ACCOUNTING AND COMPLIANCE ISSUES FOR LAWYERS

INTRODUCTION

Why do lawyers have to be concerned about accounting and tax compliance issues? There are a number of reasons why we should be concerned. I will focus on just three of them in this paper. First, the way in which receipts and particularly expenses are reported for financial statement purposes can affect their tax treatment. Second, we need reliable accounting information to turn a theoretical tax plan into a practical reality. Third, when both tax lawyers and tax accountants are involved in a transaction, defensive tax practice requires that we clarify who is doing what and ensure that the results are consistent.

This paper will not be very technical. It will highlight several accounting and compliance issues with which lawyers are frequently confronted. The issues that I have chosen, reflect the nature of my experience, which is primarily in the owner manager, small to medium size business sector.

ACCOUNTING ISSUES

INTRODUCTION

The importance of accounting principles to the determination of "profit" under the *Income Tax Act* (the "Act")[1] has been the subject of many papers and articles. A brief review will be undertaken here. Once it is concluded that accounting treatment is important, we must then evaluate the reliability of the accounting information in any specific situation. Some practical considerations will be reviewed.

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[1] RSC 1952, c.148, as amended by SC 1970-71072, c.63 and as subsequently amended. Unless otherwise stated, statutory references in this paper are references to this Act.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

It is useful to begin by reviewing the importance of generally accepted accounting principles (GAAP) in determining business profits for income tax purposes and the need for consistency between tax accounting and financial reporting.

Jurisprudence

The relevance of accounting principles and practices for the purposes of the Act has been the topic of several excellent articles.[2] The issue has frequently been considered by the courts. The Supreme Court of Canada has provided some clarification of the role of GAAP in the determination of profit.

There is no statutory definition for the term "profit" in section 9 of the *Income Tax Act*. The courts have long held that profit must be determined by ordinary commercial principles and/or well accepted accounting principles, unless the provisions of the Act require a departure from such principles.[3] There has been an evolution of the jurisprudence over the last twenty years. Initially, the trend in cases supported the conclusion that ordinary commercial principles of accounting are representative of ordinary commercial practice and that ordinary principles of accounting are determined by GAAP.[4] Later cases decided that GAAP is not the appropriate starting point under section 9.[5] According to these cases, the

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[2]For example see Al Meghji "The Role of GAAP in Computing Taxable Profit" in Report of Proceedings of the Forty-Seventh Tax Conference, 1995 Conference Report (Toronto: Canadian Tax Foundation, 1995) 33:1-25; Brian R. Carr "Current Receipts and Expenses After Canderel, Toronto College Park, and Ikea" CTJ (1998) Vol. 46, No. 5 at p. 953.; Ian Gergovich, "International Financial Reporting Standards: Tax Reporting Implications of the New Canadian GAAP," in *Report of the Proceedings of the Fifty-Ninth Tax Conference,* 2007 Conference Report (Toronto: Canadian Tax Foundation, 2008) 1:1-40; Kevin Hinz, "International Financial Reporting Standards and Accounting for Income Taxes: The Journey to 2011 and Beyond" *Report of Proceedings of Sixtieth Tax Conference,* 2008 Tax Conference (Toronto: Canadian Tax Foundation, 2009), 16:1-21.

[3]Dominion Taxicab Assn v MNR [1954] CTC 34, at 37 (SCC)

[4]See The Queen v Metropolitan Properties Co., [1985] 1 CTC 169 (FCTD); Wilchar Construction Ltd. v The Queen [1981] CTC 415 (FCA); and Neonex International Ltd. v The Queen [1978] CTC 485 (FCA).

[5]Symes v The Queen 94 DTC 6001 (SCC)

test remains ordinary or accepted commercial principles but these are not the same as GAAP.

Of particular interest are those cases that deal with the matching principle of accounting. The matching principle of accounting requires that expenses incurred for the purpose of earning particular revenues should be matched and reported in the same period. The issue is whether matching is mandatory or merely permissible for income tax purposes where the expenditure can also be treated as a current period expense.

