing tax returns."

President Obama's re-election set into motion tough negotiations between Democrats and Republicans over the fate of the Bush-era tax cuts, nearly \$100 billion in automatic spending cuts and more than 50 expiring tax extenders, including the Alternative Minimum Tax patch. The president consistently called for higher tax rates on families with incomes greater than \$250,000 and individuals with incomes above \$200,000, and a continuation of the lower tax rates for others. He campaigned on reinstatement of the 36 percent and 39.6 percent income tax rates for higher-income individuals, and supported a maximum capital gains rate increase from 15 percent to 20 percent, as well as a dividend rate increase from 15 percent to 36 percent or 39.6 percent for higher-income taxpayers. Furthermore, President Obama's re-election ensured that the 3.8 percent Medicare contribution surtax on net investment income would go into effect on Jan. 1, 2013, noted a "Post-Election Tax Policy" report from CCH.

Then there's the AMT. Without a continuation of the AMT patch at or slightly above the 2011 level, it has been estimated that 20 million more individuals would be subject to the tax.

As of press time, it remained unclear what kind of compromise — if any — would be hammered out between the Obama administration and Congress, and the fate of the daunting "fiscal cliff" still hung in the balance.

"We are getting used to the end-of-the-year fire and I think tax prep software providers are too," said Jim Buttonow, co-founder and vice president of product development for New River Innovation, a Greensboro, N.C.-based tax technology company whose Beyond415 equips practitioners with best practices and automation for post-filing tax work. "We've gotten kind of numb to this, but this year is a bit different because of the fiscal cliff"

### AT THE FOOT OF THE CLIFF

"It could well be that we'll have a delayed filing season

because the IRS is late [in getting out forms, etc.]," said Mark Luscombe, CCH principal federal tax analyst.

The lack of clarity demanded a much greater focus on year-end tax planning as tax professionals educated clients on the potential tax scenarios — and likely tax increases — they face heading into the season and beyond. "We are doing a lot of tax planning now and we are doing work twice because we are giving them 'what-if' scenarios and guesstimations on tax rates into 2013," said Steve Callan, owner of Bend, Ore.-based Callan Accounting Services. Callan, whose firm prepares between 500 and 700 returns a year, noted that managing client expectations will likely prove to be exceptionally demanding this season.

Greater communication, client education and a more proactive approach to tax overall is how most tax professionals dealt with the onslaught of uncertainties going into the tax season.

Jonathan Swartz, tax partner at Atlanta-based CPA and consulting firm Bennett Thrasher, acknowledged that the flux in tax laws made year-end tax planning especially harrowing. Given the uncertainty, the firm, for example, talked with clients about possibly deferring deductions and accelerating income into 2012.

Echoing the sentiment, Alan Miller, tax director at Troy, Mich.-based LJPR LLC, said that the firm made a concerted effort to communicate with clients on what the legislative and tax law developments could mean for them. Some clients, especially small-business clients, were advised to consider accelerating income into 2012. And some business clients had questioned whether to buy equipment by year-end 2012 or wait until 2013.

Aside from grappling with tax law developments at the federal level, Mark Pricco, president of Lansing, Mich.-based X-Tax, is also dealing with changes in the state. Michigan now has more tax law changes than it has ever had before, said Pricco, so tax professionals at the locally owned and operated CPA firm have to make sure that clients understand the new changes. Pricco said that the most significant changes are the reduction of the state Earned Income Tax Credit from 20 percent of the federal credit to 6 percent, and changes to the Homestead Property Tax Credit, which will be eliminated for many taxpayers. "We are going to see Michigan refunds dropping significantly this year. So that will be a lot of explanations on our part," he said. "We have a lot of challenges in store for us this year."

Pricco said that he also expects to field a lot of questions about the end of refund anticipation loans. "Ever since I've been doing taxes for 15 years, that has always been there for the client so they could get some of their refund early.... Now the government has completely

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# Spotlight

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## 1. What are the biggest opportunities available to preparers this tax season?

