Revolutionizing Tax Prep:

Solving the Real Challenges with High-Impact Automation

Your Presenters:

Sean Hanthorn

- Director of Operations - RootAdvisors

- Director of Education Services and System Strategies- RootWorks

- Technical Consultant - Thomson Reuters

- 2017 CPA Practice Advisor "20 under 40" honoree

- 2012 & 2014 CPA Practice Advisor "40 under 40" honoree

Your Presenters

Jordan Kleinsmith

- Principal Product Manager - Liscio

- Director of Innovation - Thomson Reuters

- Director of Product, Tax & Advisory - Thomson Reuters

- Senior Manager of Tax Technology - Marcum LLP

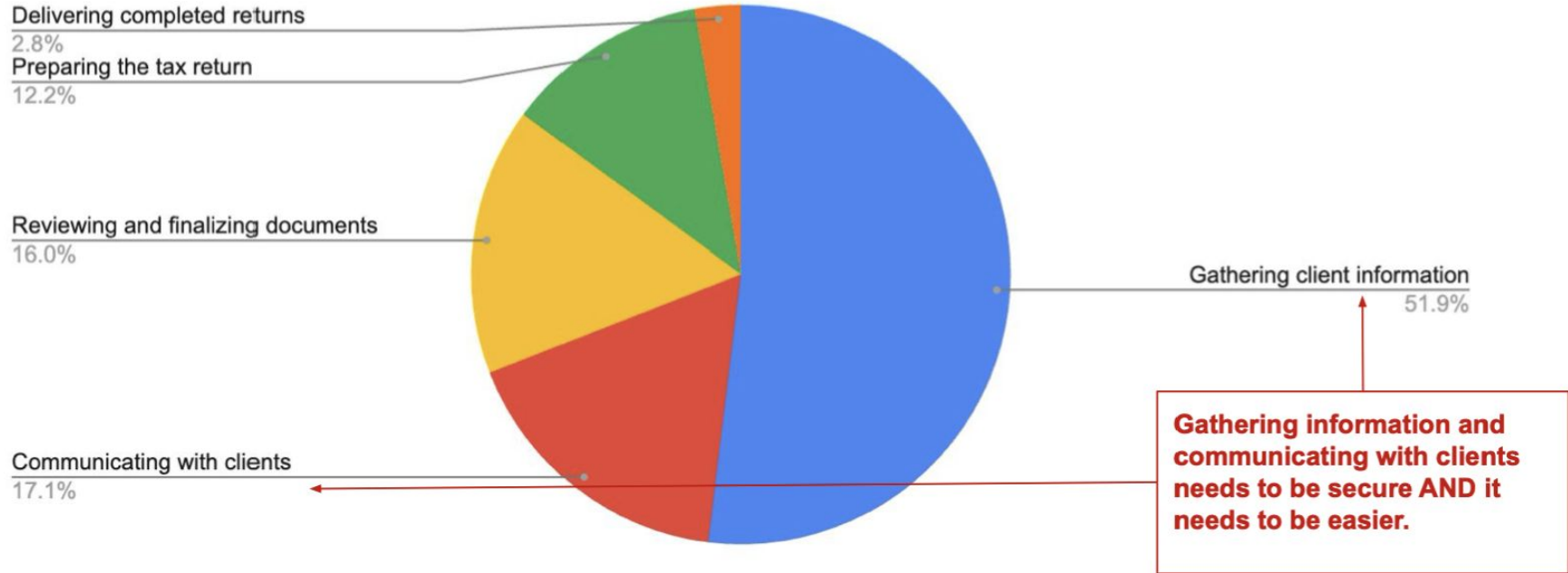- 2013 CPA Practice Advisor "40 under 40" honoree

