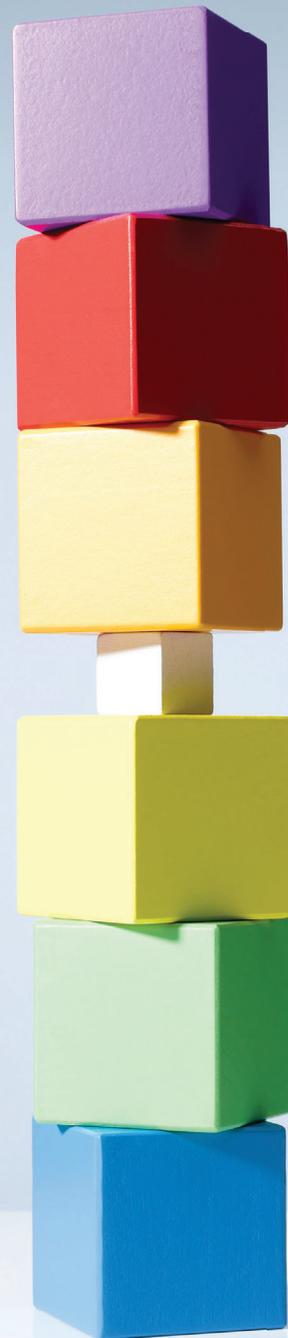


# Tax practice quality control guide



# Contents

---

2 Introduction

---

3 Tax practice quality control system

---

4 Six elements in a tax practice quality control system

4 Leadership responsibilities for quality  
within the firm

5 Relevant ethical requirements

5 Acceptance and continuance of client relationships and  
specific engagements

6 Human resources

7 Engagement performance

8 Monitoring

---

10 Appendix – Sample tax practice quality control document

**Acknowledgments:**

*We thank the members of the Tax Practice Responsibilities Committee for their guidance and expertise in developing and updating this resource. For questions or comments pertaining to this resource, please send an email to [taxsection@aicpa.org](mailto:taxsection@aicpa.org).*

# Introduction

The AICPA has longstanding and well-established principles of quality control (QC) regarding a firm's accounting and auditing practice.<sup>1</sup> These principles recognize six elements for a QC system for accounting and auditing practices and recognize additionally that these elements are equally applicable and vital to the foundation of a QC system for a CPA firm's tax practice.<sup>2</sup>

---

## These six elements of QC are:

---

1. Leadership responsibilities for quality within the firm
  2. Relevant ethical requirements<sup>3</sup>
  3. Acceptance and continuance of client relationships and specific engagements
  4. Human resources
  5. Engagement performance
  6. Monitoring
- 

This guide's primary purpose is to provide educational and reference material as to why QC is needed, what each element above entails, and how each element above functions as part of a QC system. The implementation of the suggestions in this guide is voluntary and is not intended to establish standards. Any inference explicit or implicit as to suggested standards, policies, and/or procedures is presented simply for illustrative purposes only, for the purpose of consideration by each CPA firm, as it designs and maintains its own more appropriate tax practice quality control (TPQC) system.<sup>4</sup>

This guide also includes a scalable template that firms having tax practices of various sizes can use in fashioning their own TPQC document. This document would evidence the existence of the firm's TPQC system and would form part of the firm's tax policies and procedures. As such, all employees of the firm should be provided access to the document and, to the extent that they participate in the tax practice, should be responsible for understanding, implementing, and adhering to it.

---

<sup>1</sup> Currently outlined in the AICPA's Statement on Quality Control Standards (SQCS) No. 8, *A Firm's System of Quality Control* (Redrafted); QC sec. 10 (effective January 1, 2012).

<sup>2</sup> *Ibid.*

<sup>3</sup> However, one important distinction exists in this element between a firm's accounting and auditing practice and its tax practice: the independence requirement for an accounting and auditing practice is replaced with an advocacy requirement for a tax practice. Although independence of judgment is always an essential part of being a CPA, a tax practitioner is frequently called upon to be an advocate for clients.

<sup>4</sup> This guide incorporates recommendations of the AICPA Tax Division's Tax Practice Responsibility Committee (TPRC) on how the AICPA's Statements on Standards for Tax Services (SSTs) affect the TPQC systems for CPAs in public practice. Some of those recommendations are not explicitly required by the SSTs, but rather represent the views of past committees of the AICPA Tax Division regarding what constitutes an appropriate TPQC system and regarding what constitutes best practices for a tax practice.

# Tax practice quality control system

## Why is quality control important?

The AICPA broadly defines a QC system as a process to provide a firm with reasonable assurance that it and its personnel will comply with applicable professional, statutory, and regulatory requirements.<sup>5</sup> The practice of tax is subject to professional, statutory, and regulatory requirements. Particularly, under [Circular 230](#) Section 10.36, firm management with principal authority and responsibility for overseeing a firm's practice of preparing tax returns, claims for refunds, and other documents filed with the IRS is required to take reasonable steps to ensure that the firm has adequate procedures in effect for purposes of complying with Circular 230.

Furthermore, the [AICPA's Statements on Standards for Tax Services \(SSTSs\)](#) are required to be complied with, per the [AICPA Code of Professional Conduct](#). These address seven topics:

1. [Tax return positions \(SSTS No. 1\)](#)
2. [Answers to questions on returns \(SSTS No. 2\)](#)
3. [Certain procedural aspects of preparing returns \(SSTS No. 3\)](#)
4. [Use of estimates \(SSTS No. 4\)](#)
5. [Departure from a position previously concluded in an administrative proceeding or court decision \(SSTS No. 5\)](#)
6. [Knowledge of error: return preparation and administrative proceedings \(SSTS No. 6\)](#)
7. [Form and content of advice to taxpayers \(SSTS No. 7\)](#)

Accordingly, the AICPA recommends that a CPA firm implement a QC system for its tax practice.

The AICPA believes that a TPQC system that is properly designed (i.e., it provides reasonable assurance that the firm's tax practice is in

compliance with the requirements noted previously) is an important step in being able to demonstrate good business practice.

## Design of a TPQC system

A TPQC system should encompass the firm's organizational structure, the policies adopted, and the procedures, all of which, again, are to be established with the aim to provide reasonable assurance that the tax practice is in compliance with the requirements of Circular 230, the SSTSs, and other applicable professional statutory and regulatory requirements noted previously.

A firm's TPQC system should take into account the unique aspects of the firm and its tax practice. Hence, the nature, extent, comprehensiveness, and formality of the TPQC system may vary based on factors such as the following:

- The size of the tax practice
- The number of firm offices
- The degree of authority granted to personnel and offices
- The knowledge and experience of personnel
- The nature of the tax practice
- The practice and specialty areas

Regardless of the factors involved, every TPQC system should address the six elements of QC (see Introduction). In the remainder of this guide, the purpose of each QC element is discussed in greater detail. The Appendix introduces the scalable document that can be used to fashion an actual TPQC document for a firm.

<sup>5</sup> AICPA Code of Professional Conduct, AICPA's SSTSs No. 1–7, Sec. 6694, and Circular 230. There also could be state-level requirements that must be met under state board of accountancy rules and regulations.

# Six elements in a tax practice quality control system

## 1. Leadership responsibilities for quality within the firm

The purpose of the leadership responsibilities element of a TPQC system is to promote an internal culture based on recognizing that quality is essential in performing engagements.<sup>6</sup> In other words, it sets the tone at the top with the implied philosophy that quality is important to the firm. Leadership responsibilities, including QC responsibilities, should be given to personnel who have appropriate experience and authority for the responsibilities. There should also be clear and continual communication with firm personnel and sufficient resources committed to the implementation of the TPQC system.

Commitment is essential for a firm to be able to maintain a high importance on quality in general and the TPQC system in particular. The firm's internal culture should also reflect this commitment. Performance evaluations, compensation, and advancement of personnel should also demonstrate a commitment to the system.

It is important that all members of the firm (partners and employees) understand the firm's commitment to the process. A greater understanding and appreciation for quality matters of the firm will lead to better client service and potential firm growth.