The "fiscal cliff" debate in Washington regarding the future of federal taxes and entitlement programs like Social Security all lead to one

conclusion — uncertainty. The ultimate outcome will greatly impact both 2012 returns and tax planning for 2013 and beyond. This uncertainty presents a golden opportunity for tax preparers to solidify and/or enhance their relationships with clients (and attract additional business) by positioning themselves as "the person in the know." To do so, preparers must keep themselves well informed, communicate potential changes to their clients as quickly as possible, and be able to crunch the numbers accurately.



**Ken Savell**  
Editor, BNA Tax & Accounting  
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## 2. What are you doing to help them realize these opportunities?

Bloomberg BNA's new "Fiscal Cliff and Beyond" page offers an in-depth look at important tax changes that could dramatically affect taxpayers, including potential tax-saving opportunities and strategies to help you make the most informed decisions. This collection helps you stay current with Daily Tax Report articles and comparisons of legislative proposals and insights to help you understand the impact of potential legislation. With BNA Income Tax Planner Web, preparers can develop various scenarios with tax calculations based on the current legislation. Updates when new legislation is passed will aid them in providing accurate recommendations as tax law changes are implemented.

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## Unexpected

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outlawed that, so there's no way of getting the refund anticipation loan anymore. ... So this is the first year we have to educate clients that there is no refund anticipation loan anymore," Pricco said.

Meanwhile, California is also experiencing its own tax headaches due in large part to the recent passage of Proposition 30. Aside from the federal tax law issues, the passage of Prop. 30 means California's individual tax rates retroactively increased to Jan. 1, 2012, from a prior high of 9.3 percent (10.3 percent for those having California taxable income in excess of \$1 million), to rates ranging from 10.3 percent to 13.3 percent for taxpayers with state taxable income in excess of \$250,000, Blake Christian, a tax partner in the Long Beach, Calif., office of Top 100 Firm Holthouse, Carlin & Van Trigt, wrote in a recent commentary published in the *Long Beach Business Journal*. Furthermore, state sales tax rates are climbing another .25 percent, up to a new base-level sales tax rate of 7.5 percent (before county/city tax) for every state taxpayer beginning Jan. 1, 2013. These increases make California the most costly state in which to operate.

"The day after passage, our CPA firm received a flood of calls and e-mails from clients and other taxpayers asking the magnitude of Prop. 30 on their operations and how they can relocate or (in some cases) sell all or parts of their California business operations so they can move to another state," Christian wrote. "Time will tell how many make the move, but at this point, the frustration level is the highest I have seen in my 32-year career."

## TOOLS TO HELP

The good news is that tax preparation software vendors are continuously working hard to stay abreast of the latest developments and are keeping a sharp eye on technology to help professionals — and this tax season is no exception.

As recently reported by *Accounting Today*, users of Intuit Tax Online will see several enhancements and new features this tax season, such as enhanced search functionality and a new client checklist feature that generates a document that can be e-mailed to clients.

Mobile functionality is also an area of focus for Intuit, and the company has experienced success with the companion mobile app that it developed for Intuit Tax Online. The goal of a companion app: to

do at least one thing better than the online version of the software in order to drive value and usage. In this case, the mobile app enables users to easily access key client data while on the go. By downloading the app onto their mobile device, tax professionals can gain instant access to their entire client list and contact information, view up-to-date e-file status for all client tax returns, and view client tax return PDFs including key client summary information.

To help tax preparers deal with all the uncertainty that surrounds tax year 2013, Thomson Reuters developed a blog series that provides instructions on how to use existing data-mining functionality within UltraTax CS to identify and notify clients who might be affected. Some recent blogs, authored by Kleinsmith, include "Top 5 Reasons to Offer Tax Planning Services in 2013" and "Helping Your Clients Plan for the Fiscal Cliff with UltraTax CS Data Mining and Planner CS."

Thomson Reuters also recently released a client-facing app that firms can rebrand. The NetClient CS mobile app is an extension of NetClient CS portals. It offers accounting firm clients on-the-go access to services and content, while allowing the firm to retain control over which services are available.

Branded with the firm's name and logo, the NetClient CS mobile app offers clients access to tax returns, financial statements, and other documents, as well as online accounting and payroll services, payroll data, and more. It also includes a built-in task center that enables the accounting firm to alert clients of important to-do items.

