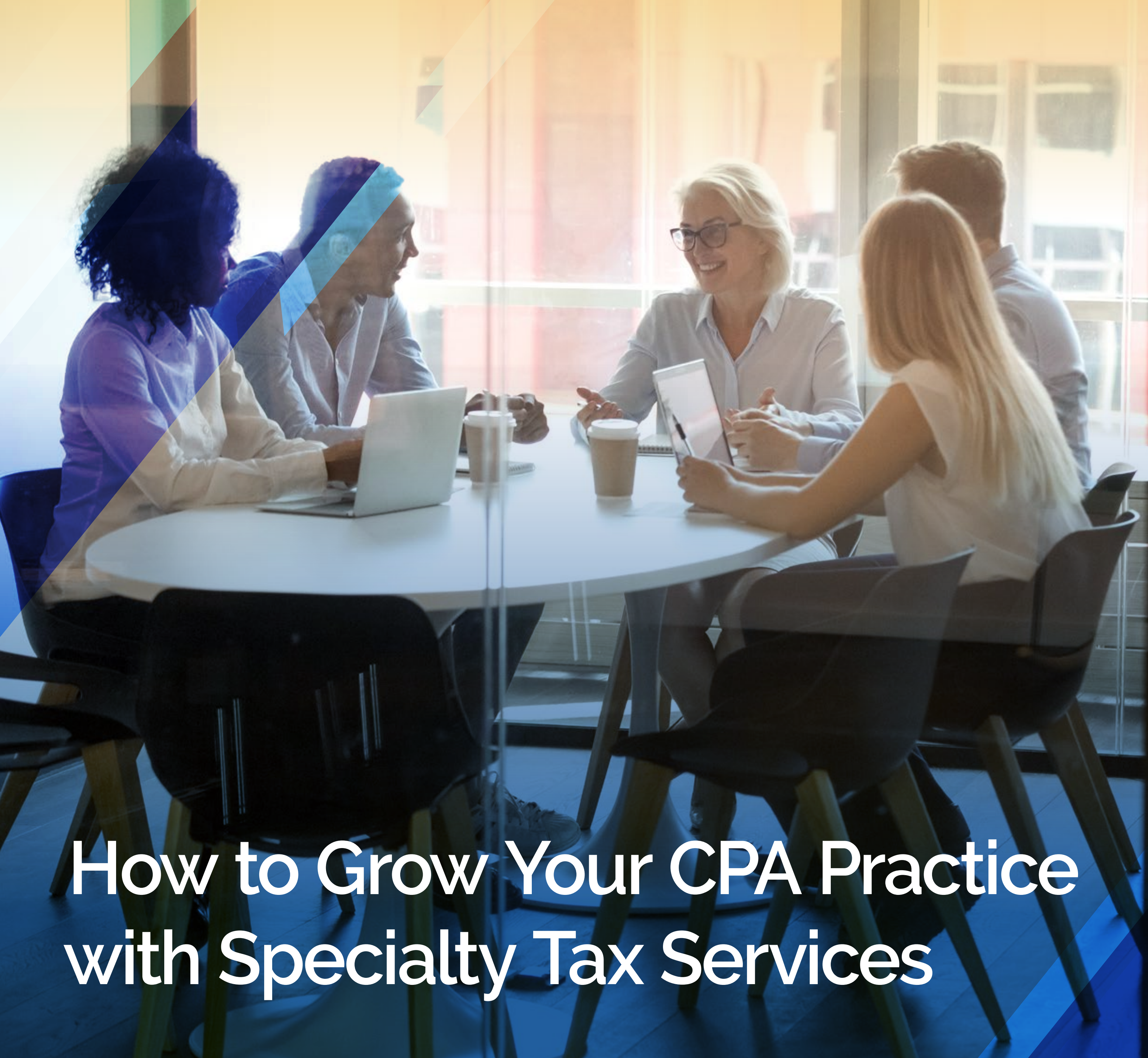

How to Grow Your CPA Practice with Specialty Tax Services

Discover a New Revenue Stream

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Introduction

What if there were the opportunity to increase your firm's revenue while adding tremendous value to your clients? The truth is, many of your clients qualify for valuable tax credits and deductions that can help them improve cash flow and reinvest in their businesses. In our experience, we have found that many CPA firms sell themselves short by not offering specialty tax services at all, or not to their full potential. The reason often stems from commonly held misperceptions, including:

