# **Income Tax Projection Services (Individual and Business)**

**Instructions:**

Due to rapid changes in professional standards and laws applicable to the practice of public accountancy, you also should refer to the following for additional guidance regarding the content of engagement letters:

* [U.S. Treasury Department Circular 230](https://www.irs.gov/pub/irs-pdf/pcir230.pdf)
* [AICPA Professional Standards](https://www.aicpa.org/research/standards.html), rules and interpretations
* AICPA practice aids and training materials
* State board of accountancy rules
* Other applicable laws and regulations, including laws and regulations applicable to the client’s industry

**Income Tax Projection Services Engagement Letter Considerations:**

* For a new client, perform due diligence by implementing the following measures:
	+ Determine how the income tax projection will be used.
	+ Evaluate the risks associated with undertaking the engagement.
	+ Review prior year returns.
	+ Interview new client(s) to determine their current tax status.
	+ Consider both the client’s ability to pay professional fees and the need to obtain a retainer prior to rendering services.
* Define the scope and limitations of the engagement.
* Describe the applicable professional standards for the engagement.
* Describe the client’s responsibilities.
* Describe the CPA firm’s responsibilities.
* Indicate when services will begin and conclude.
* Identify the engagement deliverables. For example,
	+ “At the conclusion of the engagement, we will provide you with:
		- a spreadsheet with year-to-date, annualized and adjusted items of income and expense. Adjusted items of income and expense will be totaled as projected taxable income and calculations of projected cash-flow needs of shareholders/partners to pay tax on the anticipated income will be provided, or
		- printed output from our tax planning software summarizing projected income, expenses, payments, credits and the anticipated balance due/refund for federal and [*Name of State(s)*] purposes.”
* Document the limitations on use of the deliverable.
* Discuss penalties and interest charges.
* Discuss the CPA firm’s responsibilities regarding conflicts of interest.
* Renew the engagement letter at least annually.
* Attach the CPA firm’s *Terms and Conditions Addendum* to the engagement letter and incorporate such by reference.

Engagement letters should not be used for compliance with Internal Revenue Code (“IRC”) §7216, *Disclosure or Use of Information by Preparers of Returns*, and the applicable regulations, which generally prohibit the disclosure or use of tax return information without the client’s express written consent, the form and content of which are prescribed by IRC §7216. For more information, see the IRS's [Section 7216 Information Center](https://www.irs.gov/tax-professionals/section-7216-information-center). For sample IRC §7216 consent forms, see the AICPA's [Section 7216 Guidance and Resources](https://www.aicpa.org/resources/download/section-7216-guidance-and-sample-consent-forms).

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SAMPLE ONLY – CONSULT WITH AN ATTORNEY BEFORE USE: Certain courts view engagement letters as contracts, and local laws and regulations applicable to engagement letter requirements vary significantly. Governmental bodies, commissions, regulatory agencies, state boards of accountancy and professional organizations also have requirements that may prohibit individuals and entities subject to their regulation or professional standards from including engagement letter provisions that limit the rights of clients. Accordingly, before using an engagement letter, an attorney should review it for conformity with applicable laws and regulations.

**NOTE: PLEASE REFER TO CNA’S SAMPLE *TERMS AND CONDITIONS ADDENDUM* FOR OTHER IMPORTANT ENGAGEMENT LETTER PROVISIONS RELATED TO:**

* **ADMINISTRATIVE PRACTICES, SUCH AS BILLING AND COLLECTIONS;**
* **COMPLIANCE WITH PROFESSIONAL STANDARDS, INCLUDING RECORDS MANAGEMENT;**
* **CLARIFICATION OF FIRM RESPONSIBILITIES, SUCH AS LIMITATIONS ON ORAL ADVICE AND REFERRALS;**
* **RISK ALLOCATION, SUCH AS DISPUTE RESOLUTION; AND**
* **CONTRACT ENFORCEABILITY, SUCH AS SEVERABILITY.**

[*Date*]

[*Client Representative*]

[*Client Name*]

[*Client Address*]

Dear [*Client Representative*]:

[*CPA Firm*] (“firm,” “we,” “us,” or “our”) is pleased to provide [*Client Name*] (“you” or “your”) with the professional services described below. This letter, and the attached *Terms and Conditions Addendum[[1]](#footnote-1)* and any other attachments incorporated herein (collectively, “Agreement”), confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide. The engagement between you and our firm will be governed by the terms of this Agreement.

***Engagement Objectives and Scope***

Define the scope of the engagement including, among other elements, the identity of the client, time period, locations, and business units, as applicable. If warranted based upon the nature of services to be rendered, define what is not in scope. For example:

* *“We will project [Client Name’s] federal and [Name of State(s)] income tax for the 20[XX] tax year based upon the information provided. This represents an income tax projection prepared solely for your use, rather than a financial projection as described in the American Institute of Certified Public Accountants (“AICPA”) Statements on Standards for Attestation Engagements.”*

The income tax projections depend upon the timeliness, accuracy and completeness of the information and representations that we receive from you. The income tax projections are estimates based upon a variety of information and actual amounts may differ from the estimate due to changes in circumstances, incomplete information, improper estimates and other changes. In addition, changes in laws, regulations and interpretations following the completion of the engagement may result in a variance between the income tax projection and the actual amounts. Any significant representations made to us by you, or incomplete information, may cause material differences in the income tax projections.