Kleinsmith believes that the new mobile app will help drive client portal adoption and "will paint the picture of the value proposition of the portals."

Kleinsmith also believes that enhanced workflow management will increasingly rise to the forefront as tax preparers strive to bolster efficiency. To meet this need, the Tax & Accounting business of Thomson Reuters released in May 2012 its Workpapers CS, which offers a new way to manage workpapers and source documents in a seamless, end-to-end workflow. It is available in both on-premise and cloud-based formats.

## TECHNOLOGY DRIVES CHANGE

New technology and tools continue to drive change as tax pros look for ways to enhance efficiency and boost profitability during the busy tax season. It likely comes as no surprise that cloud-based solutions, mobile functionality and client portals are the most talked-about solutions for the season.

In fact, cloud and mobile topped the list

of emerging technologies transforming the tax and accounting profession, according to the 2012 CCH Technology Survey, an independent nationwide survey conducted by ORC International for CCH.

According to the survey, adoption of cloud-based solutions varies by firm size, with 84 percent of large firms (50 or more employees), 67 percent of midsized firms (10-49 employees) and 46 percent of small firms (1-9 employees) now using or planning to use cloud solutions in the next three years.

The survey also found that accounting professionals are increasingly mobile, with 81 percent reporting that they spend time working away from the office. The average number of hours a week that professionals work remotely ranges from 5.8 hours for those in midsized firms to 8.6 hours for those at large firms. In addition, firms of all sizes expect an increasing number of their staff will spend more time working remotely.

Mobile and cloud-based solutions are top of mind this tax season for X-Tax, said Pricco. "We are pushing the client portal, which we've had for a few years, but now with everybody going mobile, our client portal now is actually a mobile app. So the client will now be able to pull up their returns on their phone, check the status of their return [and] schedule an appointment. They can track the progress of their return from the time it comes through our door to the time they pick it up," said Pricco. "We are excited about that and we think that will catch on quite a bit this year."

Pricco said that the firm, which prepares nearly 8,000 returns a year throughout its three offices, is also working to move its tax prep software to the cloud so all three office locations can easily access the same data.

Bryce Forney, owner of Pleasant Hill, Calif.-based Forney Accountancy, is moving forward with his desire to be fully operating in the cloud. Within the past year, Forney turned to Google Drive for file storage and is now working to transition to Intuit Tax Online. Forney has been using Intuit's Lacerte since 2003, but this tax season will test the waters and initially use Intuit Tax Online to complete C corp and some individual returns.

CPA and consulting firm Bennett Thrasher recently upgraded to CCH's ProSystem fx Portal (SaaS), which has "really taken off extremely well," said Chris Gilligan, the firm's IT manager.

This season the firm will look to further leverage the client portal for billing, engagement letters and electronic organizers. "Ideally, we would like the portal to be the hub," added tax partner Swartz.

Valencia, Calif.-based IRS Solutions,

which prepares about 800 returns a year, turned its attention to the cloud-based version of the Thomson Reuters CS system in October 2011 and, beginning this season, will begin scanning source documents on the front end to further improve efficiency. Previously, the firm scanned on the back end. "In our first year, time-wise and financial-wise, I don't think it was much of a benefit. It was mainly a learning curve. We are expecting to see the benefit this year and in future years," said David Stone, president of IRS Solutions, referring to the CS system. "It was a big, big learning curve. ... It is a great system but it is a lot to learn."

Christian of Holthouse, Carlin & Van Trigt said that the firm is aiming to launch a new internal database by January that will be populated with such items as tax items and memos to make high-level knowledge-sharing more efficient. The information will be sorted by keyword and code section. He said that the firm is also using social media, such as Facebook and Twitter, to increasingly share information with clients.

## STAFFING UP FOR SUCCESS

With staffing pressures easing compared with prior years, finding and retaining qualified talent may not top the list of concerns for firms this season. However, that's not to say that staffing up isn't important or challenging for some.

