



Risk Management Tips for Tax Season

As you head into this year's tax season, you might appreciate some timely tips on how to avoid potential client conflicts and even lawsuits. Keep in mind that you don't have to make an error to be sued. In our litigious society, frivolous lawsuits are all too frequent. The following tips are based on experience, as well as general risk management guidelines for all professionals.

1. Screen prospective clients carefully. Consider criteria such as:

- Does your firm have the expertise to meet the client's needs?
- Is the client financially stable?
- Does the client have reasonable expectations about your service?
- Are the client's own finances managed effectively?

2. Always use an engagement letter. When agreements are in writing, chances of a lawsuit are significantly lower. At a minimum, engagement letters should include:

- What is *and* is *not* included within the scope of the agreement.
- Provide completion dates contingent upon the client meeting deadlines for delivering documentation.
- Detail your firm's payment terms.
- Include a disclaimer for cyber liability.



3. Document. Document. Document.

You've undoubtedly heard this before but it bears repeating. Specifically:

- Write everything down, right away. Include information such as who said what to whom and what if any agreements were made.
- Include factual information only.
- Use an established documentation procedure.
- Carefully consider what information should be documented in emails.

4. When in doubt, consult an expert – Consider contacting a colleague who specializes in a particular area of practice, or your attorney. As an NSTP member, you can also take advantage of the association's hotline.

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5. Keep the lines of communication open.

- Utilize timelines and progress reports.
- Always alert clients to any potential problems.

6. Use checklists to ensure consistency and improve accuracy. You can find sample checklists for preparing individual and business tax returns on Target's tax preparers page [here](#) or go directly to these individual checklists:

- [Preparer's Pre Review Procedural Checklist](#)
- [Reviewer's Checklist for Individual Tax Returns](#)
- [Reviewer's Checklist for Business Tax Returns](#)

The image shows a sample of a 'REVIEWER'S CHECKLIST FOR BUSINESS TAX RETURNS'. The form includes fields for 'Client', 'Tax Year', and 'Date Prepared'. It contains a list of 20 items to be checked, such as 'Check explanations for large variances, differences, inconsistent amounts, and supplies items appearing on an return as compared to prior year return (exceptions if prepared)', 'Confirm estimated tax payments were entered properly on the Form 990 (if applicable)', and 'Confirm that the preparer is not an unlicensed preparer or unlicensed accountant of another state'. The form ends with a section for 'Comments' and a signature line.

7. Ensure that your firm's data is protected.

- Review your firm's policies for storing and protecting data and ensure that your staff understands and complies with these policies.
- Consider using outside resources to supplement internal security procedures.
- Create written guidelines for what to do if hardware or data files are lost or stolen.

8. Think twice about suing a client for non-payment. More often than not, clients countersue for malpractice.

9. Think three times before entering into a business deal with a client. For innumerable reasons, it's rarely a good idea in any business.

10. Carry at least a minimum amount of Professional Liability (Errors & Omission) insurance. This coverage is relatively inexpensive, especially in comparison to the possible cost of a lawsuit. Equally important, should a client threaten to sue, or even if you anticipate possible legal action, it's critical that you tell your insurance company immediately. Because most Professional Liability policies are what's called "Claims made and Reported Forms," you will only be covered for those claims made and reported during the same policy year.

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