We will not audit or otherwise verify the data you submit to us, although we may ask you to clarify certain information.

Our engagement does not include any procedures designed to detect errors, fraud, theft, or other wrongdoing. Therefore, our engagement cannot be relied upon to disclose such matters. In addition, we are not responsible for identifying or communicating deficiencies in your internal controls. You are responsible for developing and implementing internal controls applicable to your operations.

This engagement is limited to the professional services outlined above.

***Engagement Approach***

* We will request year-to-date income, expenses and other relevant information.
* We will project year-end income, expenses and other relevant information by annualizing the provided amounts.
* Based upon discussions with and information provided by you, we will adjust the projected information, as appropriate. For example, it would generally not be appropriate to annualize property taxes that have been paid. Similarly, wages may require adjustment for an anticipated year-end bonus.
* We rely upon applicable tax law at the time we perform our analysis without consideration of anticipated changes to the tax law, even if those changes appear likely to occur.

***Deliverables***

We will issue the following deliverable(s) upon completion of our services.

* [*Outline deliverables to be prepared. Omit language that implies promised results or performance related to the services or products to be delivered. See instructions for examples.*]

The deliverable(s) presented as part of this engagement are for internal use only and are not to be distributed externally to third parties, in whole or in part, or used for any other purpose. You agree to indemnify and hold us harmless with respect to any and all claims arising from the use of these income tax projections by third parties regardless of the nature of the claim, including negligence of any party, excepting claims arising from the gross negligence or intentional wrongful acts of [*CPA Firm*].

Our income tax projection is based upon tax reference materials, facts, assumptions, and representations subject to change. Tax reference materials include, but are not limited to, the Internal Revenue Code (“IRC”), regulations, Revenue Rulings, Revenue Procedures, Private Letter Rulings, court decisions, and similar state and local guidance. We will not update our income tax projection after the conclusion of the engagement for subsequent legislative or administrative changes or future judicial interpretations. To the extent we provide written advice concerning federal tax matters, we will follow the guidance contained in U.S. Treasury Department Circular 230 (“Circular 230”), §10.37, *Requirements for Written Advice*.

If the tax law changes following the conclusion of the engagement, we may be available to update our income tax projection as a separate engagement. If you ask us to update our income tax projection, and we agree, we will confirm this engagement in a separate written agreement.

If for any reason we are unable to complete the engagement, we will not issue the deliverable(s).

***CPA Firm Responsibilities***

We will perform our services in accordance with the Statements on Standards for Tax Services issued by the American Institute of Certified Public Accountants (“AICPA”) and the AICPA Statement on Standards for Consulting Services. These services are *not (Optional)* considered personal financial planning services because we *do not (Optional)* consider ourselves to be personal financial planners. As such, the AICPA Statement on Standards in Personal Financial Planning do *not (Optional)* apply.

It is your responsibility to safeguard your assets and maintain accurate records pertaining to transactions. We will not hold your property in trust for you, or otherwise accept fiduciary duties in the performance of the engagement.

[*CPA Firm*] will not make management decisions or perform management functions on your behalf.

Arguable positions

We will use our professional judgment to resolve questions in your favor where a tax law is unclear, provided that we have a reasonable belief that there is substantial authority for doing so. If there are conflicting interpretations of the law, we will explain the possible positions that may be taken on your return. We will follow the position you request, provided it is consistent with our understanding of tax reference materials. If the IRS, state or local tax authorities later contest the position you select, additional tax, penalties, and interest may be assessed. You will be responsible for these amounts, as well as any related professional fees, you may incur to respond to the tax authority.

*Prior year review (Optional if prior year returns were not prepared by the CPA firm)*

*Our review of the prior year’s tax return will necessarily be limited and may not find all errors. We will, however, bring to your attention errors that we do find. Similarly, if you become aware of any information impacting prior year tax returns, please contact us. If an error or information impacting prior year tax returns is discovered by you or us, we will discuss resolution options with you. If you ask us to prepare amended tax returns, and we agree, we will confirm this engagement in a separate written agreement.*

Tax planning services

Tax planning services are not within the scope of this engagement. However, during the period covered by this Agreement, you may ask questions, or we may, at our sole discretion, bring to your attention potential tax planning opportunities for your consideration (collectively “additional services”). Prior to proceeding with any additional services beyond those identified in the *Engagement Objective and Scope* section of this Agreement, we will confirm our understanding of the scope of the additional services with you in writing. Additional services will be billed at our standard hourly rates and will be subject to the terms of this Agreement.

