

A Guide to **Stand-Alone Tax Engagements**

R&D tax credits, cost segregation, state & local tax savings, incentive tax credits and deductions, transfer pricing, and representation before taxing authorities are lucrative engagements. *By Howard W. Wolosky*

The current economic times are driving companies to seek ways to generate additional cash flow suggests David Springsteen, partner-in-charge of the tax department at WithumSmith+Brown, CPAs at its Princeton, N.J., office. His firm helping clients take advantage of tax incentives, including amending prior tax returns for open tax years, resulting in that increased cash flow.

Gary Fleming, partner in charge of the tax practice of Henry & Horne, in Tempe, Ariz., and chair of the tax special interest group for the Leading Edge Alliance, reports at its October meetings that the group concluded that “providing

specialized tax services in the future is going to be the lifeblood of any tax practice,” says Fleming.

Nature of the Engagements

WithumSmith+Brown offers a broad range of stand-alone tax services, according to Springsteen, such as R&D credit studies, solar credit and related “green” projects, interest charge DISC (IC DISC) incentives for exporters, transaction analyses in mergers and acquisitions, cost segregation studies, revenue recognition studies, multi-state “nexus” studies, FIN 48, transfer pricing, and sales tax reclamation and reverse audits. Springsteen indicates that third-party providers are

occasionally used, depending on the size, timing, and nature of the project.

Timothy Devlin, partner and member of the executive committee at Daszkal Bolton in Boca Raton, Fla., reports that his firm conducts a wide variety of stand-alone tax engagements on a regular basis. With regard to state and local taxes, all of the engagements are handled by in-firm experts. It includes restructuring business operations to minimize taxes; representation in state tax audits, settlement negotiations, ruling requests, and refund procedures; reverse audits for potential refunds and missed opportunities; representing individuals with personal income tax audits on change of residency; reviewing multi-state tax consequences of merg-

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ers, acquisitions and dispositions with multi-state interests; compliance reviews from a multi-state standpoint; assistance with telecommunications, excise, and insurance premium tax audits; providing expert witness testimony to resolve complex tax controversies; and identifying state tax refund opportunities and state and local credits and incentives.

As to the R&D credits, Daszkal Bolton utilizes a combination of in-house experts and third-party resources. Other specialized federal tax engagements include the Section 199 deduction, the bonus depreciation deduction, the domestic production tax deduction, and clean energy incentives.

International-related engagements include maximization of foreign tax credits, dividend planning, an analysis of foreign investment in U.S. real estate and withholding requirements, taking advantage of the foreign shipping exclusion for non-residents with a branch office in the U.S., assisting non-residents in structuring business ventures in the U.S., and minimizing foreign taxation of U.S. companies doing business outside the U.S.

Henry & Horne provides a number of specialized engagements including cost segregation services utilizing third-party engineers to assist with the analysis, R&D credit studies using third parties to help, tax controversy work involving representation with IRS and state matters, international tax planning, transfer pricing, state and local tax planning analysis and nexus studies, as well as high-level estate, gift and business-succession planning.

Matthew Frooman, partner in the tax

department of Gifford, Hillegass, & Ingwersen, in Atlanta, indicates that on a relatively regular basis the firm provides cost segregation study services, partnering with Ernst & Morris Consulting on all of these. "We involve them from the beginning as we scope out the feasibility of the project, and work with them throughout the process through issuance of the report," says Frooman.

Gifford, Hillegass, & Ingwersen also provides M&A tax consulting services, both on the sell and buy side. On a limited basis, it comes across R&D credit opportunities, which, if relatively small in amount, are handled internally, and if larger or more complex, an outside provider is used. For relatively routine state and local taxes matters, the firm handles them, but for extensive projects requiring deep experience and expertise in specific localities, it partners with another Leading Edge Alliance firm.

Gifford, Hillegass, & Ingwersen also assists clients in claiming the Georgia retraining tax credits, if relatively small in amount, it is handled internally, and for larger or more complex situations, it partners with another firm. It is also exploring other tax incentives, such as captive insurance companies where third-party expertise will be required, IC DISCs, and "green" incentives.

Joel Ackerman, tax principal at Grassi & Co., CPAs, in Lake Success, N.Y., reports that the firm does cost segregation studies; R&D tax credit engagement utilizing third parties; handles tax controversies and IRS audits; as well as state and local tax engagements, at times with the assistance of firms from the

Moore Stephens accounting network.

GBQ Partners in Columbus, Ohio, performs the following stand-alone engagements internally: state and local tax savings via credits and incentives; uncertainty for income tax positions (FIN 48); sales and use tax audits, federal, and state tax audit defense; M&As; tax provision work; business valuations; and some international assistance. According to Dennis Mowrey, tax director, "The nature of the engagements range from mom and pop-size companies, to billion-dollar privately held companies to public companies. The same is true for the engagements. They can be anywhere from a \$1,000 to hundreds of thousands of dollars. We are affiliated with BDO Seidman and through our affiliation with them we also can offer cost segregation studies, transfer pricing, R&D tax credits, and international expertise."

