Colloquium Part One: Circular 230: Practicing 'Inside the Lines'

Throughout the Tax Engagement Lifecycle

The first hour of the IRS webinar, "Circular 230: Practicing 'Inside the Lines' Throughout the Tax Engagement Lifecycle," hosted by Michael Smith and featuring Timothy McCormally, provided a helpful overview of the ethical standards that tax professionals are expected to follow. The first hour also focused on how Circular 230 plays a role throughout different stages of the tax engagement process.

One part that stood out to me was McCormally's explanation of the legal authority behind Circular 230. I found it interesting that its foundation is actually in 31 U.S.C. Section 330, which has been around since 1884, not in the Internal Revenue Code like I expected. This made me realize that the purpose of the IRS is more than just making sure professionals follow the law; they also help to maintain ethical standards in the tax profession. It really opened my eyes to how much responsibility the IRS has in overseeing tax professionals.

The breakdown of the Tax Engagement Lifecycle was another part of the session that I found interesting. Seeing the process divided into phases like client vetting, tax planning, compliance, and representation made it clear that each stage comes with its own set of ethical considerations. I also liked McCormally's point about needing to stay diligent at every step. It reinforced that ethics are not just about filing returns correctly, they are also about making sure that every interaction with a client is handled with care and integrity.

One of the key things for me was the focus on due diligence and competence. Circular 230 makes it clear that tax professionals need to gather and analyze all of the relevant facts before applying the law. The example that McCormally shared about failing to report foreign bank accounts was a great reminder that competence goes beyond just taking client information at face value. For me, this emphasized the idea that continuous learning and consulting with experts are an important part of maintaining professional competence.

Another part of the session I found valuable was the discussion on best practices. While these practices aren't mandatory, McCormally explained how things like clear communication and proper documentation can help avoid conflicts or even malpractice claims. This was a great reminder for me about the importance of transparency and building strong relationships with clients. In my future career when I have clients of my own, I plan to adopt these practices in my own work since they protect both my clients and my professional integrity.

The section about conflicts of interest was another part I found interesting. McCormally explained how these conflicts can develop over time, sometimes without us even realizing it, and it reminded me about how important it is to recognize them early. What stood out to me was the advice McCormally shared about being transparent about potential conflicts and get written waivers. This is another practice I plan to implement in my future career, as it is a simple step that can go a long way in building trust and maintaining honest relationships with my clients.

Overall, the first hour of this webinar gave me a better understanding of the ethical responsibilities involved in tax practice. The focus on competence, managing conflicts of interest, and following best practices gave me a better understanding of what it takes to navigate ethical challenges in tax practice. It also gave me more confidence in navigating the ethical challenges that come with this line of work, and I am more committed to staying "inside the lines" in my current and future career.

Colloquium Part Two: Circular 230: Practicing 'Inside the Lines'

Throughout the Tax Engagement Lifecycle

In the second hour of the IRS webinar, "Circular 230: Practicing 'Inside the Lines' Throughout the Tax Engagement Lifecycle," Timothy McCormally discussed the various situations that tax professionals face, especially around compliance, ending client relationships, and the disciplinary process of the IRS Office of Professional Responsibility (OPR). This part of the session also clarified specific legal obligations under Circular 230 and showed how these standards apply in real-word scenarios.

One part that stood out to me was McCormally's explanation of what qualifies as a Circular 230 violation. I did not realize that charging excessive fees could breach ethical guidelines, and this opened my eyes to what can lead to disciplinary actions. It showed me how easy it can be for tax professionals to slip up, and how important it is to keep fee structures fair and transparent, not just for compliance but also to build trust with clients. This encouraged me to think more about the ethical side of tax practice beyond just technical accuracy.

The second hour of this session also covered responsibilities in terms of returning records when ending client relationships. Under Section 10.28, professionals must give clients access to required records, even if there are unpaid fees. This reinforced the importance of responsibly handling client records and setting clear terms up front about document retention and access in engagement letters. These practices are not just about legal protection; they also show professionalism and respect for client relationships.

Another key point was the strict rule against client refund checks under Section 10.31. McCormally made it clear that handling refund checks in any way is a violation, even with client permission, and that there were significant penalties under Section 6695(f) for such violations. This highlighted the importance of ethical boundaries, especially when it comes to client funds. It is important to keep a hands-off approach with these funds to maintain trust and credibility in the profession.

The discussion on “disreputable conduct” under Circular 230 gave me a better understanding of how personal actions can impact a person’s ability to practice. Knowing that personal misconduct could disqualify someone from practicing really showed me how connected our personal ethics are to our professional responsibilities. It made me realize how important it is to maintain integrity in all areas of our lives, as our actions outside of work can have a lasting impact on our careers.

I also found the overview of OPR’s disciplinary process helpful. It was reassuring to learn that professionals get multiple chances to clarify their actions before facing formal consequences. For me, this highlighted the importance of open communication and transparency when issues come up with clients or colleagues. The fact that due process is built into OPR’s procedures gives me confidence and peace of mind that the system is fair and thorough.

In the Q&A portion, McCormally gave helpful advice about keeping engagement letters updated for recurring clients and addressing potential income discrepancies early on. He also stressed the importance of clear communication, which I have found throughout my current career to be an important part of taxation, and something I plan to carry forward. A big part of this is thorough documentation and transparent conversations, as both can help prevent misunderstandings and support ethical practices. I also appreciated his emphasis on due diligence in verifying client information, which made clear the need to address any red flags and stay committed to integrity.

After watching this seminar, I feel more prepared to handle ethical challenges that may come up in my current and future careers. It deepened my understanding of ethics in tax practice and reinforced the importance of aligning my personal and professional actions with high standards. It left me with a clearer sense of the responsibilities tax professionals have, and how personal compliance and integrity are key to staying reputable. Overall, this session reminded me of how important it is to be observant, to communicate openly and honestly with clients, and to follow best practices to support the broader goals of the tax profession.

References

McCormally, T., & Smith, M. (2024a, September). *Circular 230: Practicing 'Inside the Lines' Throughout the Tax Engagement Lifecycle*. *CPAAcademy.org*. Retrieved September 21, 2024, from https://www.cpaacademy.org/self_study_show/a0D2S00000tnwVDUAY.