<sup>6</sup> See Circular 230 Section 10.36

## 2. Relevant ethical requirements

The purpose of the relevant ethical requirements element of a TPQC system is to provide reasonable assurance that the firm and its personnel perform all professional responsibilities in compliance with the applicable professional, statutory, and regulatory requirements, including auditor independence rules.<sup>7</sup>

Examples of these responsibilities include:

- **Professional obligations** – Adherence to tax return reporting standards;<sup>8</sup> respect for the confidentiality of client information<sup>9</sup>
- **Competence** – Appropriate action when learning of a client's error<sup>10</sup>
- **Due diligence** – Exercise of due diligence;<sup>11</sup> identifying and understanding appropriate mitigation for conflicts of interest<sup>12</sup>
- **Advocacy** – Written tax advice<sup>13</sup>

All firm employees should know their ethical responsibilities. These responsibilities are often interdependent. In a firm's tax practice, personnel often act as advocates for the client. As advocates, firm personnel should seek to advance the client's position as long as that position and their efforts are in compliance with all applicable professional standards, laws, and regulations.

Tax advice provided should be supported by the proper due diligence, not result in a conflict of interest for the firm or any of its personnel, not compromise the credibility of the firm or its personnel, not go beyond sound and reasonable practice, not pose an unreasonable risk of impairing the reputation of the firm or its personnel, and not subordinate the judgment of firm personnel to that of the client. A firm should pay close attention to the potential presence of conflicts of interest but need not recuse themselves in every situation in which there is a conflict.

In addition, compliance with these rules should be documented. Thus, communication to all tax personnel and documentation of adherence to these rules is a necessary component of this element.

## 3. Acceptance and continuance of client relationships and specific engagements

The purpose of a TPQC system's element relating to determining whether to accept and continue client relationships and engagements is to provide the firm with reasonable assurance that it has minimized the likelihood of association with a client that may present a risk to the firm. Risks include reputational, competence, financial, timing, independence, and other conflicts.

---

<sup>7</sup> See AICPA Code of Professional Conduct, *Independence Rule*, § 1.200.001 et seq. See footnote 3 when rendering non-attest tax services to attest clients.

<sup>8</sup> SSTS No. 1, *Tax Return Positions*. See also Sec. 6694 and Circular 230 Section 10.34.

<sup>9</sup> Secs. 7216, 6713, and 7525; Circular 230 Section 10.20; and AICPA Code of Professional Conduct, *Confidential Client Information Rule*, § 1.700.001 et seq., and the AICPA Tax Section's Overview of the Federally Authorized Tax Practitioner – Client Privilege under Sec. 7525.

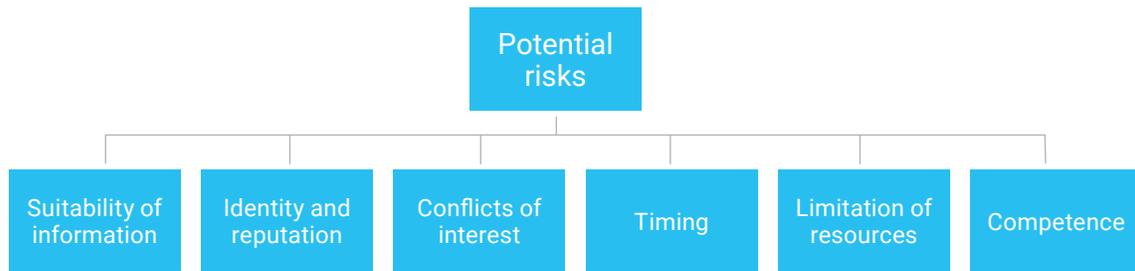
<sup>10</sup> SSTS No. 6, *Knowledge of Error: Return Preparation and Administrative Proceedings*. See also Circular 230 Section 10.21.

<sup>11</sup> SSTS No. 3, *Certain Procedural Aspects of Preparing Returns*. See also Circular 230 Section 10.22 and the AICPA Tax Section's Due Diligence in Tax Services Practice Guide.

<sup>12</sup> Circular 230 Section 10.29; AICPA Code of Professional Conduct, *Integrity and Objectivity Rule*, § 1.100.001 et seq. and § 2.100.001 et seq., and the AICPA Tax Section's Guide for Conflicts of Interest in the Performance of Federal Tax Services.

<sup>13</sup> SSTS No. 7, *Form and Content of Advice to Taxpayers*. See also Circular 230 Section 10.37.

The firm should evaluate potential risks when accepting a client engagement, taking into account the following:



- **Suitability of information** — Determination of whether information furnished by the client is questionable; review of prior years' returns
- **Identity and reputation** — Consider identity and reputation of the client's industry, principal owners, management, and related parties (see [AICPA's Tax Identity Theft Information and Tools](#) for more guidance)
- **Conflicts of interest** — Personality conflicts; representing opposing parties on similar issues
- **Timing** — Unreasonable timing for completing the engagement; seasonal workload issues
- **Limitation on resources** — Adequate staffing and/or availability of third-party consultants
- **Competence** — Competence to handle the engagement

Firms should likewise make a similar evaluation for the above with respect to existing clients at least annually. Consideration should also be given to withdrawing from an engagement and whether to continue a professional relationship when a taxpayer does not take appropriate action to correct or disclose an error.<sup>14</sup>

Also, documenting the understanding, the nature and scope of services to be performed, the client's

and firm's responsibilities for any tax return advice or returns, and the terms and conditions is imperative in adhering to this element of QC. An engagement letter or other written form of contract (e.g., a statement of work where a master services agreement is in place) is the proper way to communicate these contracting matters.

#### 4. Human resources

The human resources element of a TPQC system encompasses a firm's practices related to the hiring process, assignment of personnel to engagements, professional development, and advancement activities. The purpose of this element is to provide the firm with reasonable assurance that it has sufficient personnel and that its personnel has the skills needed to perform engagements competently and in accordance with all applicable professional standards, laws, and regulatory requirements.

Additionally, it is important that firm personnel have appropriate training, including the requisite continuing professional education (CPE) necessary for the appropriate (and required) professional licenses, and that personnel selected for advancement have the necessary qualifications. In this regard, mentoring, coaching, performance evaluations, and tax training are important components of this element.

<sup>14</sup> SSTS No. 6, *Knowledge of Error: Return Preparation and Administrative Proceedings*

For purposes of this element, firms should consider the following employee model:



## 5. Engagement performance

The purpose of the engagement performance element of a TPQC system is to provide the firm with reasonable assurance that the work engagement personnel perform is in compliance with the relevant aforementioned requirements as well as the firm's standards of quality.

After an engagement has been accepted, the following factors should be considered in each engagement:



The proper planning and risk assessment as discussed above demonstrates the interrelated nature of the elements of the TPQC system. Planning, including documenting the nature and scope of work to be performed in an engagement letter, forms the foundation for every engagement. Although the use of engagement letters is recommended, they are not required for tax services. Additionally, the firm's management should consider the level of competency and applicable technical skills of its staff and designate individuals within and outside of the firm as consultants to serve as authoritative sources, and management should consider providing procedures for resolving differences of opinion. Where an outside consultant is used on an engagement, the client should be notified, preferably in writing, and the consultant's qualifications should be verified.

Maintenance of the confidentiality, safe custody, integrity, and accessibility of tax practice documents should be addressed. This includes the adequate protection of confidential client information. Data leaks and cyberattacks continue to become more widespread, but may be preventable. Client information such as names, birth dates, and Social Security numbers, all necessary to prepare the tax return, should remain highly confidential. It is recommended that access to this information be restricted to the client engagement team.

The disclosure of client information should be appropriately considered by practitioners, and proper client consents should be received, if required.<sup>15</sup> Improper disclosure of confidential information has potentially criminal consequences.<sup>16</sup> Protecting client confidential information is an element to consider throughout the client lifecycle.

