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You Get What You Pay For

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As the artist Pablo Picasso was enjoying an espresso in a Barcelona café, a woman approached. “You are the famous Picasso. You must sketch my picture right now. I’ll pay whatever it costs.” Picasso grabbed paper and pen, drew seven oblique lines, added one eye and handed it to her. “That’s five thousand dollars.” The woman gasped. “How can it cost that much for 30 seconds of your time?” Said Picasso: “The 30 seconds were my gift to you. My lifetime of training and practice is what costs $5,000.”

Before teachers’ unions existed, the Nebraska legislature debated paying school teachers a set amount for “only nine months’ work.” The legislators were part time. Their full-time jobs were running their farms. They worked 12 months a year, sometimes making less than teachers did while working only nine months. Finally, a wise, old legislator rose. “Consider the bull in your field. It’s not how many hours he spends on the job, it’s what he accomplishes while he’s there.”

If these stories aren’t true, they should be. Remember them when next you meet with your tax advisor. Sure, their hourly rate is likely more than you make in an hour. Included in their hourly billing rate is the cost of keeping themselves and their staff current with the ever-changing, 17,000 pages of state/federal tax laws. You should be paying for their overall job, not their time on the job.

A reader who called to complain about taxes understood I couldn’t offer tax advice. We agreed he would take notes and ask questions of his local tax advisor. His company operated at a loss. All they got for it was a “Net Operating Loss (NOL) carryback,” which had been used up, so it became an “NOL carryforward” to be used in future years. He griped that his family members had personal income tax bills in the tens of thousands of dollars. Furthermore, the family owned the land the company leased, while the company borrowed to pay the rent on a timely basis.

I asked, “At your last mid-year tax planning meeting, did your accountant endorse the company borrowing money to pay rent to the family?” It increased the family’s personal income tax liability without offering a present-day tax benefit to the corporation renting the land.

Silence. Finally, he said, “What do you mean ‘mid-year tax planning meeting?’” The company, selling millions of dollars a year, spinning out cash payments to the owners in the hundreds of thousands of dollars, hadn’t sat with their accountant to discuss their plans in years. One of the younger generation had never even met their accountant. Dad had quit the annual meetings years before because, “they cost too much money.”

I encouraged the CEO to call the CPA firm and ask for a 15-minute meeting with the accountant. The retailer's first question would be, "How would you rate our relationship with your firm?" He was shocked the CPA firm didn't care if the retailer came or left. All the CPA's staff knows is the retailer complains about the bill, so they do the minimum required. They send the bill with the tax return and prepare for complaints. They don't offer advice/suggestions because that takes time and the client wants "the cheapest job possible." That's what they deliver.

It became obvious that saving a relatively few dollars a year on tax planning cost tens of thousands in personal taxes. Their situation is more complicated than we can cover, but the accountant/client relationship has been rebuilt. They've identified more profitable ways to use up the NOL—and for the family to pay only the minimum legally required taxes.

Bottom line: you're lucky if your tax advice is worth what you pay for it. You can pay full price without getting value, but it's impossible to pay the bottom dollar and expect the top advice. **GP**

Bill would love to hear from you with questions, comments or ideas for future columns. Please contact him at wmccurry@mccurryassoc.com or (609) 688-1169.