Thomson Reuters Institute

2023 State of the Tax Professionals Report: Efficiency

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Strategic priorities for tax professionals

In 2023, as businesses are trying to reclaim some semblance of normal operations after several years of pandemic-related uncertainty, accounting firms too are re-thinking their priorities in order to better meet customer demand and position themselves for future prosperity.

While overall goals for tax-firm owners and leaders remained consistent in the latest *2023 State of the Tax Professionals Report*, efficiency re-asserted its primacy as a top strategic priority, client service moved up in importance, and the search for quality talent — last year's top priority — slipped to fourth place, behind growth.

Priorities are aggregated by number of mentions from surveys of more than 500 tax leaders around the world and grouped by theme. Going into 2023, the conversation in accounting is a bit different than it was in 2022:

Main priorities, 2022 vs. 2023

2022	2023
1 Talent	1 Efficiency
2 Growth	2 Client service
3 Efficiency	3 Growth
4 Client service	4 Talent

When evaluating these survey results, it should be noted that although the order of priorities may have changed, this doesn't necessarily mean firms care any less about any given priority, it's just that respondents' primary focus may have shifted. As a practical matter, all of these priorities are inter-related, and the statistical difference between the top three priorities, for example, is only a few percentage points. And although finding and developing talent did drop from the top spot to the fourth spot overall due to input from small and midsize accounting firms, the hunt for talent is still very much a top priority at large firms.

Indeed, firm size is an important factor in these findings as well. At firms with 30 or more people (Large firms), for example, recruiting, developing, and retaining high-caliber talent remains the highest priority, whereas firms with between 4 and 29 people (Midsize firms) are more focused on efficiency and client service. Talent isn't as much of an issue at Small firms (those with 1 to 3 people), where there is more of a focus on client service and growth.

Priority 1: Efficiency

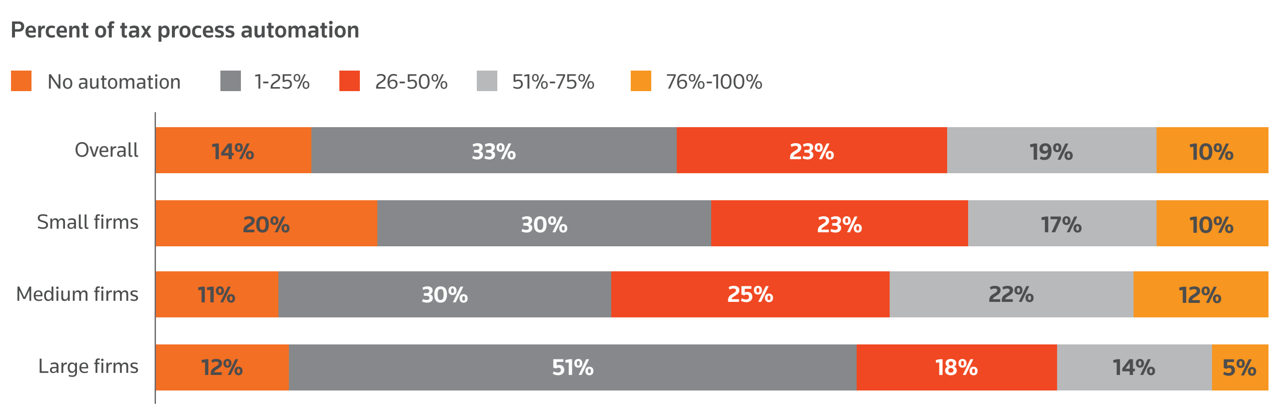
Driving operational efficiency re-emerged as the top overall priority for accounting firms in 2023 as firms work to contain costs and insulate themselves against economic uncertainty. However, the word efficiency doesn't say much, so it's worth exploring *how* firms intend to achieve these efficiencies, as well as the role technology plays in their plans.

The role of automation

Technology is of course one of the most effective and immediate ways to achieve greater efficiency in an accounting firm, particularly through automation of routine, manual tasks in the daily workflow, such as tasks found in completing accounts payable/receivable, payroll, tax compliance, and financial reporting.

In fact, most firms have automated at least some of their tax workflow processes. According to our latest survey, only 11% of midsize and large firms say they use no automation whatsoever, and only 20% of firms with fewer than three people rely entirely on manual processes.