Agenda

- State of the profession

- Data and Metrics

- Tax Organizers Options & Comparison

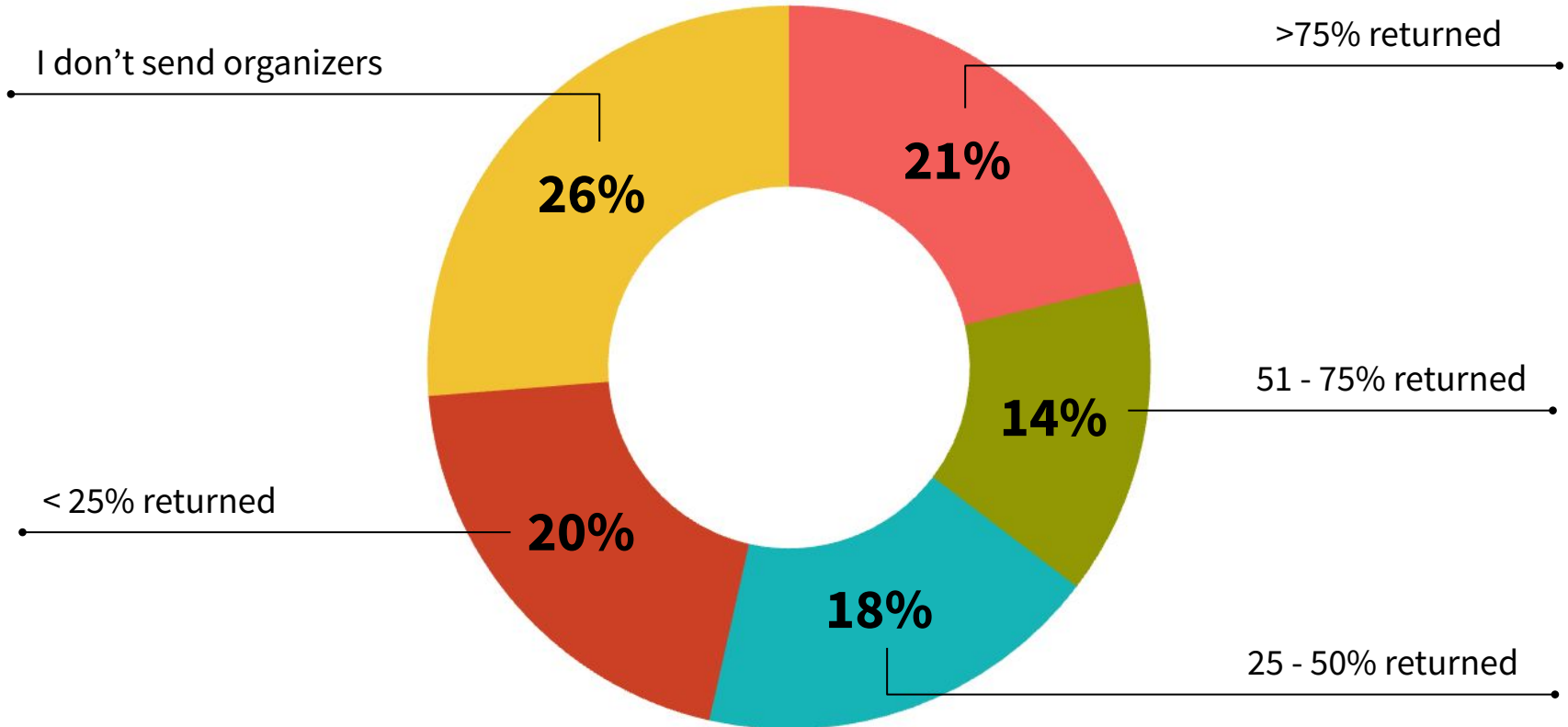- Tax Delivery Options & Comparison

- Summary

- Q&A

State of the profession

- We have the same problems this year that we had last year

  - Tight labor market (high cost, low supply)

  - Offshoring doesn't work for most firms

  - Most of the labor cost in a tax return is related to client-facing issues

What takes the most time when preparing a tax return?

Delivering completed returns
2.8%

Preparing the tax return
12.2%

Reviewing and finalizing documents
16.0%

Gathering client information
51.9%

Communicating with clients
17.1%

Gathering information and communicating with clients needs to be secure AND it needs to be easier.

Tax Organizer Response Rates *(370 firms surveyed)*

Liscio

I don't send organizers — **26%**

>75% returned — **21%**

51 - 75% returned — **14%**

< 25% returned — **20%**

25 - 50% returned — **18%**

This is costing firms a fortune:

- Cost to print and mail a paper organizer: **$10 - $15**

- Most organizers are not returned

- The cost to chase clients and get answers is extremely high

- Clients don't want to feel as if they are doing all the tax prep work themselves

Some Firms Have Tried Throwing Money at the Problem

- Firms and clients end up with too many portals
  - +1 portal for tax organizers
  - +1 portal for tax return delivery
- The per-return cost is prohibitive for most firms
  - Between $7 and $10 per organizer sent
  - $10 to $20 per tax return sent
- Client experience and response rates suffer
  - Clients don't know if the portal is legitimate or a scam
  - Login problems
  - Different user interfaces
  - Clients can self service

Here are your tax organizer options this year:

- No organizer

- Paper

- Fillable PDF (including SafeSend)

- TaxCaddy

- Smart Organizer

No Organizer

- Saves the organizer time and cost

- Provides no leverage -- most of the work falls on the preparer

- Not compliant with Publication 4557 if information is exchanged over text / email

Paper Organizers

- Labor intensive

- Expensive ($10 - $15 per organizer -- assembly + postage + labor)

