

The Importance of Professional Liability Insurance for Tax Preparers

You may not think that as a tax preparer you need a great deal of insurance coverage. However, if you make a mistake that costs a client dearly with the IRS, you could be sued. And without proper insurance coverage you could be forced to pay for legal fees and any resulting settlements or court orders out of pocket.

If you currently carry a business owner's or property insurance policy, the liability portion of those policies will not cover you for mistakes you make in rendering your professional service.

That's why tax preparer's professional liability insurance should be a cornerstone of your business insurance portfolio, whether you work from an office or out of your home.

Mistakes: Your biggest risk

As a tax preparer you need to stay on top of your game. Your clients are paying you for your expertise and trust that you keep up with changing federal and state tax laws and adjust their taxes so that they legally reduce their tax burden and avoid being audited.

The number of audits by the IRS has been rising and thousands of tax preparers are sued every year over alleged mistakes or negligence.

Regardless of whether you're at fault, the cost of even defending against a lawsuit could result in you having to close your business or digging a deep hole for yourself financially.

Without professional liability insurance, you could be forced to sell off your personal assets to repay your client. You'd also have to pay for your own defense and any costs associated with a judgment against you.

The most significant risk a tax preparer faces is being sued for errors or negligence. These professional liability policies are also called errors and omissions (E&O) insurance and they will cover your costs if you are sued, including legal fees, court fees, settlements or court-ordered damages.

Most commonly, a professional liability policy would be triggered if a client sues you if your mistakes resulted in them:

- Being audited by the IRS, and
- Being forced to pay interest and penalties by the IRS.

Who needs coverage?

You should secure tax preparer's professional liability insurance if:

- Your clients require it as a condition of doing business with you.
- A professional association you belong to requires it as a condition of membership.
- You provide advice or services that could result in a lawsuit or financial loss for your client due to any alleged error, omission or wrongdoing on your part.
- You have personal assets that could be jeopardized if a client sued you.

The cost

E&O insurance for tax preparers is extremely reasonable, ranging from \$25 to \$30 a month for a policy with a \$500 deductible.

That's an average and the premium will depend on the size of your business, the types of work you take on (if you take on more large clients, the premium will be higher than if you work with individuals or small businesses).

Other insurance

If you operate out of an office where clients visit you, you should also have in place a business owner's policy, which will cover any third parties that are injured on your premises. Also, this policy covers damage to your property from a covered event like a fire and theft.

However, if you work from a home office and don't have customers coming to you for meetings, you may just need home office insurance to cover your business equipment. These policies are usually sold as a rider to your homeowner's policy.

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