- It will cost too much to offer specialty tax services.
- We don't have in-house specialty tax expertise.
- We'll lose control if we partner with a third-party specialty tax provider.
- We don't have time to understand the complexities surrounding incentives.
- If a client gets audited it might reflect poorly on our firm.
- Not having a strong resource you can trust.
- We don't understand the value proposition.
- We don't want our client to feel "pressured" or that we are "selling" them on costly services.

We'll address each of these misperceptions and provide useful information that can help you build a specialty tax niche—even if you have limited internal resources. The purpose of this e-book is to demonstrate why it is worth taking a fresh perspective on specialty tax services, such as research and developemnt (R&D) tax credits, cost segregation studies and energy tax credits, through strategic partnerships that can offer a fresh revenue stream, relieve the burden from your team *and* deepen your relationships with your clients.

For more than 20 years, Engineered Tax Services has been a national leader in partnering with CPA firms to provide specialty tax services to their clients. We work with firms to offer these services in the manner in which they prefer—without losing control of their client relationships. You will find our contact information at the conclusion of this e-book.

CHAPTER 1

The Value of Specialty Tax Services: Understanding the Opportunity

CPA firms must find ways to differentiate their services to remain competitive in the marketplace. Especially during unpredictable economic times, what can you be doing to find new revenue streams? Offering specialty tax services is one way to stand out as a firm that helps clients reduce their tax liability and ease their cash flow. The value proposition to your firm extends beyond the direct revenue you'll receive by offering these services—when you help your clients uncover previously hidden sources of income, your entire relationship becomes more profitable.

Most CPA firms are adept at identifying opportunities to provide cost segregation, energy tax credits and R&D tax credit services to their clients that are top of mind. For example, clients with pending real estate transactions are good candidates for cost segregation for accelerated depreciation. Owners of newly designed or renovated buildings may be able to take deductions for energy-efficient improvements. A manufacturing client that introduces a new product or process may qualify for valuable R&D tax credits.

While you may have a working knowledge of the top specialty tax opportunities, it is worth taking a closer look at three of the most valuable specialty tax incentives.

1) Cost Segregation

In 2014, cost segregation services made Accounting Today's list of top niche services for increasing business for the first time in 15 years. Since then, the niche has grown into a strong consulting service for CPA firms. The latest tax reform made cost segregation even more beneficial to CPA firms and their commercial real estate owner and investor clients through two changes in bonus depreciation. As you know, bonus depreciation enables businesses and individuals to deduct a percentage of the cost of their assets the first year they are placed in service. Thanks to changes in the tax law, bonus depreciation is 100% through tax year 2022, and used property is now eligible for bonus depreciation.

*Cost segregation studies conducted by qualified engineers uncover opportunities for your clients to benefit from accelerated depreciation. ETS has found that each engagement, on average, will generate **$3,000 to $5,000** in revenue for your firm.*

Over the years, the process, application and value of cost segregation has steadily improved into a much greater tax tool. Cost segregation studies greatly benefit real estate clients, and the ability for CPAs to assist clients in reducing their tax liability has never been better. In addition to accelerating depreciation, the studies also serve to identify missed deductions and increase cash flow.

While these all add value to you clients and to your firm, you may be questioning whether you have the internal resources to understand the complexities surrounding cost segregation. This is where an experienced cost segregation partner comes into play. You want to work with a specialty tax services partner with a track record of success—one that has earned your trust as an outstanding resource to your firm.

When you work with a cost segregation services provider, expect the professionals to have: 1) substantial expertise in conducting cost segregation studies; 2) CPAs and licensed engineers on staff; and 3) due diligence experience to avoid erroneous claims and accuracy penalties. At ETS, we understand the tax ramifications that must be considered when conducting a cost segregation study as it relates to the issues of recapture, passive activity limitations and the intricate steps involved in 1031 exchanges.