- Not compliant with Publication 4557 if information is exchanged over text / email

- Clients feels as if they are doing most of the work

- Verbiage and layout is confusing to non-tax experts

- Low response rates

Fillable PDF

- Only available on some tax platforms (e.g. Ultratax)

- Forms are difficult for clients to understand

- Clients feels as if they are doing most of the work

- No mobile option

- Low response rates

- Easy to miss changes made by clients

TaxCaddy

- High price for every return sent, regardless of client adoption

- Adds another portal and login credentials for clients to manage

- Only addresses 1040/1041 clients, requires other tools for Business Tax & CAS

Smart Organizer

Client Experience

- Pre-filled answers for Personal and Contact information
- Personalized document request list shows all documents provided in the prior year
- Dynamic sections and questions create the shortest possible Request
- Supports the full range of mobile devices (iPad, mobile web browser, apps)
- Mobile Scanner available using device camera

Firm Experience

- Easy to create, review, and download
- Track overall client progress
- Add documents or other client responses received via other channels
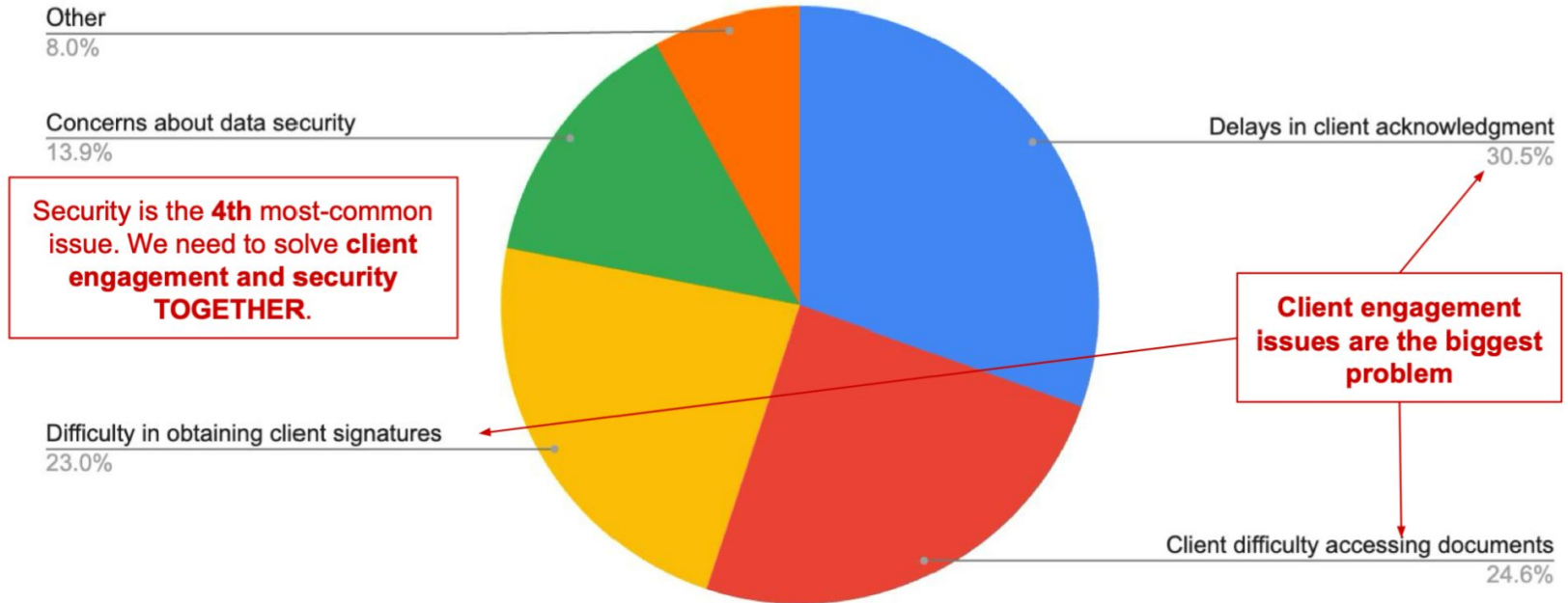- Immediate return on investment

Smart Organizer Demo

Comparison Table

	No organizer	Paper	Fillable PDF	TaxCaddy	Smart Organizer
Client Experience	3⭐	1⭐	1⭐	3⭐	5⭐
Cost/unit	n/a	$10 - $15	$5	$10	$10
Response rate	n/a	33%	33%	50%	60%
Rollover protection	No	No	No	No	YES
Actual Cost/unit	$0	$30 - $45	$15	$20	$5
Time Savings	0	1-2 hours	1-2 hours	1-2 hours	1-2 hours or more

Tax Delivery Has a Similar Problem

What are the most common issues you face during the tax delivery process?