Two cases which considered the matching issue led to the decisions of the Supreme Court of Canada which set out the general principles to be used to determine profit for income tax purposes. These cases heard by the Federal Court of Appeal seemingly made matching mandatory.[6] The courts, however, were inconsistent in deciding the importance to be attached to the accounting matching principle. In the *Toronto College Park* [7] case, according to the Federal Court of Appeal, the matching principle is a stand-alone legal rule: where an expense can be matched with a specific source of revenue, it must be matched for income tax purposes. As such, the accounting treatment in matching cases is of no consequence. In the *Canderel*[8] case, the Federal Court of Appeal elevated the matching principle of accounting to the status of a legal principle. Both of these cases were appealed to the Supreme Court of Canada.

With its decisions in the *Canderel* and *Toronto College Park* cases,[9] the Supreme Court of Canada set out the general principles to be used in determining profit for income tax purposes. Determination of profit is a question of law. In ascertaining profit, the goal is to obtain an accurate picture of a taxpayer's profit for a given year. In doing this, a taxpayer is free to adopt any method not inconsistent with the provisions of the Act, with the case law,

[6]Canderel v The Queen 95 DTC 5101 (FCA); The Queen v Toronto College Park Limited 96 DTC 6407 (FCA)

[7]Ibid

[8]Ibid

[9]98 DTC 6100 and 98 DTC 6088 respectively

and with well-accepted business principles. Well-accepted business principles, moreover, are not limited to GAAP and are not rules of law, but merely interpretative aids to be applied on a case-by-case basis. Accordingly, once a taxpayer has shown that he has provided an accurate picture of income for the year which is not in contravention of the Act, of the case law, and of well-accepted business principles, the onus shifts to the Minister to show that the figure provided by the taxpayer does not represent an accurate picture.[10]

These guidelines provide some clarification of the role of GAAP in the determination of profit. It is not clear however, what constitutes well-accepted business principles other than accounting principles.

The matching principle does not apply to "running expenses" of a business.[11] An outlay can be treated as a "running expense" if it cannot be related to a particular item of revenue. It is not clear whether running expenses must be deducted in the year they are incurred or whether the taxpayers can use their discretion to amortize them or deduct them in the year they are incurred.[12] This appears to be the case regardless of their treatment for accounting purposes.

Canada Revenue Agency Policy

Canada Revenue Agency ("CRA") has taken the view that profit for the purposes of section 9 should be determined in accordance with GAAP unless a specific provision of the Act requires a different treatment.[13] In addition CRA maintains that in the absence of a specific provision of the Act to the contrary, tax accounting must follow the GAAP treatment by the

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[10] But see Urbandale Realty 2000 DTC 6118

[11] See Northwood Pulp and Timber 98 DTC 6640 (F.C.A.) affirming 96 DTC 1104 (T.C.C.)

[12] Ibid

[13] Interpretation Bulletin IT-417R2, February 10, 1997; Interpretation Bulletin IT-473R, December 21, 1998; and Interpretation Bulletin IT-95R, December 16, 1980.

taxpayer for financial reporting purposes, even though there may be other acceptable accounting methods available under GAAP.[14]

CRA policy states that the accounting for prepaid expenses and deferred charges be in accordance with the matching principle as required in generally accepted accounting principles, subject always to any contrary provision of the Act.[15] CRA takes the view that subsection 18(9) of the Act was enacted for greater certainty, and that notwithstanding that it does not cover deferred charges or all types of expenses that can be prepaid, it considers that the law has always required matching of all expenses that can be matched.[16] Another example of legislated matching is the rule in section 18.1, which restricts the deductibility of an otherwise deductible, matchable expenditure incurred in respect of a right to receive income based on production by prorating the deductibility of the amount of the expenditure over the economic life of the right.

In a number of situations, CRA has, as an administrative matter, established specific requirements for conformity between tax and financial reporting, such as the recognition of foreign exchange gains and losses on income account[17] and inventory valuation where the Act does not provide a definition of cost and fair market value.[18]

The results of this reliance on financial statement reporting are twofold. First, it can result in taxpayers in similar circumstances reporting income for tax purposes on different bases by using different accounting treatments. Second, a significant change in tax law can result from a change in GAAP.

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[14]Ibid.

[15]Interpretation Bulletin IT-417R2, February 10, 1997 at para 4

[16]Ibid at para 5

[17]Interpretation Bulletin IT-95R, December 16, 1980

[18]Interpretation Bulletin IT-473R, December 21, 1998

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In 2008, the Accounting Standards Board of Canada confirmed that effective January 11, 2011, publicly traded profit-oriented enterprises will be required to adopt the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. Then last year, the country's private enterprises were given the option of adopting IFRS or a new private enterprise GAAP developed especially to meet the needs of the users of their financial statements. The effective date for either choice is January 1, 2011.