<sup>15</sup> See AICPA Code of Professional Conduct, *Confidential Client Information Rule*, § 1.700.001 et seq.; Sec. 7216; and IRS Publication 4557, *Safeguarding Taxpayer Data*.

<sup>16</sup> Sec. 7216

Items included in engagement performance include:

- Use of engagement letters to document the formal agreement with the client regarding: nature and scope of work, fee structure, cutoff dates for submission of information by client, client's and firm's responsibilities, and terms and conditions
- Use of checklists
- Due date lists, reports, and monitoring
- Substantiation of client-submitted information
- Data privacy and related employee training
- Record retention
- Documentation of communications with clients, including oral advice, taxpayer elections, filing extensions, etc.
- Access to client files and password protection

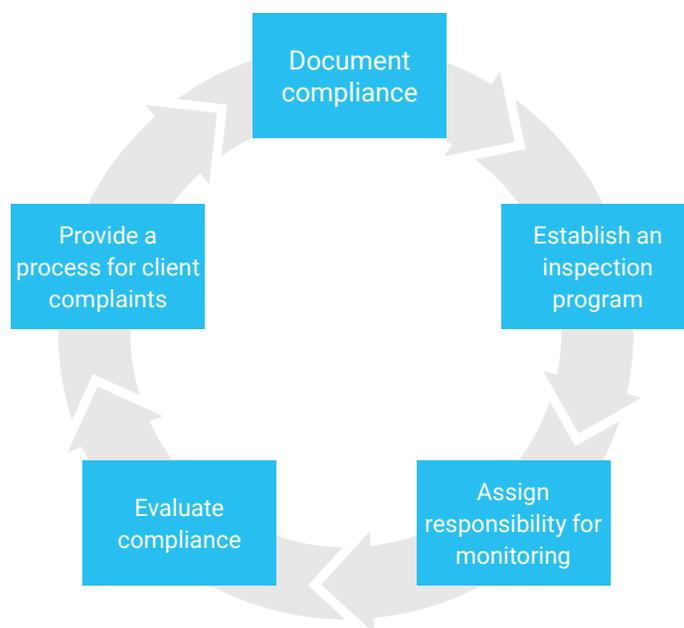
It should be noted that supervision and review are especially difficult for sole practitioners and small firms with limited staff. These practitioners must adopt a method to supervise and review their own work. This can be accomplished in many ways. In some cases, a sole practitioner may prepare a return and then review the same return after some time has elapsed, such as a day or two. In addition, some practitioners arrange with similarly situated practitioners to cross-review each other's returns. Consult Sec. 7216 and the AICPA Code of Professional Conduct.<sup>17</sup>

## 6. Monitoring

The purpose of the monitoring element of a TPQC system is to provide reasonable assurance that the firm's TPQC policies and procedures are appropriate and effective and that the firm is operating in compliance with the system.

---

The factors to be considered as part of the monitoring element include:



---

<sup>17</sup> See AICPA Code of Professional Conduct, *Disclosing Client Information in Connection With a Quality Review*, § 1.700.110 et seq.

In implementing the monitoring element, a firm should consider a TPQC inspection program, sometimes called a tax practice review. Tax practice reviews are not mandated by the AICPA or any other law or standard; the sole function of these reviews is to enable the firm to enhance the quality of its tax practice.

Besides an internal self-assessment, a firm may want to consider the use of an external firm-on-firm tax practice review as a method to help monitor any deficiencies in their TPQC system. However, if a firm-on-firm tax practice review is undertaken, both the reviewer and reviewed firm should ensure they comply with any applicable rules regarding confidential taxpayer information, including Sec. 7216 and applicable state authorities (department of revenue, board of accountancy, etc., and the AICPA Code of Professional Conduct related to quality reviews). Depending on the findings of a tax practice review, the firm should consider whether any consequences are warranted to the professionals involved or if additional education and/or training may be necessary.

Consideration should also be given to designating a partner within the firm's tax practice to lead the management and administration of QC responsibilities for the firm's tax practice. This would facilitate the means by which QC policies and procedures are communicated, and the extent to which the policies and procedures and compliance therewith should be documented. The size, structure, and nature of the firm's tax practice should be considered in determining the extent QC policies and procedures documentation is required. For example, documentation of QC policies and procedures would generally be expected to be more extensive in a large tax practice than in a small one. Similarly, QC should be more extensive in a multi-office tax practice than in a single location.

The following Appendix introduces the scalable TPQC document, which would document a firm's TPQC system.

This copyrighted resource is a product of the AICPA Tax Section and is intended solely for the use of individuals who belong both to the AICPA general membership and the AICPA Tax Section. Copying, sharing and distribution are prohibited. See our [terms and conditions](#). For information about content licensing or firm use, please email [copyright-permissions@aicpa-cima.com](mailto:copyright-permissions@aicpa-cima.com).



© 2020 Association of International Certified Professional Accountants. All rights reserved. AICPA and American Institute of CPAs are trademarks of the American Institute of Certified Public Accountants and are registered in the United States, European Union and other countries. The design mark is a trademark of the Association of International Certified Professional Accountants.

# Appendix – Sample tax practice quality control document

## Preamble

This sample document can be used as a model in developing a firm's tax practice quality control (TPQC) document, with revisions made as appropriate to accurately reflect the firm's structure and manner of operation. [Download the Word version](#) of this document to customize it to meet your firm's needs.

Factors that may influence changes to this document include, but are not limited to: the size of the tax practice, the number of firm offices, the degree of authority granted to personnel and offices, the knowledge and experience of personnel, the nature of the tax practice, and the practice area(s) of specialty when contemplating the use of any part of this document. Therefore, there may be occasions when some of the material in this document may not be applicable to the firm's tax practice. In adapting this sample document, it is essential that each of the six basic elements of a TPQC system are addressed and included in the firm's specific document. While practice units will vary in size and scope, the basic elements are fundamental professional practices that should be incorporated into the practice unit's TPQC system.

The authors of this guide recognize the inherent limitations and challenges in adopting certain aspects of this document by sole practitioners. Sole practitioners should take the time to thoughtfully consider the six elements and document how they intend to address those elements to ensure that their tax practices provide quality client services.

Footnotes are used throughout this document to illustrate where language may not be universally used by all firms. Even if a section is not footnoted, it may require changes based on the facts of the firm.



[Name of the firm]

# Tax practice quality control document

## Introduction

This document sets forth the objectives, policies, and procedures that comprise the firm's tax practice quality control (TPQC) system. The system is grounded in the six basic elements of a TPQC system:

1. Leadership responsibilities for quality within the firm
2. Relevant ethical requirements
3. Acceptance and continuance of client relationships and specific engagements
4. Human resources
5. Engagement performance
6. Monitoring

Any questions relating to the procedures in this document should be referred to your immediate supervisor.

## 1. Leadership responsibilities for quality within the firm

The firm has established and maintains the policies and procedures set forth below, to the extent applicable to its tax practice, to provide reasonable assurance that: (1) the firm's leadership promotes an implied philosophy that quality is important to the firm, including through clear and continual communication with firm personnel of the firm's commitment to and the importance of quality; (2) all leadership responsibilities, including QC responsibilities, are given to personnel that have appropriate experience and authority for the responsibilities; and (3) personnel evaluations, compensation, and advancement reflect the firm's commitment to quality.

1. The firm's leadership team is required to assume ultimate responsibility for the firm's system of TPQC.
2. In recognition that the firm's business strategy is subject to the overarching requirement of QC, management responsibilities are assigned in such a manner that commercial considerations do not override the quality of the work performed.
3. Operational responsibility for the design and maintenance of the various TPQC policies and procedures are [assigned to individuals who have/the responsibility of the practitioner who has] sufficient experience and the ability to identify and understand TPQC issues and develop appropriate policies and procedures, and who [have/has] the necessary authority to implement those policies and procedures.
  - a. [One or more tax partners are/The practitioner is] designated as the firm's QC officer to oversee the operation of the TPQC system and they have principal authority as described in paragraph (a) of Circular 230 Section 10.36.
  - b. The TPQC officer(s) report annually to the managing partner regarding compliance with the system.<sup>1</sup>

---

<sup>1</sup> This paragraph is not required for sole practitioners.