Kruggel, Lawton & Company in South Bend, Ind., is also an independent member of the BDO Seidman Alliance, and many of the stand-alone engagements are directed to BDO Seidman. "They have performed major cost segregation studies, R&D studies, IPIC LIFO consulting, and other international planning engagements," reports Jeffrey McGowan and Daniel Smogor, tax partners with the firm. The firm itself performs property tax abatements, property tax appeals, and income tax nexus studies, and provides multi-state sales tax strategies.

The Compensation

Henry & Horne uses a variety of pricing models. The cost segregation and R&D credit studies are typically billed at a flat fee. The other services the firm provides are typically on an hourly basis, although Fleming indicates that the normal billing rates might be adjusted based upon the value and the level of service provided.

WithumSmith+Brown's engagement letters generally have an estimate of project work hours and identify the project team. Then, based upon the disclosed hourly rate for each team member, the total

Not Just Dealing with Taxing Authorities

project cost is calculated and disclosed. Most of the Daszkal Bolton's stand-alone engagements are billed on an hourly basis with a retainer required at the beginning of the engagement. Similarly, Kruggel, Lawton & Company; Grassi & Co.; as well as GBQ Partners follow an hourly rate billing structure or a flat-fee approach.

Getting the Work

Many of Henry & Horne's special tax service engagements come from referrals. "Our referral sources know we have expertise in these areas and are able to provide value by providing these services. Our business plan is to provide as many ancillary services to our clients as we can. This promotes a lot of cross-selling. In our firm's overall marketing plan, on our Web site, and in collateral materials we promote each of these services. We also reach out to industries that may have a higher likelihood of needing these services," reports Fleming. He also says, "What is interesting is that other CPA firms that do not have these specializations refer their clients to us so that their clients can receive the benefits of these specialized services. We enter into a non-solicitation agreement with them."

"As a firm, we make recommendations in proactive service offerings directed to our clients, outlining the benefits of various tax incentive programs.†New business is often obtained through referrals from existing clients or bankers, attorneys and other referral sources in the WS+B network.

"Additionally, our international affiliate also recommends our firm to their clients who, for example, are dealing with cross-border transactions and need a transfer pricing or nexus study. Changes in the new tax laws sometimes spur taxpayers to review their incentive opportunities. Finally, other accounting firms that can't handle the scope of the work presented or do not have the technical knowledge will also refer opportunities," reports Springsteen.

Devlin estimates that 50 percent of Daszkal Bolton's stand-alone engagements come from third-party referrals, 30 percent as a result of marketing efforts, 10 percent from cross-selling, and the remaining 10 percent from client referrals. He credits valuable and "irreplaceable" relationships with attorneys and investment advisors as generating the best pre-qualified business leads, as well as the largest number of referrals.

Ackerman says cross-selling to existing clients is especially helpful. He points out, "Constant review of your client database is important; the more you educate and communicate with your clients, the more they value your advice. We specifically targeted the real estate community; real estate brokers, bankers, attorneys, and appraisers are great sources of referrals, so we conducted a number of seminars targeting them." He adds that using third-party providers also helps, but points out, "It must be done carefully, because you are giving them access to your clients, and you must trust them to respect their needs and feelings. You also must trust their abilities when proposing on prospective clients."

For existing clients, Gifford, Hillegass, & Ingwersen employs "lunch & learns" to ensure the firm professionals have an awareness and are looking for opportunities. For prospects, it educates referral sources such as attorneys, bankers, insurance brokers, and money managers and seeks referrals from existing clients.

GBQ Partners favors cross-selling and referrals, especially from attorneys. "Since I came from a Big Four background, as did a lot of the other people that I work with, I particularly enjoy talking with a lot of the Big Four clients and offering them my Big Four expertise at a much lesser rate. In today's particular economy, this has been a great selling tool," explains Mowrey.

Kruggel, Lawton & Company receives referrals for engagements both through the BDO Seidman Alliance and from smaller accounting firms. With regard to referrals from smaller firms, McGowan and Smogor

point out that, "It is important at the outset that the arrangement is worked out so that the stand-alone engagement isn't a ploy to take business away from the referring firm. Respecting the boundaries between the two firms is of utmost importance."

Perceived Greater Value

Daszkal Bolton frequently uses non-traditional value-add services such as cost segregation, SALT services, specialized tax credits and executive compensation to introduce the firm and its capabilities to new prospects. "It is one of our primary marketing techniques and we don't need to fight for compliance work to compete with other firms our size in our area. We use value services to get our foot in the door and showcase our expertise while simultaneously helping small companies grow, maximizing their cash flow through credits, deductions, and other incentives, and ultimately boosting their profitability in the process. We have found that these initial one-time clients frequently migrate all of their tax, accounting, and consulting work to us after the successful conclusion of the first engagement," Devlin explains.

Fleming believes providing specialized tax services to clients is "a way to distinguish your firm from the other CPA firms in your community, and generally carries a higher value for the clients so they are willing to pay more for the service." He does caution that some specialized services, cost segregation and R&D studies in particular, "have become commodities with boutique firms entering the market and competing for the business."

Ultimately, Mowrey indicates that "to obtain a lot of stand-alone tax engagements, you also have to be a salesperson, a marketing person, and in particular you have to enjoy working with people as much as working with numbers." □

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➤ For related material, see "A Humongous Win-Win" in the January 2008, issue of *Practical Accountant* at practicalaccountant.com. See also the "Practice Management" channel at Webcpa.com.