The Tax Office of Tomorrow: BEYOND THE COMFORT ZONE

Future success for tax practitioners will mean moving into new areas
Outside the comfort zone

The firms that succeed will be the ones that ‘choose to be uncomfortable’

By Antoinette Alexander

Advancements in technology, changing demographics and tax reform’s far-reaching impact are reshaping the tax profession. Tax practices looking to effectively compete must re-examine themselves to ensure they are delivering an elevated customer experience and have the systems in place to drive greater automation and efficiencies. For some, that may mean stepping outside of their comfort zone and bidding adieu to the status quo.

“The old adage is, ‘If you do what you’ve always done, you’ll get what you’ve always gotten.’ That’s no longer true. If we continue to do what we’ve always done, we will not get what we’ve always gotten because technology is advancing. We have competitors that we probably don’t realize are out there,” said Kevin Stephens, a partner at Hinton Burdick in Flagstaff, Arizona. “Now, with that comes tons of opportunity. I’m very optimistic for those people who are looking ahead, looking for opportunities, embracing change, and managing change. But for those who aren’t and those who aren’t willing to learn new things and to reinvent the wheel, regularly, the status quo is not going to be challenged very much.”

Tax professionals must possess strong communication skills and be adept in data analysis, process improvement and technology to stay competitive. Such skill sets will be increasingly essential for providing clients the value-added, proactive advice they seek.

The desire among clients for a proactive approach has long been reverberating throughout the industry. Surveys regularly reveal that large numbers of small-business owners have changed or are willing to change their CPA or accountant at least in part because they received only “reactive service” from the firm. For the tax office of tomorrow, the stakes will be raised.

Ramping up services

Firms are increasingly investing in advisory services and, looking ahead, it’s a shift that shows no signs of slowing. Not only is the commoditization of tax continually chipping away at the profitability of tax preparation services, but client demands and expectations are changing due, in part, to advancements in technology.

“I think the future for many firms is that they’re going to serve fewer clients but have a higher-touch, deeper and more meaningful relationship with these clients. Where, again, they are doing the compliance work but really the value that that client sees are all of the other services that are provided that aren’t forms that get filed with the government, but are more proactive things that help them run a better business or improve their personal financial situation,” said Scott Fleszar, vice president of product management for Thomson Reuters Tax and Accounting.

“Firms really are putting themselves at risk if they just want to remain status quo. They have to be thinking about how they’re going to evolve away from just offering the traditional services because the level of value that the client sees is that is declining over time.”

In fact, a 2017 survey by Bill.com found that more than half (52 percent) of business owners aged 39 and younger said that it’s critical that a firm provide strategic insight and guidance for their organizations. This necessity complements services that younger generations already consume, such as CFO/consulting services (31 percent).

Of course, strategic insight and guidance is important to a business owner of any age. The findings, however, do shed light on the mindset of up-and-coming business professionals and what tax firms must keep in mind as seasoned business owners retire and a new generation strengthens its foothold.

When asked about specialized services and potential growth opportunities for the tax office of tomorrow, Fleszar pointed to niche markets and back-office operations. Given the advancements in technology and the ability for firms to tear down geographical borders and significantly expand their pool of potential clients, Fleszar said that focusing on niche markets, regardless of their location, and establishing your firm as a thought leader in a particular niche could present tremendous growth opportunities.

Added Ray Bigley, vice president of business and corporate development for Avalara, a provider of automated tax software, “I see a trend to try to get stickier clients, and you could’ve said this 30 years ago. [But using technology], from an accounting firm perspective, I think it enables them to offer ancillary services that they may have not offered in the past, and that client becomes stickier.”

For instance, the creation of online markets like Amazon means that merchants, regardless of size, must be familiar with and in compliance with tariffs or taxes imposed on goods when transported across international borders, said Bigley. This represents yet another area of

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opportunity for the tax office of tomorrow. “Caterpillar, for example, cared about that. They sold big equipment into China and all over the world and they cared about duties. Now, a very small seller on Amazon, or any of the other related online markets, has to deal with customs and duties. If they’re not aware of it, they don’t price their products correctly,” said Bigley. “What it means is there is a conversation for even the smallest accounting firms to have with their clients on how technology enables these transactions to take place globally.”

Hinton Burdick is among those firms recognizing the value of advisory service offerings and targeting niche markets, according to Stephens. “Our clients want a comprehensive relationship that is inclusive of helping them on the tax side but also helping them run their business. We want those clients and they want that from us,” he said. “We have to decide where we can be good. We can’t be all things to all people. [We need to] make sure we’ve tooled appropriately for those verticals or niches so we can exceed our clients’ expectations.”