Other
8.0%

Concerns about data security
13.9%

Delays in client acknowledgment
30.5%

Security is the **4th** most-common issue. We need to solve **client engagement and security TOGETHER**.

Client engagement issues are the biggest problem

Difficulty in obtaining client signatures
23.0%

Client difficulty accessing documents
24.6%

Liscio

Here are your options this year:

- Mail

- Email

- DocuSign

- Tax vendor portal

- Other file exchange portal

- SafeSend

- Liscio

Mail

- Slow

- Costly

- Lots of chasing

- Low response and completion rates among clients

- Identity thieves are increasingly targeting and intercepting mailed organizers

Email

- Request generally drags out over weeks or months

- Not IRS compliant

- May run afoul of various State privacy laws

- Don't allow clients to drag you out of compliance for their "convenience"

DocuSign

- Costly
  - Pay for the signing and KBA upon *send*, even if resending a 2nd revised version
  - Takes time to find and place signatures
- Many clients will sign without reviewing the return
  - Then they will call you to ask if they owe taxes or are getting a refund
  - Are you putting yourself at-risk of a preparer due diligence penalty?
- The Client may still need additional hand-holding, including:
  - Assisting with any payments due with the return (or estimates due, later)
  - Clients will generally be unable to find the return PDF, later, and contact you

File Exchange Portal (usually uses DocuSign)

- Costly
  - Firms incur additional fees for KBA each time they send a revised Return
- Many clients will sign without reviewing the return
  - Then they will call you to ask if they owe taxes or are getting a refund
  - Are you putting yourself at-risk of a preparer due diligence penalty?
- The Client may still need additional hand-holding, including:
  - Assisting with any payments due with the return (or estimates due, later)
  - Clients will generally be unable to find the return PDF, later, and contact you
  - Generally no mechanism for year-round secure messaging

SafeSend

- Too expensive for most firms

    - $13 - $17 per return

    - Returns requiring correction after send incur an add additional per-return cost

- Not a year-round portal

    - Clients can't find their tax returns after they sign them

    - Requires additional add-on to be a full portal system

    - No mechanism for year-round secure messaging

- Adjustments to estimates and reminders require special attention to make sure it's done correctly

Smart Tax Delivery

Client Experience

- Same login and interface as the Smart Organizer
- Personalized walkthrough
- Works on any device
- Quarterly estimated payment reminders
- Year-round portal with secure messaging

Firm Experience

- Easy to create, review, and send
- Enhanced IRS compliance (clients confirm they reviewed and accepted the return)
- Automatic reminders and progress tracking
- Save 15 minutes+ on each return

Smart Delivery Demo

Delivery Comparison Table

	Mail	DocuSign	Tax Portal	SafeSend	Smart Delivery
Client Experience	2⭐	2⭐	2⭐	4⭐	5⭐
Automatic signature placement	❌	❌	✅	✅	✅
Guided payments	❌	❌	❌	✅	✅
Payment reminders	❌	❌	❌	✅	✅
Cost/unit	$3 - $5	$1 - $7	Wide variance	$13 - $17	$5 - $7

Summary

- Tax automation is here and available for your use, today.

- Tax automation can **increase** a Firm's profits, its valuation, and staff quality of life

- It can also **reduce** *both* total overtime and non-billable time for professional staff

- Tax automation solutions work alongside the systems firms are already using

- No major data conversions or other costs of change beyond learning the system

- Tax automation takes <u>less than 2-4 hours</u> of invested time to deploy

IRS Due Diligence Resources for Tax Professionals

- [Frequently asked questions for IRS e-file signature authorization](irs.gov) (irs.gov)

- [Publication 3112: IRS e-file Application & Participation](irs.gov) (irs.gov)

- [Publication 1345: Handbook for Authorized E-file Providers (1040)](irs.gov) (irs.gov)

- [Publication 4557: Safeguarding Taxpayer Data, A Guide for Your Business](irs.gov) (irs.gov)

- [E-file security, privacy and business standards mandate](irs.gov) (irs.gov)

- [Section 7216 Information Center](irs.gov) (irs.gov)

- [IRS Internal Revenue Manual Part 10: Security, Privacy, Assurance & AI](irs.gov) (irs.gov)
    - [10.10.1.3.1.1 Acceptable Forms of Electronic Signatures](irs.gov) (irs.gov)
    - [10.10.1.3.1.2 Intent to Sign the Electronic Record](irs.gov) (irs.gov)
    - [10.10.1.3.1.4 Identifying and Authenticating the Signer](irs.gov) (irs.gov)

Q&A