*Divorce (Optional)*

*You have informed us of your pending divorce, we will advise each of you to seek independent tax advice as we will not be able to advise either of you until your divorce is finalized. In order to prepare your return, we will require written instruction from your respective divorce attorneys [or, if the spouse(s) is/are unrepresented, the unrepresented spouse(s)] identifying items needed to prepare the income tax* *projection and your agreement to same before the income tax projections will be prepared. If we do not receive instruction agreed to by you and your spouse to prepare your income tax projections, you will be responsible for any adverse impact.*

*In the event that you wish to have income tax projections prepared using the married filing separately filing status, you will both be required to sign new, separate written agreements prior to the preparation of said projections.*

*As you may have conflicting interests with your spouse, you will both be required to sign a conflict of interest waiver.*

*Tax advice (Optional)*

*Our income tax projections are based upon tax reference materials, facts, assumptions, and representations that are subject to change. We will not update our advice after the conclusion of the engagement for subsequent legislative or administrative changes or future judicial interpretations. To the extent we provide written advice concerning federal tax matters, we will follow the guidance contained in U.S. Treasury Department Circular 230, §10.37, Requirements for Written Advice.*

***Client Responsibilities***

You agree to provide us with complete copies of previously filed tax returns, supporting schedules and any other records or information that we may request, either at the inception or during the course of the engagement.

*Communication of authority of others (Optional)*

*You hereby authorize the following individuals to communicate directly with us to request services and obtain copies of tax and financial information on your behalf:*

*Name Title*

*You agree that the authority conveyed above shall continue in full force and effect until you inform us of any modifications in writing.*

*Online access to information (Optional)*

*To the extent you provide our firm with access to electronic data via a local or online database from which we will download your trial balance or other information, you agree that the data is accurate as of the date and time you authorize it to be downloaded.*

State and local filing obligations

You are responsible for determining your filing obligations with any state or local tax authorities, including but not limited to, income, franchise, sales, use, and property taxes or abandoned and unclaimed property. If upon review of the information you have provided to us, including information that comes to our attention, we believe that you may have additional filing obligations, we will notify you. You acknowledge that the scope of our services under this Agreement does not include any services related to your compliance with your filing obligations.

Digital assets

There are specific tax implications of investing in digital assets (e.g., virtual currencies such as Bitcoin, non-fungible tokens, virtual real estate and similar assets). The IRS considers these to be property for U.S. federal income tax purposes. As such, any transactions in, or transactions that use, digital assets are subject to the same general tax principles that apply to other property transactions.

If you transacted in digital assets during the tax year, you may have tax consequences and/or additional reporting obligations associated with such transactions. You agree to provide us with complete and accurate information regarding any transactions in, or transactions that have used, digital assets during the applicable tax year. If you have any questions regarding your digital assets and/or transactions, please ask us, and we will respond in writing.

Ultimate responsibility

You have final responsibility for the accuracy of the income tax projections. We will provide you with a copy of the deliverables for review prior to finalization. You agree to review and examine them carefully for accuracy and completeness. You are solely responsible for implementation of any strategies discussed in the deliverables.

***Timing of the Engagement***

Our engagement shall commence upon receipt of this executed Agreement. Our services will conclude after one of the following events has occurred:

* transmission of the deliverable(s) as identified above,
* as of the date of our closure letter[[2]](#footnote-2);
* notice to you that no deliverable(s) will be provided,
* written notification by either party that the engagement is terminated, or
* one year (1) from the execution date of this Agreement.

***Professional Fee***

Our professional fee for the services outlined above is estimated to be $[*X*], *of which* [*X*]*% is due upon execution of this Agreement as a retainer* (*Optional*). This fee is based upon the complexity of the expected work to be performed, our professional time and out-of-pocket expenses. Circumstances may arise that impact our estimated fee such as, but not limited to, issues encountered with the timely delivery, availability, quality, or completeness of the information you provide to us, changes in your personnel or operations that impact our services or other unanticipated items that arise during our engagement and that require additional time in order to complete the agreed-upon services. You agree that you will deliver all records requested and respond to all inquiries made by our staff to complete this engagement on a timely basis.You agree to pay all fees and expenses incurred whether or not we prepare the income tax projections.

\* \* \* \* \* \*

We appreciate the opportunity to be of service to [*Client Name*]. Please date and execute this Agreement and return it to us to acknowledge your acceptance. We will not initiate services until we receive the executed Agreement *and retainer (Optional)*.

Very truly yours,

[*CPA* *Firm*]

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

[*Accountant Name*]

[*Accountant Title*]

ACCEPTED:

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

[*Client Name*]

[*Authorized Officer*]

[*Title of Officer*]

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

[*Date*]

\* \* \* \* \* \*

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1. See the Terms and Conditions Addendum that is included in the [AICPA Tax Section’s Annual Tax Compliance Kit](https://www.aicpa.org/resources/toolkit/annual-tax-compliance-kit). [↑](#footnote-ref-1)
2. See sample engagement closure letter that is included in the [AICPA Tax Section’s Annual Tax Compliance Kit](https://www.aicpa.org/resources/toolkit/annual-tax-compliance-kit). [↑](#footnote-ref-2)