# **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

**Tax Projection Services Engagement Letter Considerations:**

* For a new client, perform due diligence by implementing the following measures:
  + Determine how the 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/interestareas/tax/resources/standardsethics/section7216.html).

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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 Objective 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 20XX 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.”*

Our tax projections depend upon the timeliness, accuracy and completeness of the information and representations that we receive from you. Our projections are estimates based on a variety of information and actual amounts may differ from our 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 our estimate and the actual amounts. Any significant representations made to us by you, or incomplete information, may cause material differences in our 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, or theft. 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 already 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 projections by third parties regardless of the nature of the claim, including negligence of any party.

Our 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 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 projection as a separate engagement. If you ask us to update our projection, and we agree to perform this update, we will confirm this engagement in a separate 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 AICPA Statements on Standards for Tax Services and 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 personal financial planning standards do *not (Optional)* apply.

It is our duty to perform services with the same standard of care that a reasonable tax return preparer would exercise in this type of engagement. 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.

Arguable positions

We will use our 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. We assume no liability, and you hereby release us from any liability, including but not limited to, additional tax, penalties, interest, and related professional fees.

*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 any errors that we find. If you ask us to prepare amended tax returns and address any other matters arising as a result of any error, and we agree to amend the returns, we will confirm this engagement in a separate Agreement.*

Tax planning services

Tax planning services are not within the scope of this engagement. During the course of preparing the projections identified above, we may bring to your attention potential tax savings strategies for you to consider as a possible means of reducing your taxes in subsequent tax years. However, we have no responsibility to do so, and will take no action with respect to such recommendations, as the responsibility for implementation remains with you, the taxpayer. If you ask us to provide tax planning services, and we agree to provide them to you, we will confirm this engagement in a separate Agreement.

*Divorce (Optional)*

*You have informed us of your pending divorce. As you may have conflicting interests with your spouse, you will both be required to sign a conflict of interest waiver. We will not be able to advise either of you until your divorce is finalized. Consequently, we will require a letter of instruction from both of your divorce attorneys [or, if the spouse(s) is/are unrepresented, we will require a letter of instruction from the unrepresented spouse(s)] identifying items needed to prepare the projection and your agreement to same before the tax projections can be prepared.*

*Tax advice (Optional)*

*Our 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

On June 21, 2018, the U.S. Supreme Court reversed the long-standing physical presence nexus standard in *South Dakota v. Wayfair, Inc. et. al*. This decision significantly changes the landscape of sales and use tax compliance, especially for online sellers. If you wish to understand the impact of the decision on your business, please so advise and we will confirm this in a separate Agreement.

You are responsible for determining your tax filing obligations with any state or local tax authorities, including, but not limited to income, franchise, sales, use, property or unclaimed property taxes. 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 tax obligations other than those identified in the *Engagement Objective and Scope* section of this Agreement. If you ask us to prepare any other returns, and we agree to do so, we will confirm this engagement in a separate Agreement.

*Virtual currency (Optional)*

*The IRS considers virtual currency (e.g., Bitcoin) as property for U.S. federal income tax purposes. As such, any transactions in, or transactions that use, virtual currency are subject to the same general tax principles that apply to other property transactions.*

*If you had virtual currency activity during the tax year, you may be subject to tax consequences associated with such transactions and may have additional reporting obligations. You agree to provide us with complete and accurate information regarding any transactions in, or transactions that have used, virtual currency during the applicable tax year.*

Ultimate responsibility

You have final responsibility for the accuracy of your tax projection. 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,
* notice to you that no deliverable(s) will be provided,
* written notification by either party that the engagement is terminated, or
* one year 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 work to be performed, and our professional time, as well as out-of-pocket expenses. In addition, this fee depends upon the timely delivery, availability, quality, and completeness of the information you provide to us. 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 tax return projections.

We require that all outstanding invoices be paid prior to releasing the completed tax return projections. We do not release incomplete tax return 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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***This sample engagement letter contains illustrative language to include in an engagement letter. The letter should not be construed as legal advice or legal opinion on any factual situation. As legal advice must be tailored to the specific circumstance of each case, the general information provided herein is not intended as a substitute for the advice of a professional or legal counsel. This sample is not intended to be all-inclusive of the types of services performed by accountants. It should be customized for each engagement and prepared in accordance with applicable professional, legal and regulatory requirements***.

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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/interestareas/tax/resources/compliance/annualcompliancekit.html?tab-1=1#tabs). [↑](#footnote-ref-1)