2) R&D Tax Credits

As a CPA firm, you understand the tremendous tax savings that R&D tax credits offer to your clients and your firm. The credit, which is designed to reimburse companies that develop new products, processes or inventions, offers a significant percentage back to the company for qualified research activities and qualified research expenses. The tax credit was made permanent in 2015 and today, two-thirds of U.S. states offer tax credits for R&D activities.

> *Smaller or more routine clients can represent a gold mine for new revenue, but they often get overlooked because there simply is not enough time in the day, nor the internal resources, to do the investigative work. The IRS requires **cost segregation**, **R&D** and **energy tax credit studies** to be conducted by licensed engineers, a capability that a specialty tax services provider should have at your disposal.*

While the activities your client undertakes on a regular basis may qualify, it is understandable that not every firm has the resources needed to document which activities qualify, nor the time to apply for the credits. After all, activities must meet the criteria of a simple, four-part test established by the IRS. A qualified R&D tax credit expert can easily work with your CPA firm to help determine whether your clients' business and activities meet the criteria of the test by conducting a tax credit study.

The Four-Part Test: Qualifying for R&D Tax Credits

To determine what activities may constitute as qualified research, the first step is to review project activities according to a simple four-part test established by the IRS:

1) **Permitted purpose/business component** – The activity must relate to creating new or improved business components that result in improved function, performance, reliability or quality.

2) **Technological in nature** – The activity must rely on the principles of physical or biological science, engineering or computer science. These principles can cross into many industries such as architecture and structural engineering.

3) **Elimination of uncertainty** – The activity must be intended to discover information to eliminate uncertainty regarding the capacity, method or design for developing or improving a product or process.

4) **Process of experimentation** – The project should include the evaluation of different alternatives to resolve or eliminate a technical uncertainty. This evaluation may involve modeling, systematic trial and error, simulation or other methods.

When you make the decision to partner with an R&D tax credit expert, you'll want to conduct due diligence to ensure you find a partner that can seamlessly blend with your team. It is important to find a qualified partner that has a team of engineers, CPAs and tax attorneys to conduct engineering-based, thorough R&D tax studies. You'll also want the type of partnership that allows *you* to be in control of your client relationships.

For example, ETS engineering and tax professionals help accountants and their clients achieve maximum R&D tax credits by conducting thorough R&D tax studies and working as an extension of their teams. Because we understand the intricacies of R&D tax credit studies, we take on the behind-the-scenes due diligence without placing a burden on your firm.

Examples of Eligible R&D Activities

While qualified activities differ by industry sector, the following are representative examples of typically eligible activities that could meet the parameters of the four-part test:

- New and improved products, designs, equipment and manufacturing processes
- Creation and testing of prototypes
- General trial and error experimentation
- Experimentation and testing new materials, concepts, materials, tools and procedures
- New and improved methods to recover and reuse products
- Development of more efficient processes and technologies
- Development of innovative and improved systems
- New or improved designs that optimize material, energy and water usage
- Development of unique designs, material selection, techniques and processes aimed at constructing improved structures

3) Energy Tax Credits

Commercial and residential building owners and investors can earn tax credits for qualified energy-efficient improvements they make to their properties. The 45L energy-efficient home tax credit is equal to $2,000 per residential unit or dwelling, and the 179D tax deduction for commercial property owners may qualify for up to $1.80 per square foot. Both were retroactively extended to include tax years 2018 and 2019, and unused credits can be carried forward for up to 20 years. While both credits are due to expire Dec. 31, 2020, these tax incentives are typically extended. You can help your real estate clients benefit from valuable tax savings when you partner with a qualified specialty tax partner who can conduct the required engineered-based certifications.

There is a host of other specialty tax services that ETS offers to our clients. They include: the opportunity zones tax incentive, real estate disposition studies and repairs and maintenance analyses. See a full list of the specialty tax services we provide.