4. The firm's TPQC policies and procedures are communicated to all personnel in a manner that provides reasonable assurance that personnel understand and comply with those policies and procedures.
  - a. The TPQC document is provided to professional personnel, and other firm personnel supporting the tax practice as appropriate, at the time they are hired.
  - b. The TPQC system is reviewed with firm personnel at least annually, where such personnel shall provide written acknowledgment that they reviewed the TPQC document.
5. Sufficient resources are dedicated to the development, maintenance, communication, and compliance monitoring of the firm's TPQC policies and procedures.
6. The firm's commitment to its system of TPQC is demonstrated through its policies and procedures regarding performance evaluations, compensation, and advancement of firm personnel.

## 2. Relevant ethical requirements

The firm has established and maintains the policies and procedures set forth below, to the extent applicable to its tax practice, to provide reasonable assurance that the firm and its personnel are knowledgeable of, and perform their professional responsibilities in compliance with, the applicable professional, statutory, and regulatory requirements, including auditor independence rules.

In its tax practice, the firm and its personnel often act as advocates for the client. As advocates, firm personnel should seek to advance the client's position as long as that position and their efforts are in compliance with applicable professional standards, laws, and regulations.

Positions advised should be supported by the proper due diligence, and not:

- Result in a conflict of interest as defined by Circular 230 for the firm or any of its personnel
  - Compromise the credibility of the firm or its personnel
  - Go beyond sound and reasonable practice
  - Pose an unreasonable risk of impairing the reputation of the firm or its personnel
  - Subordinate the judgment of firm personnel to that of the client
1. Firm personnel are required to adhere to the AICPA Code of Professional Conduct, including the Statements on Standards for Tax Services (SSTs), Treasury Department Circular No. 230 (Circular 230), any applicable law, and any other applicable standards and regulations of relevant tax and regulatory agencies (such as state boards of accountancy and federal, foreign, state, and local tax authorities).
    - a. [The managing partner/practitioner] is responsible for resolving questions relating to the foregoing matters and is available to provide guidance when required.
    - b. [The managing partner/practitioner] communicates with legal counsel, professional liability insurance carrier representative, the AICPA, the applicable state society of CPAs, or other applicable authorities for assistance in resolving any of the matters that have not been satisfactorily resolved within the firm.
    - c. A memorandum documenting the resolution of these questions is prepared and retained by the [managing partner/practitioner]. Any other personnel involved with these questions are to review and sign the memorandum.

2. The firm's policies and procedures on relevant ethical requirements are communicated to firm personnel. This includes policies and procedures on the need for confidentiality regarding client tax matters and the need for independence of mental attitude in client relationships.
  - a. A written statement is used to inform personnel of the firm's policies and procedures regarding relevant ethical requirements and advise them that they are expected to understand and comply with these policies and procedures.
  - b. Independence of mental attitude, coupled with advocacy of the client's interest, is emphasized during training sessions and in the supervision and review of tax engagements.
  - c. Available professional resources (including online services and material available on the Internet) provides firm personnel access to current professional, regulatory, and the firm's own literature relating to tax ethical and technical matters, rulings, and interpretations of the IRS, the AICPA, the applicable state society of CPAs and board of accountancy, and federal and state law. These rulings and interpretations include Circular 230, Sec. 6694 (preparer penalty regulations), and the AICPA's SSTs.
  - d. The firm considers all information relating to a client's tax matters to be confidential client information. The AICPA Code of Professional Conduct generally prohibits disclosure of confidential client information without the client's consent. In addition, civil and criminal penalties are imposed by the Internal Revenue Code (IRC) for disclosure of taxpayer information by return preparers. Appropriate training on these issues is incorporated into the firm's education programs.
  - e. The firm provides all clients and firm personnel with any required written notice of the firm's privacy policy, in conformance with applicable federal, state, and foreign laws and regulations.
  - f. All personnel in the firm are expected to understand and comply with client confidentiality rules (e.g., Sec. 7216 and Sec. 6713) and privilege rules (for example, Sec. 7525), including any applicable state or foreign confidentiality and privilege rules. See the AICPA's Tax Section, Overview of the Federally Authorized Tax Practitioner – Client Privilege Under Sec. 7525, for further information.
  - g. The firm maintains, and updates as needed, policies and procedures for use and safeguarding of computers, computer software, other technology, and files to ensure the privacy of clients' information as well as the integrity of the firm's computer system and other technology. Firms should set requirements for specific procedures for locking laptop computers during travel or at a client site and encryption protection software.
3. Compliance with policies and procedures relating to relevant ethical requirements are monitored and documented, as appropriate.
  - a. The [tax partner/practitioner] is charged with the responsibility for monitoring and documenting compliance with the firm's policies and procedures in its tax practice relating to relevant ethical requirements, including the SSTs and Circular 230.
  - b. The [managing partner/practitioner] is responsible for the resolution of any disagreements regarding the application of the firm's policies and procedures relating to relevant ethical requirements in the firm's tax practice.

#### 4. Preparer registration with the IRS

- a. The following personnel must obtain a preparer tax identification number (PTIN)<sup>2</sup> from the IRS (provided that such registration is required by the IRS):
  - i. Each “preparer” – those persons signing off as “prepared” on a tax return project, other than interns. This includes:
    1. Each person signing a federal tax return who is required to maintain a PTIN by law or regulation;
    2. Under Circular 230 Section 10.51(a)(17), any person preparing all or substantially all of a tax return or claim for refund must have a PTIN. See Sec. 7701(a)(36), Regs. Sec. 301.7701-15(a), and Regs. Sec. 301.7701-15(f) for the definitions of who is and who is not a preparer; and
    3. Any person who prepares the forms listed in IRS Notice 2011-6 Section .03. These forms include, but are not limited to, Forms W2, 1098, 1099, and 8809.
  - ii. Each tax return reviewer – those persons designated by a [partner/practitioner] as having authority to sign off as a “tax reviewer” on a tax return engagement.
- b. Firm personnel who are not attorneys, CPAs, or Enrolled Agents (EAs) must identify themselves to the IRS as supervised preparers using their office’s designated supervisor’s PTIN.
- c. PTINs, if required, must be renewed on a timely basis each year.

### 3. Acceptance and continuance of client relationships and engagements

The firm has established and maintains the policies and procedures set forth below, to the extent applicable to its tax practice, to provide reasonable assurance that it appropriately considers the risks, both initially and on an ongoing basis, associated with providing professional services in the particular circumstances (including reputational, resources, financial, and conflicts); has a documented understanding with the client regarding the services to be performed; and undertakes only those tax engagements that the firm can complete with professional competence.

1. Prospective clients are evaluated to determine if they should be accepted as clients.
  - a. A firm may establish a risk management committee to ensure consistent evaluation of new client opportunities. The committee would establish a process and format for members of the firm to use in gathering and submitting relevant information concerning new client acceptance.
  - b. Information considered in evaluating a prospective client includes, but is not to be limited to, the following:
    - i. The prospective client’s activities and the principals involved;
    - ii. A determination as to whether acceptance of the prospective client would violate the requirements of the profession and of the firm;
    - iii. Prior year tax returns of the prospective client;
    - iv. Circumstances that would cause the practitioner to regard the engagement as one requiring special attention or presenting unusual risks;

---

<sup>2</sup> This is optional as not all firms reimburse for these expenses.

