

FIVE FACTORS TO CONSIDER WHEN SELECTING A TAX CREDIT FIRM

If your business is located in an Enterprise Zone, a tax credit firm can help you identify hiring tax credits and other options that can save you tens of thousands, if not more, on your local, state and federal tax obligations. They can also save you the time and headache of trying to make heads or tails of complex eligibility rules on your own and provide you with the background paperwork and support if any questions arise from your application. As in hiring any vendor, you should meet with the person who you will be working with, check references and have shared expectations for delivery of services and results. Here are five specific factors to consider in choosing a tax credit firms:

1. **Comprehensiveness of Credits** – There are 18 different factors about each of your employees that can make your business eligible for hiring tax credits. Tax credit firms identify and verify these factors several different ways: A few can be identified from your HR & payroll records, a few more may be identified by employee survey, and even more can be identified – and verified - from private employee interviews. Choose a firm that is experienced in all approaches so if the needs of your business change they can try more thorough approaches. The larger your tax bill the more important it is that the firm you choose can find the maximum possible credits.

In addition, consider the back office paperwork and documentation, and what work will be expected of you and what services the firm will perform. Services offered by firms vary, so understand whether you will be required to run reports and handle forms and paperwork or whether they will perform most of their work independently and provide reports for you to verify.

2. **“Identification” or “Utilization” Fees** - Tax credit firms earn their fees by finding money for your business and typically charge a percentage of what they uncover, either of the tax credits they *identify* or of what you *utilize*.

For example, if a firm identifies \$75,000 worth of credits for your business, and your tax bill is only \$25,000 then you can claim \$25,000 of credits this year and carry forward the other credits to future tax bills, drawing down the credits over years to come.

Identification-based contracts charge based on how much credit the firm finds for you, whether or not you can use all the credits they find. In the example, you will be charged a percentage based on the \$75,000 found for you this year.

Utilization-based contracts charge based on the credits you use over the years that you use them. In the example, you will be charged a percentage based on the \$25,000 you claim on your taxes this year, and each future year you will be charged a percentage of credits you use.

Both methods have benefits and drawbacks depending on your business’s situation. Talk both options over with a firm before signing or talk to more than one firm to weigh the best option for you.

3. **Fee percentage** – There is no “going rate” for tax credit services – fees range from 20 to 35 percent or more. Shop around and compare the fees and fee methods between different firms. If you are unsure, ask a firm to run a few different scenarios for you.
4. **Ease of Terminating Contract** - As with any vendor contract, protect yourself in the event you are unhappy with the service, or your business needs change. A tax credit firm will want to ensure it can still collect fees for work already performed, but should offer a cancellation clause that allows either party to terminate the relationship with reasonable notice.
5. **Audit Support & Experience** - Though tax credit firms are unregulated and unlicensed, most employ experienced CPAs or former tax regulators. Their experience and relationships can improve the quality, speed and efficiency of their service, so inquire before signing a contract. Also, ensure that in the unlikely event of a tax audit, your choice of firm will support you by documenting and representing their work in an audit.

For additional advice on selecting and working with a tax credit firm, or for more information on tax credits available to San Francisco businesses, contact SF Works. SF Works is a part of the San Francisco Chamber of Commerce Foundation and can be reached at 415-217-5181 or visit www.sfworks.org.