Canada will become one of over 100 countries that have converted to or are in the process of adopting international financial reporting standards.

The impact of these changes may significantly alter the balance sheet and the determination of accounting income in comparison with current Canadian GAAP. For example, taxpayers may incur expenditures that were expensed in a prior period in determining book income of the taxpayer under Canadian GAAP but that are required to be capitalized on the balance sheet on conversion to IFRS.

At the 2008 Canadian Tax Foundation Annual Conference, CRA answered a number of questions related to the impact of the IFRS. In response to one question, the CRA stated that financial statements based on IFRS would be an acceptable starting point to determine income for tax purposes. In addition, where IFRS are used by a particular entity, it is their position that references to GAAP in the Act can be read as references to IFRS for those entities that report under IFRS.

FINANCIAL STATEMENTS

How can we evaluate the reliability of the information we receive?

With respect to financial statements, it is important to bear in mind that the financial statements are really those of management, not the external accountant. The level of investigation undertaken by the external accountant will vary, depending upon the engagement. The level of investigation is reflected in the nature of opinion; Audited, Accountants Comments/Review Engagement, or Notice to Reader.

The Notice to Reader involves the least amount of scrutiny by external accountants. It is the most common form of opinion in the owner manager, small business sector. Before undertaking a transaction a few preliminary tests will give you a pretty good feel for the reliability of the information where a Notice to Reader opinion has been given.

1) Reconcile minute books with the financial statements. As a general rule, in Notice to Reader engagements, accountants do not review minute books. If you combine this with a client who does not put a high priority on keeping minute books up to date, over the years you can end up with a situation where any resemblance between the stated capital on the financial statements and in the minute books is purely coincidental. In addition, the characterization of distributions as bonuses, dividends or loans may not be documented.

2) Be prepared to challenge assumptions about the ownership of assets as indicated on a balance sheet. Review title documents for real estate, in particular, to make sure that the financial statements accurately reflect the ownership of assets.

3) Carefully scrutinise the classification and description of certain accounts. For example, financial statements could indicate an asset category called "accounts receivable". Are they trade accounts receivable? The category may say "investments" but a quick look at the income statement reveals no investment income. What type of investments are they? Closer scrutiny may reveal that in both cases these are really shareholder loans.

ACCOUNTING ENTRIES

A lot of the problems arising from the inconsistency between financial statements and other information, occurs because the only evidence of a transaction are the accounting entries. Many owner managers believe that accounting entries create legal transactions and relationships rather than reflect them. As a result, from time to time, you will find entire transactions undertaken by accounting entries without any legal documentation to support them. This generally becomes apparent when you are reviewing the history of your client in preparation for a subsequent transaction.

Can the deficiencies be rectified without posing an ethical dilemma for the lawyer? Are the deficiencies so great that you should walk away from the current transaction? There are no easy answers. Every situation will have to be examined on its own merits.

For example, sometimes accounting entries are being used to support what taxpayers "intended" or "what they wanted to do" or "should have done" rather than what they have actually done in substance. It can create the perception of retroactive tax planning, particularly if the entries or "adjusting entries" are made well after the purported time of the event. This is an anathema to CRA and the tax courts.

As a practical matter, this historical review may help identify risks in undertaking the current transactions that were not anticipated. Assume that CRA will scrutinise your transaction. Will this pose a risk of reassessment on prior transactions with obvious deficiencies?

VALUATIONS

A word about valuations. Whatever you do, distance yourself from the valuation process. Lawyers aren't valuators. Make sure clients understand this. Put the ball in the accountant's court. If they do not have a qualified valuator they may be reluctant to undertake the valuation because of the exposure. This should be identified at an early stage so that it can be determined who is going to do the valuation and when it is to be done.

PAID UP CAPITAL

The determination of paid up capital[19] is critical in a number of situations under the Income Tax Act. Whether you end up with a deemed dividend or capital gain may depend on the determination of paid up capital.

Start with the stated capital in the financial statements, but don't stop there. Review all share capital transactions, including issuances and repurchases. Review all adjustments to stated capital. There are a number of reasons why stated capital may be quite different from paid up capital.