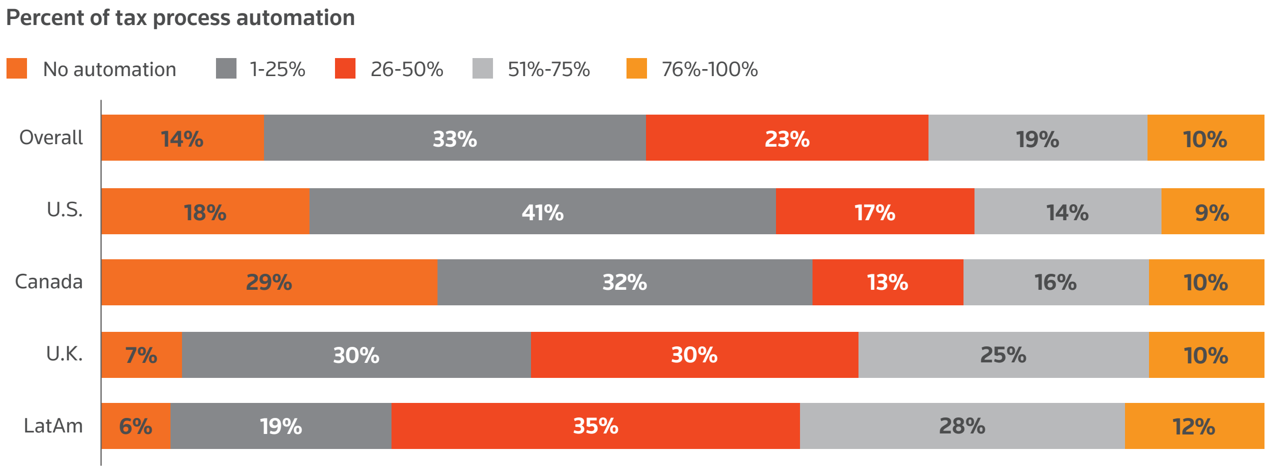
Most firms automate at least some of their tax workflows



Source: Thomson Reuters 2023

Overall, one-third (33%) of firms automate up to 25% of their tax workflows, about one-quarter automate between 26% and 50% of their tax workflows, and almost another one-third (29%) automate more than half or all of their workflows. The exception is large firms, of which half (51%) say they only automate 25% or less of their operations, resulting in a lower overall rate of automation. (***Note:*** This may sound counterintuitive because larger firms tend to make larger investments in technology, but larger firms also tend to offer a broader range of specialized advisory services, which can be more difficult to automate, so the percentage of services they can automate is likely to be statistically lower.)

UK and Latin America have more automation than US and Canada



Source: Thomson Reuters 2023

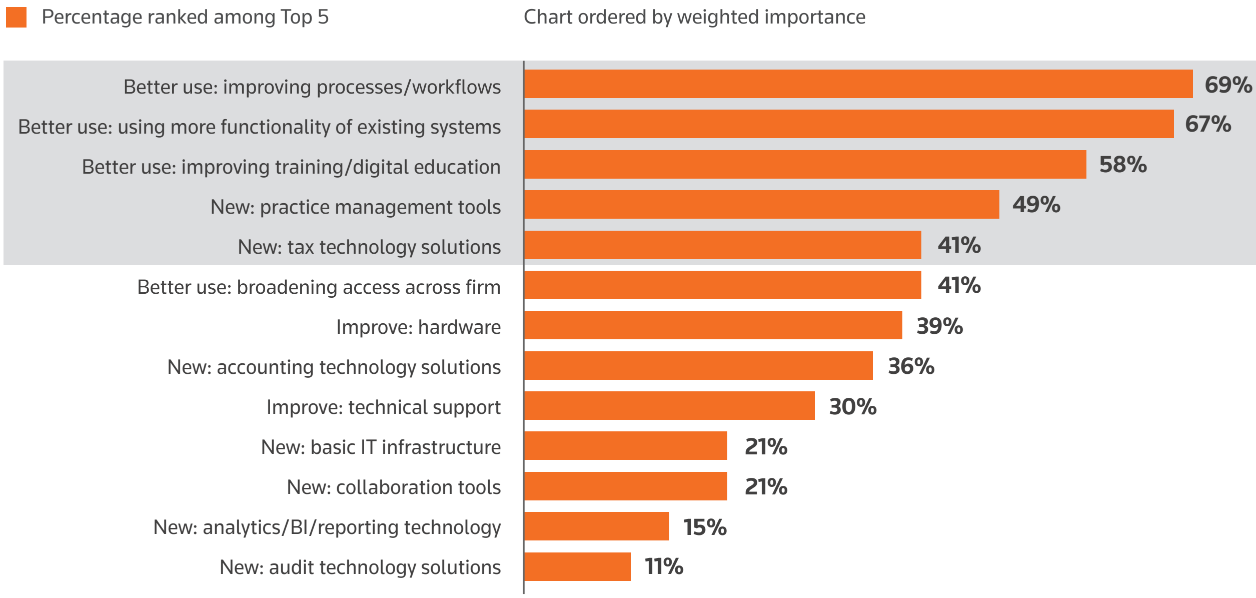
Interestingly, when these same automation stats are broken down by country, those countries that report the most tax professionals using no automation whatsoever are Canada and the United States, at 29% and 18%, respectively. The U.K. and Latin America use far more automation, with more than one-third of firms in those regions (35% and 40%, respectively) reporting that between 50% and 100% of their workflow processes are automated.