The firm has, for instance, dedicated a team of professionals to assist the health care industry in planning and compliance, and has a team that specializes in helping contractors understand the complex financial reporting requirements and tax considerations that are available to the construction industry. Its service offerings include cloud-based, virtual client accounting assistance and support for businesses.

“We’re heavily invested in our advisory services side. That’s where we see both the greatest opportunity for us and the opportunity for us to make meaningful impacts for our clients,” Stephens said.

Echoing the sentiment is Oklahoma City, Oklahoma-based Core Group, which has “hung its hat on being the one-stop financial source for small businesses.” In addition to tax, accounting and payroll, the firm also offers wealth management and employee benefits services. “We really believe that the business professional is going to be complexities for business clients, as well as gig economy workers. On the flip side, tax returns for a basic 1040 wage earner are likely to simplify because fewer will qualify for itemized deductions.

Sources agree that tax reform will mean greater complexity for business clients, as well as gig economy workers. On the flip side, tax returns for a basic 1040 wage earner are likely to simplify because fewer will qualify for itemized deductions.

One of the big things that I do see people looking into a lot is how they structure their company,” he continued. “With the new lower corporate rate, should I now become a corporation? Will I be able to use the LLC deduction?”

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Glen Keenan
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How will tax practices change in the next five years?
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Some of that is the type of business you are and the level of revenue you have. People who are running businesses need to go to their CPA and have their CPA tell them how to structure the business.”

The urgency for more proactive tax planning is already being felt throughout the industry as some practitioners started meeting with clients in May, and in some cases even earlier, to discuss tax planning and the impact of tax reform for tax year 2018 and beyond.

One such example is Joshua Rivlin, principal and wealth manager for Baltimore-based The Rivlin Group.

“One of the things that we did with our tax software is we have, right in the front, a comparison, it was a projection. It compared their numbers as if the tax reform was in effect as of Jan. 1, 2017, and how the tax would have looked. We reviewed that with every single client that we filed, even for the extensions,” he said. “Normally, we do tax projection planning towards the end of the year — September, October or November — but because of tax projection planning at the end of the year, when they may have been able to get in front of an issue earlier.”

Integrated Financial Group, in Sterling Heights, Michigan, shifted its pricing structure to a bundled services model about two years ago, said executive officer and co-founder Chris Picciurro. Similar to a SaaS pricing model, the firm charges an initial client setup fee and then a flat monthly rate, which varies by client depending on their service needs. The firm does roughly 95 percent fee-based financial planning and, to date, roughly 70 percent of its revenue is residual.

“It’s actually worked really, really well. It’s a little bit of an educational process for the clients but it accomplishes a lot things. The biggest thing it accomplishes is that our clients look at us as consultants and not at ‘tax pro,’ not a commodity,” Picciurro said.

Tax professionals who target a niche and have expertise in a specific area — for example real estate, construction or restaurants — can charge a premium for their services, said Miller. He also suggests that firms take time to educate clients on the value the firm can provide before quoting a price for services. In fact, Miller spends, on average, two hours with a prospective client before presenting a proposal. “If you move away from more generalizing things to more almost boutique specializing, you can increase your value proposition,” he said.

Workflow of tomorrow
Tax firms of the future will need to place an even greater emphasis on client experience, while also working to increase firm efficiencies and drive down costs, according to industry sources. This boils down to embracing a cloud-based workflow, with real-time dashboards for streamlined online review, and leveraging such game-changing technologies as artificial intelligence, machine learning and robotic process automation.

“Accounting is in the midst of an exciting transformation. It’s reshaping practices and businesses, and changing how we all work. Not to mention how accountants work with clients and what clients are expecting of them. There’s a lot going on and everything is moving,” said Jim McGinnis, executive vice president and general manager of Revenue Technologies, a provider of tax software.

H&R Block

Shawn Moore
Vice president of acquisitions and development

How will tax practices change in the next five years? To stay competitive and meet consumer demands, tax offices will need to utilize technology to its fullest. For example, the increased use of mobile devices and apps for tax preparation and client data transfer. Data security will continue to be paramount, not only at the tax office level, but all aspects of data transfer and storage.