For example, shares of Opco are transferred to Holdco pursuant to subsection 85(1). Class A shares of Holdco are issued for $100.00, the fair market value of the shares transferred to Holdco. The adjusted cost base of the shares of Opco is $50.00. The agreed amount for subsection 85(1) is $50.00. The stated capital of the Class A shares on the financial statements will probably be $100. The paid up capital will be $50.00.[20]

For example, the financial statements may be showing a high paid up capital, equal to fair market value in the case of a class of freeze shares. You should immediately be sceptical. As a general rule, intra family freeze transactions do not result in what may be called "hi-hi" shares. You may find that a section 84.1 problem was never identified and that in reality the paid up capital has been ground down for tax purposes even though it remains high for accounting purposes. You may happily discover that a reorganization was done in the past when high paid up capital shares could be issued without adverse tax consequences.[21]

[19] Subsection 89(1)

[20] 85(2.1)(a) or 84.1

[21] In this regard the benchmark date is dispositions after May 22, 1985.

There is an account classification called "contributed surplus". This should be analysed to determine whether there is any paid up capital in the account. The concept of contributed surplus is not defined in corporate statutes. Contributed surplus is generally paid in by shareholders and includes premiums on shares issued, any portion of the proceeds of issue of shares without par value not allocated to share capital, gain on forfeited shares, credits resulting from redemption or conversion of shares at less than the amount set up as share capital.[22]

GOODWILL

There are two types of goodwill, purchased goodwill and goodwill that is inherent in the business.

When you see goodwill on a balance sheet it means that there has been a purchase of a business and part of the purchase price is allocable to goodwill of that business.

Goodwill that is inherent in the business is not reflected on the balance sheet because assets are valued at historical cost for financial statement purposes.

The treatment of goodwill can be crucial in many types of transactions.

1) Even in circumstances where it is believed that goodwill does not exist it is advisable to elect $1 on a T2057 election. In the event that it turns out that it does exist, any tax will be deferred. Without specific election on the T2057, the goodwill is deemed to be disposed of for fair market value.

2) In certain reorganizations a price adjustment clause is used. The objective is to minimise the risk of any adverse tax consequences that may arise if CRA

[22]CICA Handbook section 3250.05

challenges the fair market value of the assets. The price adjustment clause, however will only be effective where a reasonable attempt has been made to determine fair market value.[23] Depending on the nature of the transaction, what constitutes reasonableness may vary.

DEEMED YEAR END

Once it is determined that a transaction will result in a deemed year end there are many accounting issues to consider to decide the timing of the transaction. If the deemed year end occurs part way through a normal fiscal year, for example, it will mean additional costs of financial statements and tax returns. If it is a business with a lot of inventory, this has to be counted and valued at the year end.

COMPLIANCE ISSUES

INTRODUCTION

Generally, accountants complete most compliance requirements under the Act. It is important for lawyers to understand some of these requirements for two reasons. First, a great deal of information can be found in tax returns and supporting schedules. Second, if compliance requirements are not completed or are completed inappropriately there may be adverse tax consequences to the client.

TAX RETURNS

A review of the last few years of tax returns can yield valuable information for tax planning.

A cursory review of a T2 corporate return tells us the following:

[23] Guilder News (1963) Ltd. et al v MNR 73 DTC 5048 (FCA) affirming 72 DTC 6146 (FCTD)

- year end of the corporation
- status of the corporation
- amount of refundable dividend tax on hand
- manufacturing and processing profit
- nature of business activities
- names of shareholders and the % of voting shares held for Canadian Controlled private corporations

Various schedules provide other valuable information. Among the most important are the following:

- T2SCH(1) differences between accounting and tax income
- T2SCH(3) history of receipt and payment of dividends
- T2SCH(6) history of capital gains and losses
- T2SCH(7) allocation of income to investment income and active business income
- T2SCH(8) undepreciated capital cost of all classes of assets
- T2SCH(9) other related and associated corporations
- T2SCH(13) history of reserves
- T2SCH(11) transactions with shareholders, officers and employees, including section 85 rollovers

The accounting treatment and the tax treatment of several items may be quite different. Accordingly, a review of financial statements is not enough. Reference must be had to tax returns and supporting schedules which point out any permanent or timing differences between accounting and tax income. On a corporate return, these differences are most easily identified by reviewing the T2SCH(1).