- v. Firm personnel's existing relationships, if any, with the proposed client; and
  - vi. The results of research (including a search of internet resources) related to the past activities of the prospective client in order to identify any business disputes, unethical actions, or other factors that could result in the prospect being considered inappropriate (including related documents located in the search).
- c. Any considerations above that were used in evaluating a prospective client should be documented in writing and retained in the client's permanent file.
- d. A process approved by the [managing partner/practitioner] should be in place to perform an annual review of compliance with the firm's policies and procedures for the acceptance of clients. Annual review procedures are in the Monitoring section of this document.
2. The firm determines whether it has the capabilities and resources needed to provide desired services.
- a. [A partner/The practitioner] is consulted before the firm accepts a new client if substantial tax work will be required or if there is any doubt that the firm possesses the tax expertise to complete the job adequately.
  - b. The proposed engagement is evaluated for any potential conflicts of interest.
  - c. Prior tax returns are reviewed, if provided by the client, to determine if it appears that the firm would be capable of providing tax services for the prospective client.
3. The client's understanding and acceptance of the scope of the firm's services, the firm's responsibility for specific tax advice and returns, and the financial aspects of the client's relationship with the firm are documented in an engagement letter or alternative documentation.
- a. An engagement letter or other written memorandum of understanding is used to document the nature and scope of services arrangement for tax clients, fee arrangement, the client's and firm's responsibilities, and terms and conditions. Note that engagement letters are recommended but are not required.
  - b. All clients are informed that they are required to provide adequately substantiated information.
  - c. The firm will provide all clients with written notice of the firm's privacy policy to the extent required by law.
  - d. The firm will receive consent from the client to disclose confidential client information to third parties.
4. Client relationships are reviewed and evaluated at regular intervals or upon the occurrence of specified events to determine whether those relationships should be continued, modified, or terminated.
- a. Re-evaluations are made of existing clients on a regular basis or whenever there are new conditions that would have caused the firm to reject the client had such conditions existed at the time the firm accepted the client.
  - b. The following are some reasons that may justify terminating a professional tax relationship:
    - i. It becomes clear that the client has failed to provide adequately substantiated information;
    - ii. A dispute exists with the client over taking a tax position inconsistent with tax laws or regulations, the SSTs, or the firm's policies;
    - iii. The engagement involves tax matters that the firm is not competent to handle;
    - iv. The timing of the engagement makes unreasonable demands on the firm's personnel;
    - v. Insurmountable personality conflicts exist;
    - vi. A conflict of interest for the firm has arisen;

- vii. The return on the engagement is too low for the effort expended and risk taken;
  - viii. The client is chronically slow to pay; or
  - ix. The client has knowingly or unknowingly misled the firm or misrepresented material facts to the firm.
- c. [A partner/The practitioner] with knowledge of the matter is responsible for evaluating the information obtained, making discontinuance or continuance recommendations, and administering the firm's procedures for discontinuance/continuance of clients. If the firm performs multiple engagements for the client, then, where necessary, communications between engagement teams/offices are required.
  - d. If the [partner/practitioner] recommends discontinuance or if any of the conditions above exist, the executive committee participates in the continuance decision.<sup>3</sup>
  - e. The [managing partner/practitioner] performs an annual review of compliance with the firm's policies and procedures for the continuance of clients and makes a report on the compliance to all relevant stakeholders.

## 4. Human resources<sup>4</sup>

The firm has established and maintains the policies and procedures set forth below, to the extent applicable to its tax practice, to provide reasonable assurance that (1) the firm has sufficient, qualified personnel; (2) personnel assigned to specific engagements have the characteristics needed to perform the work competently and in accordance with all applicable professional, statutory, and regulatory requirements; (3) firm personnel have appropriate training, mentoring, and evaluation; and (4) personnel selected for advancement have the necessary qualifications.

1. **Hiring function** – The firm maintains a program for hiring qualified people by planning for future personnel requirements, establishing hiring objectives, and setting qualifications for use by those involved in the hiring function.
  - a. The firm's long-range personnel objectives are planned annually by the [managing partner/practitioner]. Some of the factors considered are current client needs, anticipated growth, personnel turnover, individual advancement, and retirement. The number and qualifications of personnel are also considered, along with the sources and methods of obtaining personnel who meet the requirements and guidelines set by the firm.
  - b. The [managing partner/practitioner or designated person] is responsible for the overall employment decisions.
  - c. The firm has established qualifications and guidelines for evaluating potential employees for each level within the firm.
    - i. The firm seeks to employ individuals who possess high levels of intelligence, integrity, honesty, motivation, and who have a high aptitude for the tax profession.
    - ii. In certain situations (such as hiring relatives of personnel or clients, rehiring former employees, or hiring clients' employees), the approval of two or more partners is required before making an employment offer.<sup>5</sup>

---

<sup>3</sup> This section is not needed for practitioners without an executive committee.

<sup>4</sup> If a firm does not have a human resource department, it is the practitioner's responsibility to ensure that these procedures are followed.

<sup>5</sup> Firms where one practitioner will usually not confer with another person on such hiring should be wary of any conflicts of interest that could arise, or other issues for hiring such personnel.

- iii. To reasonably ensure that persons hired by the firm possess acceptable qualifications, the background of all prospective employees is appropriately investigated by obtaining completed application forms, college transcripts, and personal references.
  - iv. Before an employment decision is made regarding filling a tax position, a [partner/practitioner] who has a background in tax must interview and approve the applicant for the position.
- d. New employees are informed of the firm's policies and procedures relevant to them and their work.
- i. The firm's personnel policies and procedures relevant to applicants are communicated to them before offers of employment are extended.
  - ii. Personnel policies and procedures are in writing and distributed to all personnel.
  - iii. The [administrative partner/practitioner] discusses the firm's personnel policies and procedures with new employees who acknowledge their receipt.
- 2. Assignment of personnel to engagements** — The firm has established and maintains the policies and procedures set forth below for assigning personnel to engagements to provide reasonable assurance that work will be performed by individuals having the degree of technical training and proficiency required in the circumstances. In making assignments, the nature and extent of the supervision to be provided is taken into account. In general, the more able and experienced the personnel assigned to a particular project or engagement, the less the need for direct supervision.
- a. The firm's approach to assigning personnel includes planning the overall personnel needs of the firm, its office, and tax work needs, and the measures needed to achieve a balance between engagement requirements, individual qualifications, individual development, and utilization.
- i. Each year the [tax partner/practitioner] projects the total hours and number of people needed to process tax returns within the prescribed time. Staffing needs will then be reviewed by the firm's [partners/practitioners].
  - ii. On all audits, and on other financial statement engagements as deemed appropriate by the engagement partner, the tax partner or the tax partner's designee reviews the tax accrual working papers. The purpose of this review is to determine that all material tax matters have been addressed.<sup>6</sup>
  - iii. A report is maintained for all tax services, separating recurring and nonrecurring matters.
  - iv. For complex nonrecurring tax assignments, the tax personnel in-charge should consider preparing a written outline or memorandum that describes the engagement plan and sets a timetable for accomplishing it.
  - v. [The tax partner/engagement manager/practitioner] reviews significant client matters prior to the client's fiscal year-end so that potential problem areas and tax planning suggestions for discussion with the client may be identified.
  - vi. In response to staffing requests, the [tax partner/practitioner] considers the following factors in achieving a balance of engagement staffing requirements, personnel skills, individual development, and utilization:
    1. Engagement size and complexity
    2. Availability of personnel
    3. Special expertise required
    4. Timing of work to be performed

---

<sup>6</sup> In smaller firms, this paragraph will not be needed unless separate practitioners perform audit and tax work.