How are you helping them prepare for that change? Our tax offices use leading-edge technology like secure client portals so customers can access their current and prior-year returns and other information using any computer or mobile device. We use scan-and-populate technology that eliminates data entry, saves valuable time, and reduces errors and expenses. This allows tax professionals to focus on higher-value services like advising their clients.

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for medium and large firms at Wolters Kluwer Tax and Accounting North America.

According to McGinnis, the following key technologies will enable the tax office of tomorrow to reap the benefits of a digital tax workflow:

- Secure cloud solutions can reduce IT warehouse expenses and empower staff to access, update and save information in real time, from anywhere;
- Data analytics and practice management solutions will help firms become more productive and efficient, enabling growth and scale;
- Scan-and-populate solutions will reduce manual data-entry activities, freeing professionals to focus on delivering expertise to clients;
- Feature-rich portals will simplify and enhance client collaboration; and,
- AI, machine learning and RPA will allow firms to streamline operations and processes.

“Tax professionals will start using artificial intelligence to streamline workflow of all kinds. Wolters Kluwer is helping customers thrive in a world of change and working to deliver AI solutions that are driven by big data and parallel processing for insight, purchase prediction and personalized experiences,” said McGinnis, pointing to such examples as the new CCH Axcess IQ with artificial intelligence, support chat bots and predictive analytics.

Mike Sabbatis, CEO of XCM Solutions, a cloud-based workflow automation solution, sees continued growth in the virtual office. Keeping in line with this growing trend, XCM’s most current version is HTML-enabled. This means that it is browser-, machine- and operating system-agnostic so professionals can work anywhere, anytime, on any device. In addition, the company recently released a set of APIs to integrate with other solutions and facilitate the import and export of data such as task, employee and authorization information.

Looking ahead, Sabbatis agreed that technologies like robotic process automation, artificial intelligence and machine learning will increasingly take the spotlight. He noted that the industry transformation and rise of such technologies will not eliminate the importance of tax professionals, but will change their role.

“There’s been a lot of talk about jobs disappearing in the accounting industry due to automation. I would submit that jobs are changing versus disappearing, and that’s a great opportunity for us,” said Sabbatis. “You need to continually reinvent yourself just in business in general. So, I wouldn’t be afraid of these new technologies. I would embrace them because within the embracing of them you’re going to find new business services and higher value for what your profession brings.”

Michael Bernard, chief tax officer of transaction tax for Vertex, a tax technology provider, agreed and said, “There’s this thought that all of this technology is going to somehow eliminate jobs for finance professionals or for tax professionals and it’s actually the opposite. … Your actual skill set will evolve and change. That means is that you will actually have to start learning more about systems and technology.”

Continued Bernard, “I think you have to first understand that technology is going to be your pathway to success. You need to understand that.”

Said Terri LaRae, a partner with Deloitte Tax LLP, “We all have to understand from a technical perspective how we serve our clients, but it’s the technology piece of this that I think is going to be the future challenge. They are going to have to [increase] their technology competency to complement that technical background.”

Staffing
It is no secret that staffing continues to be a challenge for firms and, looking ahead, there’s little sign of a turnaround. Staying on the cutting edge of technology can help firms of the future attract and retain top talent.

“From a talent perspective, unless you’re working and have a vision, working and using the best tools, hiring people is going to be more and more difficult for you,” said Bernard. “There’s an expectation now from the younger generation that I’m not just doing tax, I’m not just going to do accounting, I’m actually going to do IT because younger people have actually had a lot of that experience in school. They’ve grown up with that experience. In order to get the best talent you have to be working with the best tools.”

When asked about the challenges facing the firms of tomorrow, Brenda Olesuk, director of operations and development at Holyoke, Massachusetts-based Meyers Brothers Kalicka, said, “The staffing model is quite different now. … The economic environment, the way the industry is changing so much, I just feel that accounting firms are being forced to really look at their model, look at their profitability margins, look at cost containment. There’s pressure on lean and leverage.”

Noted Deloitte Tax’s LaRae, “It is about becoming more technology-savvy, and I would say also maybe hiring a diverse population of professionals to be able to address all of the complexities that we’re seeing. I think having an inclusive workforce also makes you a better advisor in this area as we continue to evolve.”

Clearly, the industry will continue to experience change in the years ahead. Elevating the customer experience and leveraging technology advancements can help the tax office of tomorrow stay competitive.

“We have a tremendous opportunity as an industry, but it’s going to be for those who choose to be uncomfortable and make those [necessary] changes,” said Core Group’s Brim. “The ones that don’t are going to have a consistently harder time staying in business and making money.”

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