

Managing Client Expectations for Tax Reform

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"Mind the gap!" is the warning famously given to patrons of London's Underground subway. The same warning has long applied to CPAs issuing attestation reports (and, sadly, all too often for lesser services), as even sophisticated clients are prone to imagining that a clean audit report provides assurance that no fraud exists in financial statements -- contrary to the clear terms of engagement.

This year, the Tax Cuts and Jobs Act of 2017 has tax service providers wondering whether their clients will similarly have expectations for tax planning and compliance services that go beyond the realm of possibility.

The challenge for practitioners is that the new tax law has brought change, uncertainty and complexity at levels not previously encountered for more than a generation. At the same time, clients now routinely expect their tax advisers to recommend and implement creative and leading edge tax-saving strategies. What is more, they are increasingly likely to bring a claim when hindsight reveals a missed (or a misapplied) stratagem.

Fortunately, there are steps that CPAs can take to manage the expectations of their clients -- many of whom will be paying significantly more income tax due to major changes in federal tax deductions. Doing so will, of course, involve more than a minor balancing act to avoid loss prevention from turning into "sales prevention."

Laying the groundwork

Before discussing some possible solutions, let's define the situation.

First, individual taxpayers in (especially) upper-income brackets are quite likely to develop sticker shock when they are presented with their projected tax bill. Second, the radical complexity of the change in federal tax law, standing by itself and as played out in the context of state tax laws that remain anchored to the prior federal tax code, can make solving a Rubik's Cube look easy in comparison. Thus framed, tax advisers are well-advised to develop communications to their clients in an effort to manage their expectations around the possibility that they will pay more tax, compounded by the reality that no one can honestly claim to have all of the right answers for the upcoming tax season.

To do this, we suggest using an early communications strategy that subtly hits appropriate points of guidance for client expectations. Here is one approach to correspondence (sent by mail or email) for clients that can be tailored to specific circumstances, or followed with a phone call or personal

contact:

Dear Client,

In anticipation of serving as your tax professional this year, we have been thinking about you a great deal lately due to the many significant and complex changes created by the new federal tax law that takes effect for your 2018 taxes.

As you have probably heard, many taxpayers will be unpleasantly surprised by how much more they will owe in tax under the new law. While we do not yet know how you or your business may be affected by these changes, it will be especially important for you to promptly supply us with all information needed for your returns, and to make arrangements to meet with us early and well in advance of this year-end if you are a tax-planning client, so that you will have a better chance to make decisions and take possible steps to pay only the tax required by law. Every situation is unique and news reports intended for general audiences may not provide reliable guidance for your tax needs.

Please be assured that our firm has actively prepared to address these changes with you since 2017, when the law was introduced as a bill in Congress. We have read and studied the new law, attended presentations, updated our tax planning and preparation software, and taken advantage of the materials and resources available through our membership in the Minnesota Society of Certified Public Accountants.

And while we have been impressed with the quality and depth of these resources, it is clear that no one yet has a complete understanding of the new law and its numerous and complex regulations, or how those will be affected by the interplay with Minnesota tax laws that are still based on the old federal tax code. Many observers are predicting that it may take several years before the full impact of the new tax regime is known.

We look forward with confidence to serving you with the same tax services as in prior years as we work through this challenging tax law environment with you!

Sincerely,

Managing client expectations is always a tricky challenge, yet the potential silver lining in making the effort for this year's tax season may actually be to generate even more demand for your services.

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