Processes & workflows

As for how tax & accounting firms plan on squeezing even *more* efficiency and productivity out of their current operations, many firms are prioritizing the improvement of current workflow systems and processes and getting more out of existing systems over investing in new technology solutions. Indeed, when asked to rank their investment priorities over the next two years, more than two-thirds (69%) of respondents said improving current workflows and processes was at or near the top of their list, followed closely by getting more functionality out of their existing systems.

More efficient use of current tools, processes and training are top priorities

Top Investment Priorities (Ranking)



Source: Thomson Reuters 2023

Better tools & training

One way to optimize the functionality of existing tools and systems is through better training and education, which 58% of respondents ranked as a top-five priority this year. Adopting new practice-management tools was also cited as a potential efficiency strategy, especially at larger firms; and exploring new tax technologies and other technological solutions rounded out the top three investment priorities in order of importance.

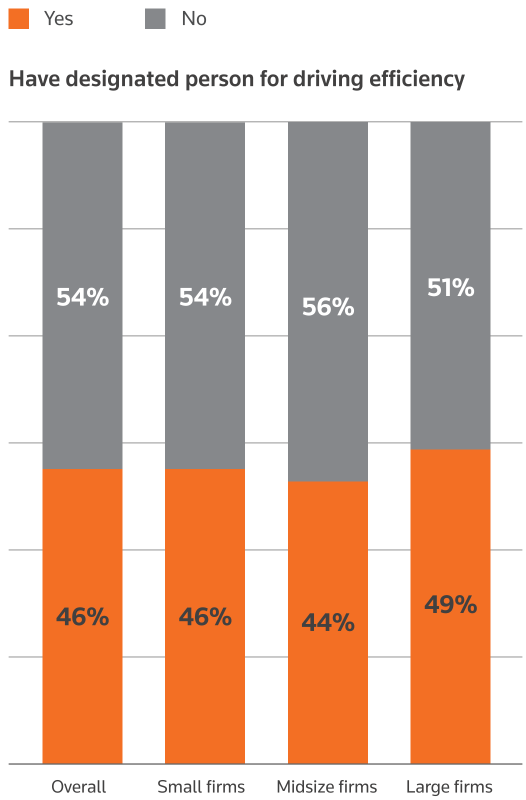
In written responses, tax leaders confirmed that their interest in technology is rooted both in a need for greater efficiency and the desire to serve clients better. Some typical responses were that tax leaders wanted to "increase efficiencies to better serve our clients with less labor hours," and to "leverage technology so that I can focus on advising." Other responses cited the use of technology to streamline operations and improve productivity, especially at midsize firms where growth is a strong focus.