- 5. Continuity of personnel
  - 6. Opportunities for on-the-job training
- b. The [tax partner's/practitioner's] designee is responsible for assigning tax personnel to engagements after considering the following criteria:
- i. Staff and time requirements of the engagement
  - ii. Evaluation of the qualifications of personnel as to experience, position, and possession of any special expertise
  - iii. Planned supervision and involvement by [managers/partners/practitioner]
  - iv. Projected availability of individuals assigned
  - v. Need for continuity to provide for efficient conduct of the engagement
3. **Professional development** — The firm has established guidelines and requirements for its professional development program that are communicated to all firm personnel involved in tax work. Firm personnel participate in general and, as appropriate, industry-specific CPE and other professional development activities that enable them to fulfill responsibilities assigned and satisfy the applicable CPE requirements of the AICPA and applicable state boards of accountancy and other regulatory or licensing bodies.
- a. Guidelines and requirements have been established for the firm's tax education program and are communicated to all personnel involved in tax work.
- i. [A designated partner/The practitioner] is responsible for the formulation and implementation of the firm's policy regarding the guidelines and requirements for the firm's professional development programs. The firm's professional development year is from May 1 to April 30, or another equally appropriate time frame. Prior to the start of each year, the [managing partner/practitioner] is to prepare the professional development program for the coming year with input from stakeholders, if applicable, including:
    - 1. Professional development objectives;
    - 2. Specific courses to be taken, identified by the individual;
    - 3. Tentative dates for professional development by the individual; and
    - 4. Cost.
- b. A basic program of tax training will be provided to professional staff and will consist of on-the-job training, formal group programs, and self-study programs, as appropriate.
- c. [A partner/the practitioner] or designee develops a plan for each tax staff to maximize the training benefits of job assignments.
- d. [Each partner/the practitioner] and professional staff member is required to complete the minimum number of hours of CPE each year and over a period of years, including any applicable required ethics hours, as set by applicable professional and regulatory bodies. Training should meet the CPE requirements for the state boards where the individual holds a professional license. Personnel are to complete the record of professional development and forward it to [their managing partner/the practitioner]. The [managing partner/practitioner] or designee is responsible for having the personnel files of each [partner/practitioner] and professional employee updated to include a current record of the hours of professional development completed. The types of programs qualifying for the fulfillment of the requirements include:
- i. CPE programs of the AICPA and state CPA societies, including sessions attended in person or online and workbook programs, as long as there is written evidence of completion;

- ii. College courses related to the profession; and
- iii. In-house education programs that have qualified for state CPE purposes.

An evaluation of each program is completed and forwarded to the [managing partner/practitioner] before the expenses of attending are paid.

- e. Personnel are encouraged to become a member of the AICPA and AICPA Tax Section.<sup>7</sup>
- f. Personnel are encouraged to become a member of their state society and to serve on state society and AICPA committees and task forces, write articles for professional publications, serve as discussion leaders at professional development seminars, give speeches, etc.<sup>8</sup>
- g. Personnel [are/are not] reimbursed for membership dues paid to the AICPA, the AICPA Tax Section, [one] state society, and the local chapter of the state society. Other membership dues to professional associations are reimbursed if the membership aligns with the firm's financial and tax goals.<sup>9</sup>
- h. Resolution of conflicts between professional development course attendance and engagement scheduling requires the [managing partner's/practitioner's] approval.
- i. The [managing partner/practitioner] annually reviews the firm's professional development program (including personnel participation records) to determine whether it is adequately meeting the firm's needs, providing for the professional growth of individuals, and meeting mandatory continuing education requirements. An annual report is made to the [partners/practitioners].
- j. Current tax developments, changes in professional standards affecting tax practice, and materials containing the firm's policies and procedures affecting its tax practice shall be made available to all professionals involved with tax services.
  - i. While it is the tax personnel's responsibility to keep up to date with changes in law and pronouncements issued by the IRS and other taxing authorities, the firm will make its best effort to distribute major changes to tax personnel. It is recommended that tax personnel subscribe to relevant IRS e-News subscriptions such as e-News for Tax Professionals, and IRS Newswire.
  - ii. The firm conducts formal in-house educational programs. The purpose of the programs is to discuss current literature and elaborate on the distributed materials.
- k. The firm encourages its personnel to grow and mature as individuals and as professionals through seminars, workshops, college and university course work, and self-study programs. It also provides, to the extent necessary, programs not otherwise readily available to fill the firm's needs for personnel with expertise in specialized areas and industries.
  - i. Formal tax training is scheduled to develop expertise in areas the firm needs and to maintain expertise in areas the firm has already developed.
  - ii. Specialized tax training will be provided for personnel demonstrating special expertise or interest in the tax area.
  - iii. Personnel designated as having special experience and expertise maintain their proficiency by attending external professional education programs.
  - iv. The firm designates certain personnel to be responsible for joining appropriate associations, and it pays for those memberships that are concerned with specialized areas or industries in which the firm is engaged or intends to become engaged.

---

<sup>7</sup> This is optional as membership in the AICPA Tax Section is not mandatory to have proper TPQC.

<sup>8</sup> This is optional as not all firms reimburse for these expenses.

<sup>9</sup> This is optional as not all firms reimburse for these expenses.

- v. The [tax partner/practitioner] is responsible for maintaining technical literature on specialized areas and industries.
- I. The firm provides for on-the-job training during the performance of tax work.
  - i. Personnel with in-charge responsibility on engagements explain to assistants the reasons for any additional work requirements discovered through the review process.
  - ii. Personnel are evaluated in part on their effectiveness in properly training and developing subordinates.
  - iii. The [tax partner/practitioner] monitors tax assignments to determine that personnel are:
    - 1. Gaining experience in various types of engagements and in varied industries
    - 2. Working under different supervisory personnel, when applicable
- 4. **Advancement** – The firm has established qualifications for personnel involved with tax work at the various levels of responsibility within the firm, so that personnel selected for advancement will have the qualifications necessary to fulfill the responsibilities they will be called upon to assume.
  - a. The levels of responsibilities inherent in various staff classifications are clearly defined. The firm has established the following staff classifications<sup>10</sup>:

Classification	Experience
Intern	–
Staff	0–3 years
Senior	2–5 years
Supervisor	4–8 years
Manager	5–10 years
Partner/practitioner	8 or more years

- i. **Staff.** A tax staff is expected to:
  - 1. Prepare individual, corporate, partnership, and various other tax returns for clients, under close supervision of a [partner/manager/supervisor/senior/practitioner]
  - 2. Prepare various payroll tax, sales tax, and other local tax returns
  - 3. Become familiar with the contents of the firm’s manuals
  - 4. Know the AICPA Code of Professional Conduct (including the SSTs and the Code’s rules and interpretations), Circular 230, and the rules and regulations of the applicable state society of CPAs, the board of accountancy, and taxing authority
  - 5. Know the firm’s policy on privacy and the CPA-client confidentiality privilege under Sec. 7525 and state-specific confidentiality rules
  - 6. Progress professionally by working toward passing the CPA examination as soon as possible

<sup>10</sup> While firms with one or few tax practitioners may not have a clear level of progression, it is the responsibility of such practitioners to properly define the roles within their firm and the expectations to be met within such roles.

ii. **Senior.** A senior is expected to:

1. Pass the Uniform CPA Examination, if not already completed.
2. Demonstrate the ability to resolve most normal and complex tax problems through sources available within and without the firm's library.
3. Supervise a number of engagements at one time.
4. Be able to develop, complete, and review most normal tax planning situations.
5. Adequately review all working papers and completed returns to ascertain that both meet the firm's standards.
6. Be involved in the filing of due date extensions.

iii. **Supervisor.** A supervisor is a CPA and is expected to:

1. Demonstrate the ability to resolve most normal and complex tax problems through sources available within and without the firm's library.
2. Act as technical adviser in providing advice or research assistance to others in moderate to complex tax questions.
3. Supervise a number of engagements at one time.
4. Be able to develop, complete, and review most normal tax planning situations.
5. Adequately review all working papers and completed returns to ascertain that both meet the firm's standards.
6. Be responsible for the scheduling of personnel, compliance with due dates, and monitoring the time budgets of engagements.
7. Be involved in planning tax season strategy, developing office policies pertaining to tax practice, informing the firm's members of tax developments, and coordinating the filing of due date extensions.
8. Communicate the firm's policies and technical information to accounting and auditing personnel through individual or group meetings.
9. Motivate and assist staff in professional development.
10. Represent the firm in professional and service development.

iv. **Manager.** A manager is a CPA or other credentialed individual and is expected to:

1. Assume full responsibility for assignments falling within the manager's level of expertise.
2. Supervise the assignment of duties to, and the training of, personnel assigned to the engagement.
3. Supervise a number of engagements at one time.
4. Be responsible for the scheduling of personnel, compliance with due dates, and monitoring time budgets of engagements.
5. Adequately review all working papers and the completed returns for compliance with the firm's standards.
6. Resolve all problems before submitting the returns for final [partner/practitioner] review.
7. Communicate the firm's policies and technical information to firm personnel through individual or group meetings.
8. Motivate and assist staff in professional development.

