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**How the Recession Has
Impacted the Valuation of
an Accounting Firm**

July 21, 2009
2:00 - 3:30 pm ET

Featured Speaker

Joel Sinkin

Joel Sinkin is President of Accounting Transition Advisors, LLC, which exclusively consults on the merger and acquisition of accounting practices nationally. He teaches CPE for state and national accounting associations and has consulted on over 900 accounting firm closings and succession plans and published books and articles nationally.

In the next free online PCPS Practice Management Forum, consultant Joel Sinkin will describe the effect that a troubled economy has had on CPA firm

PCPS Brief

July 2009

Are Your Clients Shopping Around?

What impact has the economy had on CPA firms? In informal interviews with CPAs across the country, there were few reports of actual client defections, but practitioners are clearly wondering whether they will lose business sometime in the near term as the recession continues. In fact, the results of the 2009 PCPS CPA Firm Top Issues Survey show that client retention is the chief concern for practitioners in firms of all sizes, the first time this challenge led the list since the survey's inception in the late 1990s.

In recent years, as a result of a growing demand for CPA services, marketing and client retention have not always been top priorities for practitioners. That appears to have changed in light of the economic downturn. And while many firms may not yet have lost clients, there is evidence that business owners are considering their options.

"There's a reasonable amount of shopping around going on," says Christine Lauber, a sole practitioner in South Bend, Indiana. She reports getting more inquiries from potential clients than she has in the recent past, including a noticeable increase in queries from not-for-profits.

In some cases, this shopping may be a positive sign for smaller firms, since clients may be hoping to find a more responsive business adviser in tough times. "Small businesses that are struggling may not be getting all they need from a large firm," observes Bob Fay, a sole practitioner in Canton, Ohio, who also reports receiving inquiries from prospective clients.

A Focus on Fees

When potential clients do make inquiries, "they usually begin by saying that they are wondering if they are paying too much where they are now," Lauber says. Fee pressure is likely to be a growing issue for practitioners, as businesses scrutinize every expense and look for ways to cut costs. The best way to prepare for this pressure is to ensure that the terms of your agreement are understood at the outset, according to Jim Metzler, CPA, AICPA Vice President, Small Firm Interests. That includes clearly defining the scope of the work in the engagement letter, agreeing on fees for additional work when it's requested and billing for it on a separate invoice.

"When comparing your fees with those of other firms, clients will use the basic engagement price, so it's important to take that into consideration in your quote," Metzler says. In addition, "make sure clients understand their own responsibilities, including due dates."

values, as well as the challenges and opportunities for practitioners making a deal today. This interactive PowerPoint presentation, which will take place on July 21, is part of a series of timely Forums presented by Sinkin.

Mark your calendar now for these upcoming Forums:

- ▶ “How the Recession Has Changed the Landscape for Mergers, Compensation and Governance of Accounting Firms,” given by Joel Sinkin on August 18.
- ▶ “Perspectives on Succession,” given by Joel Sinkin on September 29

Registration is Easy: Registration is easy: Just send us an e-mail no later than July 16 at PCPS@aicpa.org, and let us know you would like to attend. Your registration will be confirmed by receipt of an e-mail with the details on how to join us on July 21. Every Forum takes place from 2 to 3.30 ET. Archived Forums can be accessed [here](#).



In Lauber's practice, she has not seen pressure to lower fees, but has noticed some clients becoming more careful about limiting the services they request. On the other hand, she says that some are willing to pay for engagements that help them lower expenses, improve the assumptions underlying their bids and otherwise adjust to the effects of the recession. In his Dallas practice, Mike Shost has taken a proactive approach, setting up meetings with clients to discuss how their business is faring and to update business owners on his firm's insights into the economic situation.

Client Service Comes First

While some potential clients' first questions may concern fees, "that's typically not the reason people leave," Lauber says. "The problem usually is a lack of service. The client thinks, 'I only see these people once a year and they charge a lot for that.'"

Getting back to the basics of good client service is the best way to maintain client relationships, no matter what shape the economy is in. "Return their calls quickly, go to see them in person and get the work done on time," recommends Shost.

Here are some action steps firms can take to improve their chances for holding on to clients:

- ▶ Ask if they are happy. Take key clients to lunch to learn if they have complaints or would make any changes in your service if they could. If they have complaints about paying for compliance services, point out ways in which the firm can help them cut costs, streamline operations or otherwise improve their business.
- ▶ Do a firm self-assessment. Step back and take an honest look at the firm's strengths and weaknesses from a client service perspective. Do the reception area, telephone greeting and Web site give a welcoming and professional first impression? How often do firm members have contact with clients? Has the firm lost any business in recent months? If so, what were the reasons? After gathering the answers to these and similar questions that apply in your practice, firm leaders can consider what changes may be necessary to maintain strong relationships with clients and remain competitive.
- ▶ Set basic client service standards. What does "quality client service" mean? Some of your staff members may not be sure how your firm defines it. That's why it's a good idea to write down the firm's expectations for dealing with clients. That may include standards on how quickly a client's call should be answered, how often key firm members should meet with clients or how office phones will be answered. The standards may vary in each practice, but be sure that all your staff members understand your firm's expectations. CPAs spend years building strong relationships with their clients, and that connection appears to be a distinct advantage in a tough economy. However, it's also a good idea to ensure that your firm is doing all it can to maintain its client base.

PCPS News and Communications

Taxation of Professional Services: State Legislative

Update

The AICPA's [State Regulatory & Legislative Affairs Team](#) monitors legislation of potential impact on and/or interest to CPAs nationwide. An ongoing subject of legislative activity over the years has been whether to tax professional services, including CPA services. The AICPA generally opposes the imposition of sales and use tax on services, including professional services. This opposition is based on the unique situations that arise in the creation and delivery of services, which are not suited to the imposition of a traditional sales tax. Additionally, a sales tax on services has the potential to create administrative complexities and be contrary to good tax policy (e.g., placing states with service taxes at a competitive disadvantage compared to those states that do not tax services). Another potential implication is that CPA firms are forced to take cost-cutting measures, which can hinder quality.

Currently, there are five states (South Dakota, Delaware, Hawaii, Nevada and New Mexico) that impose a sales tax on accounting services. As states face declining tax revenue collections, several state legislatures are considering proposals that would tax accounting services. In Connecticut, [Senate bill 932](#) is being [closely monitored by the Connecticut Society of CPAs](#). In the Minnesota legislature, there are several proposals that have been under discussion. Click [here](#) to link to the Minnesota State Society's "sales tax on professional services" overview, which links to the bills' text.

The AICPA and PCPS will continue to monitor all state developments and keep you updated on these and other issues relevant to the accounting profession.

Tax Alert: Be Aware of New FBAR Reporting Requirements

PCPS members can find further information [online](#) about important new tax developments. A [Journal of Accountancy](#) article describes the requirements — and the June 30 deadline — for those filing a current year Report of Foreign Bank and Financial Accounts. This form — [TD F 90-22.1](#) — must be filed by any "United States person" who has a financial interest or signatory authority over any account in a foreign country whose aggregate value exceeds \$10,000 at any point in the year. The IRS is [allowing taxpayers](#) to follow the old instructions on the definition of a "United States person" (instead of the revised instructions issued last year that require some foreign persons in and doing business in the United States to file the form) when filing the Report of Foreign Bank and Financial Accounts. Practitioners are advised to be aware of the steep penalties for failure to report on time. An FAQ on the requirements is available on the [IRS site](#).

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