groundwork for the client's role in making those services achievable. You can describe your plan to prepare tax returns, but that plan is contingent on the client ...

Gail Perry • May. 15, 2015

When you and your clients agree on the services you are going to provide, there should be an engagement letter that summarizes those services and the expectations of both you and your client. Not only does this ensure there will be no confusion as to what services are to be performed, the engagement letter actually serves as a contract should there be dispute over the services at some point in the future.

The engagement letter not only sets out what services you will provide, it lays the

signed acceptance of the letter back from the client. Keeping fingers crossed that a lawsuit won't occur is not the best way to do business. Protect yourself from risk and at the same time inform your clients of exactly what they should expect from you, and you'll all rest easier at the end of the day.

Many of your engagement letters will read the same because you probably provide the same or similar services to most of your clients. However, you'll want to fine tune the engagement letter if you are working with clients on state and local taxes (SALT). Here are some specific points you'll want to include:

State and local tax laws are subject to change. The SALT arena is volatile, laws and rates change frequently. Indicate your expectation to stay current with those legislative changes, but also mention that new laws might mean additional discussion and an amended engagement letter will follow.

Client might start or stop doing business in a taxing jurisdiction. If the client expands business to a new taxing jurisdiction or no longer does business in an existing jurisdiction, the terms of the engagement letter might have to change. Be sure to stipulate what your agreement covers in terms of potential changes in the client's business operations.

What will happen in the event of a SALT audit? Be sure to indicate that extra time and additional fees might be involved should there be a SALT audit. Explain your role in representing your client before state and local tax authorities, and mention there is no guarantee of results.

Engagement letters should be prepared and signed annually by a representative of the accounting firm and also the client representative. If you're new to using engagement letters, you'll find it worthwhile to consult with your attorney or your

liability insurance representative to make sure you're using language that will

year ahead, including planned capital expenditures, hiring plans, and training needs.

- Determine potential for negotiating SALT-related credits and incentives with taxing jurisdictions, and then develop plan for moving forward with these negotiations (see accompanying article).
- Update your calendar with SALT continuing education opportunities for the months ahead.
- Make sure you are on mailing lists for SALT news in all states where you have clients doing business.

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