9. Represent the firm in professional and service development.
  10. The firm recommends obtaining an advanced degree such as a Master of Business Administration (MBA) or Master of Science in Taxation (MST).
  11. Develop the firm's and the manager's own reputation by conducting seminars, making speeches, writing articles, and similar means.
  12. Assist [partners/practitioners] with the development and management of the practice.
- v. **Partner/practitioner.** A [partner/practitioner] is a CPA and is expected to:
1. Assume ultimate responsibility for client service (both delivery and profitability) and client relations.
  2. Engage in activities designed to generate new business relationships.
  3. Mentor and serve as a role model for other professionals by supporting the firm culture.
  4. Continue to develop technical expertise.
  5. Assume ultimate responsibility for portions of firm administrative duties including billing, collections, employee evaluations, etc.
  6. Collaborate with other [partners/practitioners], if applicable (assisting with areas of expertise, practice development, firm initiatives, etc.).
  7. The firm's personnel manual provides information about the firm's advancement policies and procedures. The [managing partner/practitioner] issues updates as needed to incorporate changes that the firm makes to the firm's policies and procedures.
5. **Performance evaluation** – The performance of tax professionals and other personnel involved in the practice is evaluated periodically and their progress is reviewed with them. Responsibility for making promotion decisions is assigned. Personnel files are maintained containing documentation relating to the evaluation process. Evaluations and advancement decisions reflect consideration of the individual's adherence to the firm's TPQC system.
- a. All professional employees in the tax department receive an evaluation of their performance at least semiannually. Among the items discussed are the individual's progress, strengths, and weaknesses, adherence to the firm's TPQC system, and future objectives, as well as the firm's future objectives. Documentation of the interview, evaluation forms, and staff assessment are forwarded to the [tax partner/practitioner] for review, and then kept for inclusion in the personnel files.
  - b. Personnel with responsibility for the preparation of evaluations are evaluated at least annually by the [managing partner/practitioner] or designee.
  - c. Responsibility for making promotion decisions is assigned to specific individuals.

## 5. Engagement performance

The firm has established and maintains the policies and procedures set forth below, to the extent applicable to its tax practice, to provide reasonable assurance that the professional tax services provided by the firm are in compliance with the AICPA Code of Professional Conduct, including the SSTs, Circular 230, any applicable law, and any other applicable standards and regulations of relevant tax and regulatory agencies (such as state boards of accountancy and federal, foreign, state, and local tax authorities), as well as the firm's standards of quality.

To the extent appropriate and as required to meet the above standards, these policies and procedures cover planning; documenting services to be performed; performing, supervising, reviewing, documenting, and communicating the results of each engagement; maintenance of confidentiality; and retention of records. The extent of the supervision and review appropriate in a given situation depends on many factors, including the complexity of the subject matter, the qualifications of the personnel performing the service, and the extent a third party is available and used.

1. Engagements are appropriately planned and possible risk factors, such as reputational, competence, financial, timing and independence, are evaluated to enable the firm to have reasonable assurance that all aspects of the engagements will satisfy professional, statutory, and regulatory requirements.
  - a. Substantial tax engagements are budgeted and planned prior to commencement. The plan contains specific follow-up points for supervisory personnel.
  - b. For engagements in which the firm represents a client in a tax examination by the IRS or other tax authority, the [engagement partner/practitioner] will develop an approach to the examination, including assignment of appropriate personnel to work with the examining agent.
  - c. An engagement letter or memorandum of understanding is used for all tax returns and substantial tax services to document the nature of the engagement. Note that engagement letters are recommended but are not required for tax services. Engagement letters should be signed by the client and returned to the practitioner before commencing any work on the engagement.
2. The appropriate level of supervision for engagement personnel and review of engagement workpapers, reports, tax returns, tax opinions, substantive tax correspondence, and documentation of oral advice is provided.
  - a. Tax engagements, or those segments of other engagements that include tax matters, are supervised directly by the [tax partner/practitioner] or a person designated by the [tax partner/practitioner].
  - b. Working papers document the sources of data used, analysis to support conclusions reached, and actions taken on behalf of clients.
  - c. When resolving significant and complex items, a memorandum is prepared stating the interpretation of the facts and citing the authorities relied upon.
3. The firm's QC standards are maintained in the performance of the engagement. Work at all organizational levels is conducted and supervised in such a manner as to provide reasonable assurance that the work performed complies with all applicable standards, laws, and regulations.
  - a. On all tax engagements, [the tax partner/practitioner] considers which forms, checklists, and questionnaires are appropriate and maintained in client files.
  - b. Before delivery to the client, all returns are reviewed by a qualified tax reviewer other than the preparer, with consideration given to, among other matters, whether the Sec. 6694 tax return reporting standards have been satisfied. The review is documented in the workpapers, and the returns are signed in accordance with the firm's policies and procedures and pursuant to Regs. Sec. 1.6695-1(b). Note that there are alternative methods for a sole practitioner to effectively review his or her own work.

- c. Tax research projects are reviewed by qualified tax personnel, preferably one who is knowledgeable in the area being researched, whether or not the research results in a formal communication to the client. In addition, the [engagement partner/practitioner] or other responsible supervisory person familiar with the client reviews the project's documentation to ensure that the facts are properly understood.
  - d. Written communication regarding client tax matters, including documentation of oral communication, is reviewed by the [engagement partner/practitioner] or the [tax partner's/practitioner's] designee.
  - e. The tax firm will maintain "due date control logs" for the various types of returns filed.
  - f. All tax personnel are required to become familiar with the firm's tax procedure manual.<sup>11</sup>
  - g. All tax personnel are required to comply with the firm's policies and procedures regarding confidentiality of client information and CPA-client privilege. The [tax partner/practitioner] is responsible for monitoring compliance with those firm policies and procedures. For more information, review the [IRS's Section 7216 Frequently Asked Questions](#).
4. The results of the services provided are appropriately communicated to the client. ([See SSTS No. 7, Form and Content of Advice to Taxpayers.](#))
- a. Conversations with clients in which advice is given or an interpretation which impacts tax is made should be documented.
  - b. When providing written tax advice to a client, consideration is given to the requirements set forth in [Circular 230](#).
5. Engagements are adequately documented and appropriate record retention policies and procedures are maintained for the tax practice.
- a. The substance of advice given and a copy of documents delivered to the client, as well as information regarding the compliance aspects of the engagement, including the use of checklists as appropriate and the maintenance of tax return status and due date reports, are documented.
  - b. The [tax partner/practitioner] is responsible for ensuring that the firm's client filing system meets such needs of the tax practice as accessibility, confidentiality, QC, and retention.
  - c. A control system is established for the miscellaneous reports and returns prepared or reviewed by the firm.
  - d. The following items shall be documented in client files:
    - i. Electronic image of work order/routing sheet shall serve as evidence that the firm's work flow control system was followed;
    - ii. Working papers to document the sources of data used, conclusions reached, and actions taken on behalf of clients;
    - iii. Resolution of significant/complex tax matters and differences of opinion regarding tax matters;
      - 1. Documentation should include a memorandum setting forth the facts, authorities relied upon, and conclusions reached;
      - 2. Significant and complex matters that are likely to have an impact on future tax periods should be kept in a place where they can be easily accessible and readily apparent in future tax periods (e.g., client permanent file).

---

<sup>11</sup> This is optional as not all firms have a tax procedure manual.