Paul McDonald, senior executive director at Robert Half International, which owns temporary staffing firm Accountemps, said that he's seeing a greater challenge among CPA firms to find for their tax departments individuals with experience ranging from two years up to senior level. "Unemployment rates for tax professionals have gone down, and so demand has increased and that has created an active hiring environment and a war for tax talent," he said, adding that, as you move up the experience ranks and head into the five-plus-year range, the demand is greater for those individuals who have a higher aptitude for interpreting tax laws.

Jorge Olavarrieta, group product manager for Intuit Tax Online, said that customers are increasingly looking for different ways to deal with staffing, which has given rise to more remote employees and the implementation of the cloud or some other hosted solution.

Buttunow of New River Innovation predicts that, going forward, the industry will see a staffing crunch due in large part to the impact of the IRS's tax preparer registration requirement.

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# Waiting on the AMT

DELAYS IN CONGRESS COULD MEAN A LATE TAX SEASON EVERYWHERE

by Roger Russell

There's a very real likelihood that filing season will be delayed this year, as the Internal Revenue Service scrambles to finalize forms to reflect late congressional action, with the biggest uncertainty surrounding the Alternative Minimum Tax.

"Consistently, what I've heard is that the AMT patch is the big piece that will drive when filing season starts," said Roger Harris, president of Padgett Business Services. "The service has made some assumptions that we will get the patch, so if we don't, the starting date for filing season is anybody's guess."

In a letter to Congress, Acting Commissioner Steven Miller explained that every year the IRS plans during the summer to ensure that it is prepared for all aspects of the upcoming filing season. "This year has been particularly challenging due to several unresolved tax issues," he wrote. "When Congress takes action well after this planning process is underway, there is potential for substantial disruption."

Miller said that he had instructed the IRS staff to leave its core systems "as-is" with respect to the AMT, and to hold off on the design and engineering work that would be required in order to revert the core systems back to 1998 law, which would otherwise apply for 2012 in the absence of any action by Congress. "There would be serious

repercussions for taxpayers," he stated.

"If it's not done soon, the IRS will have trouble gearing up for tax season," agreed Bob Scharin, senior tax analyst at Thomson Reuters. "Taxpayers may get into the situation where they need to delay filing, or they might want to file early to get the refund they're entitled to under the law as it was on January 1. ... Practitioners might want to encourage clients in the future to reduce their withholding so they are not entitled to large refunds and are better able to hold off on filing returns."

The service is prepared, in a worst-case scenario, to allow the filing season to open for returns not affected by the patch, but that would be a very small percentage of returns, according to Harris. "There are other parts of the law that we're waiting on, but the AMT patch will be the key indicator of filing season," he said. "It would be better than nothing, but just barely."

## THE PRESSURE GROWS

Regardless of the AMT, the entire episode has put tremendous pressure on preparers, taxpayers, planners and software companies, according to Timur Taluy, chief executive of FileYourTaxes.com. "It has affected everyone within the ecosystem because no one knows how to advise clients," he said.

Taluy, who also sits on the Electronic Tax Administration Advisory Committee, noted

that things have been unusually quiet on the political front regarding the AMT. "Two years ago, the legislative committees sent letters to the IRS indicating that the AMT patch was forthcoming and what it would look like," he said. "[As of mid-December], the IRS has not received any such letter from any of the committees, and this is what has contributed to the confusion. ... If the tax season gets delayed, some of the most vulnerable taxpayers would have their refunds delayed. This could lead to them missing payments on rent or cars or other items."

While awaiting the huge changes determined by whether or not there is an AMT patch, which extends if any get extended, and other elements subject to last-minute negotiation, there are a number of changes related to W-2 and 1099 forms, according to Janice Krueger, a subject matter expert at Greatland. "The biggest of these is the reduction in Social Security tax withholding," she indicated. "It's part of the fiscal cliff issue — we'll see whether it gets extended or not."

"Also new for tax year 2012, compensation of \$600 or more that is paid to H-2A visa agricultural workers must be reported on Form W-2 if the worker furnishes a valid taxpayer identification number," she said. "If the worker does not furnish a valid taxpayer identification number, the payments should be reported on Form 1099-MISC."

