



December 7, 2010

Accountants and IRS Face Uncertain Tax Rates

It seems apparent that President Obama and Republicans in Congress are about to extend the Bush-era tax cuts. If this were to happen it would at least end the uncertainty that tax professionals have been under for a considerable time. Not knowing the final rules of the game until now has made giving tax advice to clients an unusually difficult task.

Financial advisors giving tax advice cannot be certain what the best advice to give their clients is and as a result, some have taken to giving advice on a quarterly basis instead of yearly basis.

The government's late notice on what the tax rates will be has made all sorts of decisions like whether to sell stocks and rolling over retirement accounts all the more difficult. This is because one cannot be sure what the tax advantages of a move will be if you don't know what the tax rates are.

Tax professionals have little time to educate themselves on the new laws in time for the coming tax filing season when wide-ranging legislations are passed at the last minute. Fortunately, questions about the Bush tax cuts have not focused on changing the rates, but only on whether to extend them unchanged for various levels of income. In fact, that's been the case with other tax-law cliffhangers in recent years, which have centered on potential changes to the alternative minimum tax (AMT) and have gone as

late as the last week of the year.

But the difficulty faced by tax professionals caused by the indecision on extending tax cuts pales in comparison to what the IRS has to face. The IRS has to update its programming for electronic filing. And, if history with recent late-year AMT changes is any guide, some paper forms may not be printed in time for distribution at the start of this winter's tax season.

The IRS also holds conference calls with those in the tax preparation industry to disseminate information on any changes so that everyone is in the loop of things.

The reality is that no matter what happens, the IRS will be the one to blame.