- iv. Conversations with clients in which advice is given related to significant matters of tax, or when unusual or complex interpretations of which impact tax are made; or, such communication, if prepared by personnel who is not a [partner/manager/practitioner], shall be reviewed by individuals knowledgeable of client matters and the appropriate tax law.
  - v. Documentation of checklist, if used.
6. The firm designates individuals within and outside the firm as consultants to serve as authoritative sources for firm personnel on tax issues.
- a. All personnel are advised of the firm's consultation policies and procedures for its tax practice through the TPQC document.
  - b. A technical reference library is maintained to assist personnel in resolving tax problems. The [tax partner/practitioner] is charged with the responsibility of reviewing the library's contents and making necessary changes.
  - c. The [tax partner/practitioner] has listed areas or specialized situations that require consultation due to the nature or complexity of the subject matter. This list is periodically updated by the [tax partner/practitioner] and distributed to all tax personnel. Areas and situations receiving special consideration in preparing the list include:
    - i. Application of newly issued IRS requirements or recent amendments to the tax laws;
    - ii. Issues with unique reporting requirements such as reportable or listed transaction disclosures;
    - iii. Written tax advice requirements of Circular 230;
    - iv. Choices among different tax treatments; and
    - v. Issues or positions where the level of assurance may result in penalty exposure for client or preparer.
  - d. All personnel are encouraged, when faced with a significant tax issue outside the personnel's area of expertise or technical issue/area identified by the firm to require consultation, to seek advice from the designated consultant within the firm.
  - e. When expertise on a tax question or problem is not available within the firm, the [tax partner/practitioner] will authorize consultation with outside sources, including other firms or educators with expertise on the subject. Consulting with outside sources should only occur after the client is put on notice that outside sources may be used.
  - f. In situations in which the firm's policy requires the use of a consultant, a summary of the consultant's conclusions and rationale is to be prepared by the person seeking the consultation and filed in the working papers. See [Circular 230](#) Section 10.22(b) and [SSTS No. 3, Certain Procedural Aspects of Preparing Returns](#).
  - g. The results of outside consultation are reviewed by the [engagement partner and the tax partner/practitioner] before a decision is reached on the matter in question.
  - h. Procedures exist for the designation of specific individuals within and without the firm as consultants to serve as authoritative sources.
    - i. A designated individual maintains a listing, by subject and industry, of those within and without the firm who are particularly knowledgeable in the tax matters related to those subjects and industries.
    - ii. The [executive committee/practitioner] will designate an individual as a tax consultant when it is satisfied that the individual has met the training and experience requirements.

- iii. Documentation of the requisite training and experience to qualify a tax professional as an in-house tax consultant should be in the form of a memorandum in the professional's personnel file.
  - iv. The designated tax consultants are the individuals who consult with accounting and audit personnel when consultation is required by the firm's QC procedures. Outside resources shall be listed only after satisfactory financial and service arrangements have been made.
7. Firm personnel, where warranted, document any difference of opinions on tax issues among firm personnel, including the conclusions reached after appropriate discussion and consultation.
- a. Differences of opinion on tax issues among firm personnel are brought to the attention of the [tax partner/practitioner].
  - b. If the [tax partner/practitioner] and other firm personnel are able to reach an appropriate resolution, the matter is concluded.
  - c. If the [tax partner/practitioner] is unable to develop an appropriate resolution, the managing partner is consulted (if applicable). The opinion of the managing partner shall prevail.
  - d. Any professional personnel, if not in agreement with the decision, may document their disagreement and can disassociate themselves from the resolution of the matter.
8. The confidentiality, safe custody, integrity, accessibility, and the ability to retrieve tax practice documents are maintained.
- a. The [tax partner/practitioner] is responsible for ensuring that the firm's policies and procedures regarding file retention, confidentiality of client information, and the CPA-client privilege comply with the Internal Revenue Code, Circular 230, and other federal or state requirements. Such policies include document retention period, destruction policy and procedure for providing tax documents to third parties.
  - b. Firms should discuss its protocol for securing such files annually with tax staff to ensure compliance with the protocols the firm establishes.
  - c. The [tax partner/practitioner] or the [tax partner's/practitioner's] designee reviews any returns, tax working papers, or correspondence files that are scheduled for destruction.
9. Tax examinations by taxing authorities:
- a. A separate engagement letter shall be obtained for a tax examination. Note that an engagement letter is not required but is recommended.
  - b. For engagements in which the firm represents a client in a tax examination by the IRS or other taxing authority, a qualified tax professional shall be named on the power of attorney along with [a partner/the practitioner].
  - c. For engagements in which the firm represents a client in a tax examination, the [engagement partner/practitioner] or the [tax partner's/practitioner's] designee reviews the examining agent's proposed adjustments and all related working papers before the conclusion of the engagement.
  - d. In accordance with the firm's disclosure policies, no documents should be provided to a government agency, such as an IRS auditor, without first receiving a lawful document request by the government agency.
10. A [partner/practitioner] or their designee shall review the examining agent's proposed adjustments and related working papers before the conclusion of the engagement. A copy of any adjustments to carryover items should be saved with the client's files for consideration when preparing the next period's tax return.

## 6. Monitoring

The firm has established and maintains the policies and procedures set forth below, to the extent applicable to its tax practice, to provide reasonable assurance that the firm's TPQC system's policies and procedures are appropriate and effective and that the firm is operating in compliance with the system.

1. The firm conducts an inspection program regarding its TPQC policies and procedures for conformity with the [SSTs](#), [Circular 230](#), and other applicable professional standards, laws, and regulations, and industry-preferred practices.
  - a. Each year the [managing partner/practitioner] will evaluate the firm's TPQC policies and procedures.
  - b. The [managing partner/practitioner] obtains reasonable assurance that its TPQC policies and procedures are being followed by questioning the personnel who are responsible for a tax function or activity and by reviewing:
    - i. Selected administrative and personnel files; and
    - ii. The inspection team annually selects a sample of engagements from each [partner's/manager's/practitioner's] tax client list and reviews it in depth. The working papers, tax returns, and reports are reviewed for compliance with professional standards and with the firm's TPQC policies and procedures. Where exceptions are noted, a root cause is determined so that corrective action is taken and future exceptions are reduced or eliminated.
  - c. Differences of opinion may arise between members of the inspection team and:
    - i. The engagement team.
    - ii. The individual responsible for a functional area. These differences are resolved by the [tax partner/practitioner] if the difference of opinion is with the engagement team and by the [managing partner/practitioner] if the difference of opinion concerns a functional area.<sup>12</sup>
2. Provision is made for reporting inspection findings to the other [partners/practitioners] and for monitoring actions taken or planned.<sup>13</sup>
  - a. The results of engagement reviews are discussed with the engagement [partner/practitioner] and staff personnel responsible for the engagement.<sup>14</sup>
  - b. The engagement or tax [partner/practitioner] must correct specific deficiencies noted in the inspection and should address, in writing, general comments for improvement.
  - c. The [managing partner/practitioner] has the responsibility for following up to ensure that planned corrective actions were taken and reporting to all [partners/practitioners] the extent of compliance.
  - d. Reports of findings from the review should be given to all [partners/practitioners] who perform tax work in order to continually improve upon the addressed deficiencies.
  - e. Results of reviews will be considered in performance evaluations.

---

<sup>12</sup> This section can be disregarded if no engagement team is present in the firm.

<sup>13</sup> This section is not required for a sole practitioner.

<sup>14</sup> This section is not required for a sole practitioner.

3. A protocol is in place to address complaints or allegations that services performed failed to comply with professional standards, or applicable legal and regulatory requirements, or that there has been a failure to comply with the firm's TPQC system.
  - a. The firm's managing [partner/practitioner] or designee investigates client complaints regarding services provided and allegations regarding a lack of compliance with the firm's TPQC system.
  - b. The managing [partner/practitioner] or designee may consult with outside (or internal where available) legal counsel on these matters as it deems appropriate.
  - c. Any such complaints and allegations and their resolution will be documented in the firm's files.

## Written acknowledgment of reviewing [firm's name] tax practice quality control document

I, \_\_\_\_\_, acknowledge that I reviewed the firm's tax practice quality control document and any issues or questions I have regarding the document were discussed with my immediate supervisor.

\_\_\_\_\_  
Name of employee

\_\_\_\_\_  
Signature of employee

\_\_\_\_\_  
Date