Some examples of items to be added back to income are the following:

1) accounting depreciation

2) interest and penalties on income tax. This can be the first clue of previous assessments of corporate returns

3) taxable capital gains

4) reserves deducted in the preceding year

Some examples of items to be deducted from income are the following:

1) capital cost allowance

2) not applicable

3) gains on disposal of assets per financial statements

4) reserves deducted in the current year

The T2SCH(1) is a reconciliation. Timing differences are reflected by adding and subtracting accounting and tax items as in 1) above. Permanent differences such as in 2) above have no corresponding entry.

Information from the T2SCH(1) will lead you to more detailed schedules such as the T2SCH(8), which will provide details of the capital cost allowance and undepreciated capital cost of various classes of assets. This will enable you to estimate possible recapture and the impact of a deemed year end if a certain transaction is undertaken.

SECTION 85

In order to obtain the tax deferral provided under section 85 it is necessary to file a form T2057 within certain prescribed time limits. There is provision for late filed elections with prescribed penalties.[24] There is also provision to amend or revoke an election with penalties.[25] Nevertheless, it's better to get it right the first time. So, what process should be undertaken to get this supposedly simple compliance procedure completed?

1) Decide who is going to complete and file the form. Since the form T2057 does not have to be filed with a tax return it is more feasible for lawyers to complete this compliance procedure.

2) Make sure it is clear in an engagement letter and a reporting letter who is going to complete and file the T2057. If it is the accountant, institute your own tickler system to follow up to make sure that it has been done.

3) Whoever is responsible for filing the T2057, decide when it is to be done. Problems can arise because the filing deadline is several months after the transaction and it falls through the cracks. Nevertheless, there are situations where it may be advisable to wait several months. For example the transaction may be undertaken to crystallize the capital gains exemption. The disposition takes place at a certain time because timing is critical. The work of valuations and determining eligibility for the exemption may come after the transaction. It may turn out that the taxpayer does not qualify for as much of the exemption as was earlier thought. If the T2057 has not been filed and the prescribed time has not yet passed then the election can be filed with the appropriate fair market value and agreed amount.

[24] subsection 85(7)

[25] subsection 85(7.1)

SUBSECTION 55(2)

Subsection 55(2) of the Act is an anti-avoidance provision, designed to prevent taxpayers from converting taxable capital gains into tax deferred intercorporate dividends in certain types of transactions. To oversimplify, it accomplishes this by converting the intercorporate dividend into proceeds of disposition to the extent that the intercorporate dividend is not supported by post 1971 safe income.

The computation of safe income can be complex. As a practical matter, the transactions are often completed, including the redemption of shares or the declaration of a dividend, for a specific amount before the safe income can be accurately determined. Consequently, at that moment, it may be difficult to know how much of the dividend will ultimately be treated as a capital gain. If subsection 55(2) applies to the intercorporate dividend and a portion is not "safe income" the result is that the entire dividend is treated as proceeds of disposition, not just the portion that is not "safe income". Consequently, subsection 55(2) can be an onerous penal provision. In order to mitigate this result there is provision in paragraph 55(5)(f) for an election to treat any portion of the dividend that is a taxable dividend to be a separate dividend. This has the effect of isolating the amount of the dividend that will be treated as proceeds of disposition and allowing the remainder to be treated as a tax deferred intercorporate dividend. The election must be filed with the corporate return of the recipient of the dividend. There is no provision for late filed elections and this election is not covered under the Fairness provisions.

It is important, therefore to ensure that a safe income calculation is undertaken and an election is filed within the appropriate time. Generally, the accountants will do this. Once again, the time limit for filing the tax return may be several months after the transaction. There is a tendency to wait until the last minute. This can have two unfortunate results. First, the client may end up unhappy because he is told several months after the transaction that there is a greater capital gain than was expected. Second, a more serious consequence is that the safe income calculation is never made and no election is filed.

To minimise these risks, ensure that the computation is made at or near the time of the transactions and that the election is prepared and filed.

NON-TAXABLE DIVIDENDS

Capital Dividends

Subsection 83(2) requires that an election be filed if non-taxable capital dividends are paid. Two aspects of this election should be emphasized.

1) The timing of the election is important. It must be filed before or on the day that is the earlier of the date on which the dividend is payable or any part of the dividend is paid.

