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Mike D'Avolio • Nov. 30, 2017



According to IRS statistics, 60 percent of tax returns are prepared by tax professionals versus 40 percent of returns being self-prepared. Taxpayers decide to have tax professionals file their returns for many reasons and ultimately it boils down to a personal choice. When people engage the services of an accountant there can be more mystery surrounding the tax preparation process. The following article will help uncover some aspects of the tax system that your CPA won't necessarily tell you.

How qualified is your accountant?

Although there are close to 1 million accountants nationwide, only about 40 percent

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unsubstantiated refunds.

You also have to be careful with some unscrupulous practices, such as, over billing you for services and holding your tax records hostage. A good engagement letter should cover all the terms clearly. Also, be careful with practitioners who push you to buy products and services and those who offer investment advice but are not qualified to do so.

Here are some tips in choosing a tax preparer offered by the IRS:

- Make sure your preparer has a PTIN (preparer tax ID number) and signs the return.
- Ask if they belong to a professional organization and attend continuing education classes.
- Check the preparer's history through the Better Business Bureau. For EAs, check with the IRS Office of Enrollment; for CPAs, check with the state board of accountancy; and for attorneys, check with the state bar association. Avoid preparers who base their fee on a percentage of your refund or those who say they can get larger refunds than others do.
- Make sure any refund due is sent to you or deposited into your bank account.
- Make sure the preparer will be available in case you need to contact him or her.
- Good preparers will ask to see your records and receipts and will ask questions about your income and deductions. Don't use a preparer who is willing to file your return using your last pay stub instead of your Form W-2.
- Don't use a tax preparer that asks you to sign a blank tax form.

Your return may not be overly complex

A majority of taxpayers don't have to worry about complexity in the tax code because their returns are relatively straight forward. To start with, preparing and filing a tax return for a wage earner who receives a W-2 (70% do), is a lot simpler than the

person who is self-employed and receives a Form 1099-Misc. Claiming the standard

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a return to find out.

Keep in mind that tax preparers start at about \$100 and that figure will climb depending on how complex your situation is and where you live.

As guide, you may consider doing your own taxes if:

- Your situation is simple and doesn't involve dependents, investments or a business
- You have the time and patience to devote to tax preparation

Conversely, hire a tax professional if:

- You earn more than \$200,000 a year
- You had a major change in life, such as a marriage or a child
- You plan to itemize deductions

Odds of being audited

Research and hard facts tell us everything we need to know – less than 1% of the taxpaying population whose annual earned income falls between \$15,000 and \$100,000 experience an IRS audit each year. The odds are that slim! When you combine the small chance of actually being audited with being accurate and honest on your tax return, your anxiety about being audited should begin to diminish greatly.

There are many factors the IRS uses in its software to determine which returns get audited and the IRS doesn't share its trade secrets with the public. One common variable is they do take a close look at deductions that are disproportionate with income reported on the return. Whether you're claiming deductions above or below the national averages, make sure you have documentation to support the expenses.

Once the IRS looks at one area on the return, they may decide to expand the scope

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- Reporting a loss from a business activity that could be a hobby (no profit motive)

Finally, many people think they will avoid being audited if they engage the assistance of a tax professional. The odds may go down because the tax preparer is generally more familiar with the tax system, but you can run into unscrupulous professionals as well. When it comes to audits, the IRS doesn't audit based on who filled out your tax return and you need to follow the rules in any event.

Hopefully, we have educated you a little more about our tax system and this information will help you make more educated decisions when it comes to getting your taxes done.

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