

Timeliness Leads to Improvement

Garvey & Garvey cares about your success. We believe communication and anticipation are critical to a successful accounting relationship.

Challenge

We recently met with a client who was unhappy with their previous accounting firm because of poor communication and lack of timeliness with income tax preparation. This client experienced only confusion from discussions with previous accountants and was therefore interested only in improving timeliness of tax return preparation.

The client agreed to a quarterly accounting and tax arrangement where Garvey & Garvey reviewed the accounting system, proposed adjustments, and shared financial and tax positions with ownership.

Result

Two issues became immediately apparent – client did not have an S corporation tax strategy beyond spending 100% of profits in order to avoid income taxes.

By the second quarterly meeting, we gave clear explanations of financial and tax positions to ownership and re-explained S corporation tax strategy. We discussed the implications of spending 100% of profits at year end in order to save 25% to 35% income tax.

At the first tax return preparation period, we discovered a means of reducing taxable income for each shareholder by \$3,000 to \$6,000 each year. We amended three previous years of tax returns in order to provide the client with immediate cash flow related to the missed income tax position. This income tax position would save similar amounts of tax each year going forward.

We delivered the first set of tax returns to client by the end of February, and this enabled ownership to have their individual tax returns prepared without a time related emergency.

Beyond tax related issues, client began to ask non-tax related questions about their business and financial position. We then gave our thoughts, pointed the client in the direction of additional information or referred them to a trusted colleague of ours. As an example, we introduced the client to several banks from which client was able to select an offer related to a working capital line of credit.

The economy began its decline within two years of our relationship. As the client's revenue was decreasing to its lowest level in a number of years, their profitability and cash flow were however, at a level higher than had been seen in as far as any owner could remember. We had resolved the issue of untimely tax return preparation, discovered an immediate tax saving opportunity, and facilitated improved profitability despite reduced revenue due to a declining economy.