2) The election must be filed in prescribed form. This means filing a copy of the form T2054 a certified copy of the resolution declaring the dividend and authorizing the election, and a computation of the corporation's capital dividend account.

This puts a premium on planning and communication between lawyers and accountants to get the resolution prepared and executed before the required date for filing. Some accountants may take it upon themselves to draft the resolution in order to expedite the matter. The result is often poorly drafted resolutions, sometimes executed by individuals who are not properly authorized to sign on behalf of the corporation.

The election must be made on the entire dividend. This raises the possibility that the amount of the dividend may be in excess of the capital dividend account. CRA issues an assessment with respect to the capital dividend. At that time any excess dividend will be identified. The penalty for an excess election is quite onerous, being a tax equal to 3/4 of the excess.[26] The penalty can be eliminated if a separate election is filed to treat the excess

[26]subsection 184(2)

dividend as a taxable dividend. This election must be filed within 90 days after the date of mailing of the notice of assessment.[27]

Pre-1972 Capital Surplus on Hand

Pre-1972 Capital Surplus on Hand (CSOH),[28] simply put, is the accrued capital gains up to the end of 1971 that have not yet been distributed. The logic behind CSOH is that because there was no capital gains tax prior to 1972, you should be allowed to distribute it tax free after that date. There used to be a provision to distribute CSOH as a tax-free dividend. This ended in 1978. Now, the only way to distribute CSOH is in the course of a windup under subsection 88(2) of the Act. To see if there is a possibility of CSOH, look for a company in existence well before 1971 which was involved in real estate or securities transactions and may have bought and sold several properties in the course of its history. The accountant's tax files should then be reviewed. In many cases, the CSOH was computed in 1978 to provide a record for the future. Over time these computations, as well as the distributions of CSOH and tax paid undistributed surplus prior to 1978, may have been lost or destroyed. The only alternative in such cases is to requisition the file from CRA.

<u>CAPITAL GAINS EXEMPTION</u>

At least for now, the capital gains exemption can be utilised on the disposition of shares of a qualifying small business corporation and qualified farm property. Four aspects of compliance are important.

1) It must be determined whether the shares or property qualify for the exemption. This may involve a very complex computation involving the holding period of the shares and the value of the asset mix of the corporation and its subsidiaries.

[27] subsection 184(3)

[28] subsection 88(2.1)

2) It must be determined whether the owners of the shares or property are eligible for part or all of the exemption. This will involve a review of the owners' tax history to determine if there is a cumulative net investment loss account, allowable business investment losses, and utilisation of part of the capital gains exemption in prior taxation years.

3) The impact of alternative minimum tax must be assessed. You will have an unhappy client if a capital gains exemption is crystallized based on the belief that it was "tax-free" only to find out that alternative minimum tax applies.

4) The capital gain must be declared as income on the personal tax return of the owner and the capital gains deduction taken on the same return. As well, the form T657 must be filed. This is the compliance issue that is most fraught with risk. There are several typical errors made here.

   a) Taxpayers decide to do their own tax returns. They assume that because the net affect of the transaction is nil they do not need to declare the gain.

   b) No one tells the accountants that a transaction took place. As a result, they do not undertake the appropriate compliance.

   c) It is not clear whether the lawyer or accountant is to prepare the T657 and Schedule 3 and provide it to the taxpayer. It falls through the cracks. While there is provision for a late-filed election, it will not be permitted where the Minister concludes that the failure to file was done knowingly or under circumstances amounting to gross negligence. CRA is taking a very hard line with respect to failure to file the T657 and while it is difficult for the Minister to satisfy the onus in most cases, a considerable amount of time and effort can be spent convincing either CRA or the Department of Justice to permit the election.

Generally, all of these things are done by the accountants. We should ensure that it is clear that the accountant is to undertake these tasks, in writing, in the engagement letter and the reporting letter. A tickler system should be established to ensure that proper compliance is undertaken when the personal tax returns are filed. Finally, all taxpayers should be encouraged, in writing, to have an accountant file their tax return for the year.

CONCLUSION

Tax practice is one area where lawyers and accountants must work together. Mutual respect between lawyers and accountants can only result in a higher quality of product for our clients, and less exposure to risk. Appreciating accounting and tax compliance issues will facilitate this relationship. We have only touched on a few of these issues today.