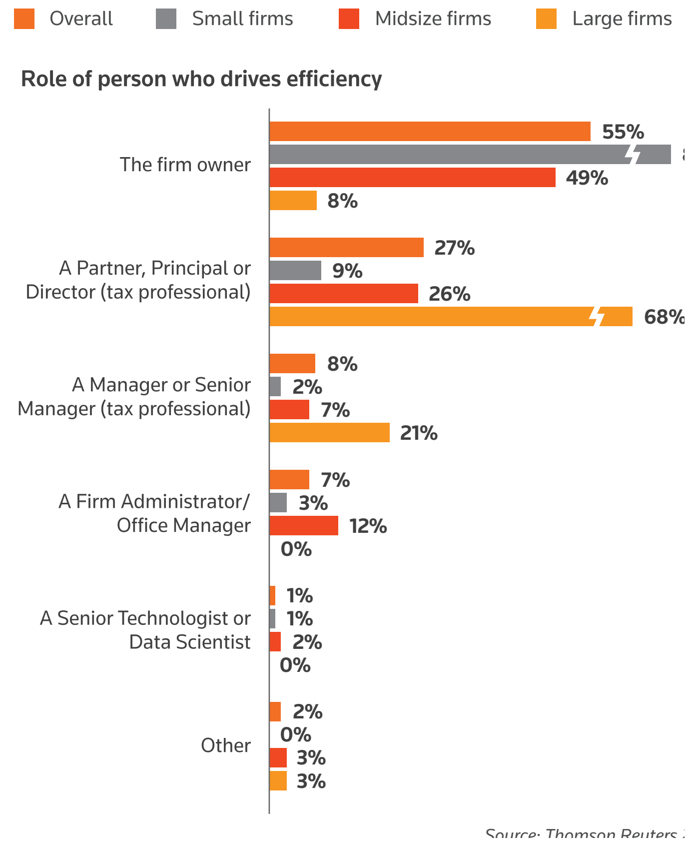
The need for leadership

The desire for greater efficiency is pretty much universal at accounting firms, regardless of firm size. But efficiency doesn't just happen; it requires planning and effort. For efficiency initiatives to be effective, someone needs to be responsible for managing the work involved in identifying friction points and bottlenecks, and for devising targeted solutions that the firm can realistically implement.

In other words, one of the most important factors in making greater efficiency a practical reality is leadership. In our 2023 survey, however, more than half of firms at all levels said they did not have a designated person whose role was to drive efficiency. Without such leadership, unfortunately, efficiency initiatives are not likely to go very far.

Firm owners are typically responsible for driving efficiency in smaller firms





At firms that do have a designated leader in charge of driving efficiency, that person tends to be at or near the top of the firm's organizational hierarchy. Not surprisingly, the firm owner tends to handle these responsibilities at firms with fewer than three people, and at large firms, the designated person is typically a partner, principal, or director.

Managers and administrators are rarely chosen to lead efficiency initiatives, which is understandable. Drives for efficiency often involve forced changes in the way people work and the tools that they use, which requires buy-in from the top, especially if investments in technology and training are involved. However, the most successful efficiency initiatives involve all stakeholders, yet also must be sensitive to the impact such changes may have on the firm's culture and individual work experiences.

> ***Key takeaway:*** Efficiency doesn't happen by itself. It requires careful study, concrete action, proper leadership, and effective change management. Otherwise, "efficiency" becomes just another empty buzzword.

Conclusion

While concerns about talent were dominant in last year's survey, those have now given way to an increasing desire for greater efficiency, along with a renewed commitment to the expansion and delivery of client services.

Heading into 2023, tax & accounting firm leaders reported that their top overall priority now is driving operational efficiency, which may reflect a need to contain costs ahead of a potential recession, as well as a desire to squeeze as much productivity as possible out of existing processes, systems, and personnel.

Yet, despite the importance of efficiency as a stated strategic goal, more than half of all firms report that they do not have a designated person responsible for driving efficiency. This is unfortunate, because firms without leadership and a detailed plan are likely to see their desire for greater efficiency remain little more than a wish.

Similarly, the expansion of client services gained some momentum in 2023, primarily in response to ongoing client demand for more advisory services, particularly in the areas of tax strategy, financial planning, and general business guidance. Small and midsize accounting firms are also interested in improving the client experience by providing more responsive, personalized service. Indeed, if there is a trend to watch for in the coming year, it's the extent to which firms are willing to change *how* they do business in response to client demands for more advisory services, more flexible pricing models, and additional business guidance above and beyond basic tax preparation.

Growth is another strong general goal for firms in 2023, but strategies for growth differ somewhat depending on a firm's size. The growth strategy for small and midsize firms is typically focused on trying to expand their client base, while large firms are more likely to focus on acquiring new clients, getting higher-value work from existing clients, expanding client services, and leveraging technological efficiencies.

At the same time, the use of more automation and improved tax software is also changing how work is apportioned and prioritized at many firms, opening up opportunities for tax professionals who want to build a broader portfolio of skills.

As the industry moves through 2023, adaptation, evolution, and flexibility are likely to become the watchwords — for both accounting firms and individual tax professionals.

Credits

Mike Abbott
Head of Thomson Reuters Institute
Michael.Abbott@thomsonreuters.com

Steve Seemer
Senior Director Thought Leadership & Strategic Relations
Stephen.Seemer@thomsonreuters.com

Nadya Britton
Enterprise Content Manager – Tax & Accounting and Trade
Nadya.Britton@thomsonreuters.com

Lucy Leach
Senior Technical Research Manager
Lucy.Leach@thomsonreuters.com

Marcus Belanger
Industry Data Analyst
Marcus.Belanger@thomsonreuters.com

Tad Simon
Sr. Content Strategist (Government/Tax/Legal) Enterprise Thought Leadership

Gregg Wirth
Content Manager

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