In addition, filers of Forms 1098 (except 1098-C), 1099, and 5498 may truncate the recipient's Social Security number, Individual Taxpayer Identification Number,

or Adoption Taxpayer Identification Number on paper payee statements for tax year 2012. "Only the last four digits are exposed, for security purposes," said Krueger.

On Form 1098, mortgage insurance premiums paid or accrued after Dec. 31, 2011, are no longer eligible to be treated as interest paid by the payer/borrower. New boxes have been added to Form 1099-B for reporting the stock or other symbol, quantity sold, whether basis is being reported to the IRS, and state income tax withheld.

Other boxes on the form have been moved or renumbered, Krueger indicated, Exempt-interest dividends from a mutual fund or other regulated investment company are no longer reported on Form 1099-INT. Those amounts are now reported on Form 1099-DIV.

Tax professionals should be preparing their clients for what lies ahead, according to Reno, Nev.-based preparer Beanna Whitlock. "Specifically, January through April of 2013 will be at the cutting edge of what will be the largest tax act we have seen since 1986," she predicted. "The world will change for taxpayers in 2013. The things that taxpayers have known and become accustomed to will change. It will be a challenge for the tax professional community to take the time while they are working on 2012 returns to point out how things will be different given the same return under the new tax law. A number won't be happy to hear that they should increase their withholding so that at this time next year they won't be underpaid, but it's better to let them know during filing season than later." AT

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Under these, certain paid preparers are required to pass a competency test and complete 15 hours of continuing education each year. The IRS has stated that supervised preparers and non-1040 preparers must identify themselves when they apply for or renew their PTINs to be exempt from testing and continuing education requirements; CPAs, attorneys and Enrolled Agents are also exempt from testing and continuing education requirements.

The continuing education requirement began in calendar year 2012, but those who have a provisional PTIN have until the end of 2013 to take and pass the RTRP test. New continuing education and testing requirements apply to approximately 340,000 preparers who previously had no such requirements. There are tens of

thousands of preparers who have yet to take the exam. In fact, the IRS recently mailed more than 300,000 letters to remind preparers to schedule their RTRP test.

"We are going to see, not for this season but next, we will see that staffing crunch," Buttonow said. "The problem is that something has got to give" and the IRS has said they won't give on competency testing.

Miller of LJPR LLC said that the firm is looking to hire a few more experienced tax preparers but the hurdle is that it is based on seasonality. "It is somewhat difficult to find qualified tax preparers who want to work seasonally," said Miller, who noted that the firm is also bringing aboard several interns to help ease the strain of the tax season.

LJPR is primarily an advisory wealth management firm, but it is beefing up its tax business and transforming it into more of a stand-alone division and is acquiring a nearby traditional tax practice. As of press

time, it was too early to disclose details of the acquisition, but Miller said that the deal will quadruple the size of LJPR's tax practice.

Pricco of X-Tax doesn't anticipate problems when it comes to finding employees to help during the tax season. "Our tax practice is a CPA office, but we focus on more the low- to middle-income clientele so we can train people that have very little, if any, experience to do the easy returns, which we do a high volume of, and by February 15 or so we release them because that clientele is gone [by then]," said Pricco. "Then we do the more difficult returns, but don't do the same volume level, so then our experienced preparers can take care of that. So we're not like your typical CPA office that is probably hiring year around. We are just hiring for like two months, and part of that time is on-the-job training."

Bennett Thrasher's Swartz said that the firm will bring in, aside from a couple of

seasonal staffers, about five or six interns, likely juniors or seniors in college, to help ease the stress of tax season. "That provides us extra bandwidth during crunch time and we can test them out and see if they make good staff," Swartz said. The interns will work mid-January to mid-April and about half of the interns typically receive a job offer.

Clearly, this year's tax season is bound to prove more challenging for some tax professionals, as clients continue to seek counsel on what the late legislative developments will mean for them, not just during this season but next season as well.

"You don't have that crystal ball to tell clients what to do at year-end," Buttonow said.

What is certain is that tax professionals and vendors have worked tirelessly to prepare for the start of the season, and technology and mobile capabilities will continue to play an even greater role in tax preparation. AT