Chapter 2

Data Mining: Taking Advantage of Technology and Innovation to Identify Prospects

How do you recognize which clients are candidates for specialty tax incentives? In our experience, many CPA firms are surprised at the number of candidates that exist right in their firm's database. Some industries are more obvious than others. For example, real estate owners have opportunities for cost segregation studies with pending transactions, just as manufacturers are good candidates for R&D tax studies. Would it surprise you to know that businesses in the food services and medical device industries can also qualify? Far too often, longtime clients are overlooked and overall, CPA firms simply don't have the time or tools to look into these opportunities.

Simply put, data mining refers to automated searches using client data stored in software to gain business insights. For example, some CPA firms look for Schedule C sole proprietors that could benefit by reorganizing as an S corporation. For the purposes of tax incentives, data mining refers to the process of conducting an audit of your tax returns to uncover opportunities to generate substantial income for your CPA firm. Auditing the entire client list is an essential part of the process, so it is essential to have buy-in from all of your partners. Large firms may hire data scientists to conduct data analysis.

Other firms recognize the need to embrace opportunities and cull opportunities from their data, but don't have the in-house expertise or time to do so. That's when a specialty tax partner can be an asset to building new opportunities. Data mining is critical because it identifies business opportunities within your firm's database that would otherwise not be noticed.

The ETS Data Mining Approach

Because ETS is singularly focused on specialty tax services, we can spot patterns using your tax software—opportunities that translate to significant dollars at low cost with minimal time invested. You can rest assured that your clients' confidentiality remains protected as we never see names, only numbers.

Let's use cost segregation as an example. Our goal is to mine your tax software to look for depreciated assets with 27.5- and 39-year terms. Here is how the process works:

1) Your administrator runs the initial report.
2) ETS performs a quick and easy audit of all your current client files.
3) From the audit, we identify depreciation schedules that indicate real estate holdings.
4) Lookback rules enable accelerated depreciation for projects beginning in 1987 to be accounted for in the current year. ETS generally looks back 10 years to capture savings.
5) Using the schedules, we generate a benefit analysis for each one to identify the estimated tax benefits your clients could anticipate from a cost segregation and/or energy certification program.
6) Once clients are identified, a plan is implemented to reach out to them to explain the benefits of the tax incentives.

It might surprise you that this entire process takes one week. Using this data mining process, you would be surprised at just how many opportunities can be identified!

Don't Overlook Prospects

A word about prospects. Think about the companies you are pursuing. Do they conduct activities that would make them eligible for tax credits and deductions? When you have the capability to help them capture significant tax savings, it may open the door to building a long-term relationship. Think about it this way: if you don't offer specialty services, someone else will.

CHAPTER 3

Building a Profitable Niche Through a Strategic Specialty Tax Services Partnership

As you can see, you can differentiate your services and attract new clients to your firm by offering a specialty tax incentive niche. A growing number of firms have recognized the value of offering specialty tax services to their clients.

A firm solely focused on specialty tax services can augment your internal capabilities by acting as a strategic partner to drive sustainable, profitable growth. It is critical to conduct some due diligence to ensure you find a partner that can blend seamlessly with your team. First, you want to find a qualified partner that has a team of engineers and CPAs to conduct engineering-based, thorough R&D tax studies. Again, you'll also want the type of relationship that allows you to be in control of your client relationships.

Recognizing the Value of Specialty Tax Services

By recognizing which clients can benefit from specialty tax services and understanding critical triggers, CPA firms can add value to their service offerings

