

## Irrevocable Election

*Topic:* Client Services

*Characters:* Steve, Second-year staff accountant in small CPA firm  
Partner, One of the firm's partners

Steve graduated from college about a year and a half ago and has been progressing rapidly as a staff member of a local CPA firm. Now, in Steve's second year at his firm, one of the partners has just stopped by to visit with him about a tax return Steve had prepared several months earlier. While looking at the client's file, the partner happened to notice that the firm should have attached to the return an irrevocable election that would have affected the timing of recognition of certain income the client had received and would continue to receive over the next several years. The election had to have been filed on a "timely" basis with the original return. Now the client faces a significant additional tax burden for a number of years to come.

"It's not really your fault, Steve," said the partner. "This was a fairly obscure election, and I wouldn't have expected you to have discovered it. I was out of town, and the return simply slipped through our review process without the election attached. Now it's too late, but I hate to see the client have to pay all this additional tax because of our mistake. Of course, she'll never realize what happened unless we tell her, but maybe we can avoid the problem entirely."

"Here's my idea," the partner continued. "I'd like you to prepare the election and attach it to our file copy of the return. Then, we'll prepare next year's return as if the election had been filed on time. If any questions come up, we'll pull out our file copy, show it to the auditor, and suggest that the election must have been lost during processing at IRS. Give it some thought, and I'll get back to you in a couple of days."

As the partner leaves, Steve is already nervously reviewing the conversation. Although thankful for some time to think, he is concerned that this could be a "no-win" situation. He has a sense of loyalty to the firm, and he doesn't want the client or anyone else to suffer for his mistake. On the other hand, he has misgivings about complying with the partner's suggestion.

*Author:* Ed Scribner, Associate Professor of Accounting, New Mexico State University