Service	Frequency	Value Proposition	Profile	Triggers
Cost Segregation	One-Time Project	Accelerated depreciation ranging between 20%-40%+ in the first year	Real estate owners, investors, referral sources, funds, developers	Purchases or new construction within the last 10 years, owner is profitable and incurs income taxes due, active vs. passive rules can determine benefit
R&D	Annually	Net credit ranges between 5%-9% of qualifying costs	Manufacturing, architects, software development (internal and external), medical devices, oil & gas, pre-fab work, etc.	A minimum of $250,000 in R&D related costs annually
179D	One-Time Project	$1.80 per square foot deduction ($.60 for lighting, $.60 for HVAC, $.60 for building envelope)	Building owners, architects, investors, retrofit contractors	• New construction or retrofits to lighting, HVAC or building envelope • Commercial buildings or 4+ story multi-family buildings
45L	One-Time Project	$2,000 tax credit per unit	Developers, builders, investors	• Multifamily projects • 3 stories or lower • Condo, apartments, townhouses • Energy-efficient
5G	Annuity	$2,000-$20,000/month	Building owners	Commercial buildings with flat roof
Solar	One-Time Project	30% credit, expensing and high ROI	High-net-worth individuals and corporations	Individuals or corporations with $2M-$5M or more in annual tax liability

What to Look for in a Specialty Tax Provider

Once you've decided to build your business and gain significant tax benefits, you want to be sure to work with a specialty tax expert that blends well with you firm values and objectives. The following provides some pointers on what is important in seeking a partnership:

1) **Qualified Professionals:** Make sure the specialty tax services firm offers qualified and credentialed CPAs, engineers and attorneys. Does the firm hold required certifications? Do the professionals stay updated on industry developments? What is their record of success? Ask to see results.

2) **National Footprint:** Even if your business is regional, some of your clients conduct business throughout the country. You'll want a partner that can easily make multiple site visits during an R&D tax study, for example, to determine tax credit eligibility that satisfies IRS requirements.

3) **Audit Success Record:** While specialty tax services won't automatically increase risk for audit, it is good to be prepared. Taking an R&D credit on a timely filed return or extension will not automatically increase your clients' audit risk. Should a client's return be audited for any reason, it will not reflect poorly on your firm if your specialty tax partner is prepared with documentation to back up your client's eligibility. You'll want to work with a team that has a high audit success rate and can provide all requested information. When you have a diligent specialty tax partner that can submit a detailed study report in the first place, you'll mitigate audit exposure. Be sure to ask about the firm's procedures for representation should a tax audit happen.

4) **Fair Pricing:** Be sure all costs are detailed from the start. The last thing you want is to be surprised by additional reports. For example, Engineered Tax Services applies competitive pricing models to fit our clients' preferred structure.

5) **Recommendations:** A strong specialty tax services partner should have a proven track record of working with CPA firms. Ask for recommendations from other firms.

6) **Committed to Your Firm:** Your partner should understand your firm's areas of expertise, industry niches and your core values and be committed to helping you achieve growth.

Engineered Tax Services focuses on strategies to help CPA firms generate revenue, new prospects and niche business development opportunities. Our partnership service offerings can help your firm:

- Obtain new clients
- Solidify existing relationships
- Enhance your reputation
- Improve your firm's positioning in the marketplace
- Diversify your CPA firm with little or no capital investment

By fusing together accounting and engineering, we have been able to offer tax studies that return value to our CPA firm clients. We take on as much or little as your firm needs. For example, if needed, we can provide marketing materials that explain the benefits of cost segregation, R&D tax credits and energy incentives. We help with proposals, engagement letters and introductory meetings. Again, we are flexible in working with you in the way that best benefits your firm. We want to see you succeed by increasing billable hours, developing new niche markets and attracting new clients.

Conclusion

Many CPA firms are aware of the revenue potential offered through specialty tax credits. At the same time, not every firm has the resources and expertise to take on the documentation process and engineered studies required for their clients to determine qualified expenses. When you can identify these opportunities for them and help them reduce their tax liability to reinvest in their business, you will secure their long-term loyalty.

*ETS has helped our partner firms **attract new clients**, **retain existing clients** and **secure consistent revenue growth** and **firm expansion**.*

Engineered Tax Services (ETS) is a licensed engineering firm staffed with professionals who marry the science of engineering with the principles of tax and accounting to arrive at financial solutions that result in increased cash flow, minimized tax payments and increased return on investment.

To learn more about specialty tax services for CPA firms, please call Engineered Tax Services at (800) 236-6519 or see our Comprehensive Specialty Tax and Advisory Services for CPA Firms page on our website.

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