



# Find your flow: 1040 tax workflow best practices

WHITE PAPER

## **Are inefficient tax workflow processes costing your firm time, money, and its competitive edge?**

**That is a question tax preparers should consider as an increasingly complex and tech-driven environment raises the stakes for a growing number of firms.**

It is no secret that the profession has historically been known for long hours and heavy workloads, especially during tax busy season. However, times have changed. Advancements in technology are enabling a growing number of firms to revamp their tax workflow processes and weed out inefficiencies. This is resulting in happier clients, happier staff, and, ultimately, greater profitability.

To help firms find their flow and lighten the load during tax busy season, this white paper explores how tax practices can modernize their collection of client documents, automate data entry, improve the review process, and enhance the delivery of the completed returns to their clients.

## Modernize document collection

Requesting and gathering the necessary client documents and data is the first phase of the tax prep process. For many firms, this can be the most challenging phase of all. It can also be a primary source of workload compression when clients are slow to submit the required information. This can be especially true for those firms that have not automated the process.

There are, typically, three different ways that firms have approached data collection: paper organizers, portals, or a file-sharing service. It is not uncommon for firms to use a combination of all three options but, unfortunately, each of these methods has its downsides.

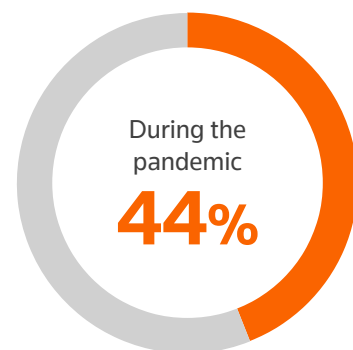
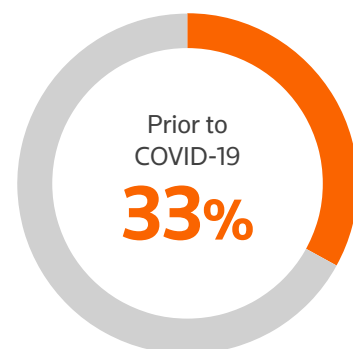
- 1. Paper organizers:** Firms usually print out paper organizers and mail them to clients in January. Paper organizers are probably the greatest source of workload compression since clients usually don't mail them back until they've received all their W-2s, 1099s, K-1s, etc. This means preparers are often receiving the needed information late into the tax season.
- 2. Portals:** Instead of printing the organizer, it is converted to a PDF and uploaded to the firm's portal. The taxpayers must then log into the portal, download the documents, print out the documents, fill out the questionnaire, scan in the questionnaire and all their documents, and then upload it all to the portal. The problem is that not everyone has a printer or scanner in their home. And, even if they do, it is still an arduous and time-consuming process.
- 3. File share:** Many firms are using some type of file-sharing service to gather client documents. Similar to portals, using a file-sharing service can present many of the same inconveniences.

"These are somewhat antiquated processes that have knock-on effects. They cause issues like workload compression, and they're not a great experience for the client, either. Just because that's the process you've been using for decades does not mean that it's the one that you should continue to use," said Greg Pope, SurePrep's Vice President of Marketing, during the recent Thomson Reuters webcast titled, Find Your Flow: Individual 1040 Tax Workflow Best Practices.

The reality is that today's clients have grown accustomed to the conveniences and accessibility of mobile applications, even when it comes to financial services. They want and expect the same experience from your firm. Take, for instance, the rise of mobile banking.

According to a recent [survey](#) from the American Bankers Association (ABA), consumers are conducting their banking via mobile apps more often than any other method. Prior to COVID-19, 33% of bank customers used apps on phones or other mobile devices as their top option for managing their bank accounts. During the pandemic, that figure increased to 44%.

**Percentage of bank customers that used apps on phones or other mobile devices as their top option for managing their bank accounts:**



“Digital banking was on the rise long before COVID-19, but the growth in mobile app use accelerated as the pandemic made in-person banking more challenging,” said Rob Morgan, ABA’s senior vice president of innovation strategy, in a press statement about the survey. “Today’s banking apps are extremely sophisticated, and this survey shows that many consumers who try them quickly make mobile their banking method of choice.”

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Therefore, it is important that firms modernize data collection to not only remain competitive but to also improve workflow. This means leveraging client collaboration tools that facilitate data collection and integrate with the tax software to automate 1040 preparation.

Consider, for instance, a client collaboration tool that enables clients to collaborate, share, and communicate with the firm from anywhere, on any device. Features to consider include:

- Clients can use a mobile app to photograph and upload documents as they receive them.
- It can automatically retrieve 1099s, 1098s, and W-2s for greater convenience.
- It integrates with the tax software to automate 1040 preparation.
- Clients can view, approve, and store their tax returns within the online tool.
- If clients have a question, they can directly message their tax professional from within the tool.

The tool features e-signature capabilities, so e-file authorizations, engagement letters, and other documents can be signed from anywhere.

Properly introducing clients to such a tool can significantly improve the adoption rate. For example, mail clients a snail mail letter in November announcing the tool and follow it up with a “set up your account” email in December to reinforce the communication.

“[The adoption rate] may be 40% to 50% in the first year, and then it just continues to increase. It’ll go up dramatically in the second year and continues to go up in the third and years beyond. But it does require some prep work. You’ve got to make sure that the client is ready for it and knows that it’s coming,” Pope said.

Modernizing the way in which the firm collects client documents and leveraging the right client collaboration tools saves time and also sets preparers up for success in the preparation of the tax return.



## Automate data entry

Requesting and gathering the necessary client documents and data is Once the documents and client information are collected, next comes the preparation of the tax return. This is the heart of the workflow process and is often where firms spend a great deal of their time. This is especially true for those firms not using technology that drives greater automation.

While a growing number of firms are investing in automation capabilities, there's undoubtedly room for improvement. According to a [survey](#) by CPA.com, Bill.com, and Hinge Research Institute, when looking at the proportion of accounting firm workflows currently automated, "high automation" accounted for only 27%. Less than half (46%) had "some automation."

Is your firm among those still manually compiling workpapers? Perhaps you're scanning documents at the end of the process just for document storage, or not scanning at all? Perhaps you have an administrative staff person who is scanning to convert documents to PDF and then manually dragging the thumbnails to create an index?

Regardless of how your firm currently handles it, the process of manually putting together workpapers lacks standardization, is highly inefficient, and increases the risk of errors. Firms looking to effectively improve the tax workflow process must first modernize document collection and then automate data entry to save time and drive greater efficiencies.

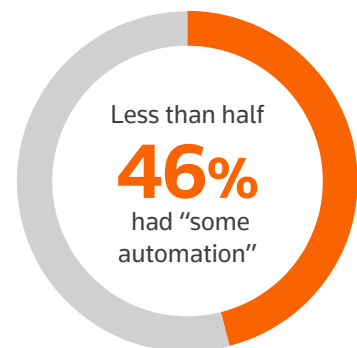
Leveraging the right [scan-and-populate](#) solution is a solid first step toward automated data entry. This means implementing a robust solution that utilizes artificial intelligence (AI) and machine learning to improve results.

Why? Traditional Optical Character Recognition (OCR) relies on fixed templates that tell the computer where to look for data. With AI, the solution can create dynamic templates to make non-standard documents OCR-compatible — a functionality that is essentially impossible with traditional OCR.

In addition, machine learning can establish rational thresholds for expected values. In other words, the OCR solution will learn to catch its own mistakes before humans need to.

It is important to keep in mind that OCR solutions do require some human verification. This is to ensure the data being extracted from the W-2s, 1099s, and other documents is accurate before it is exported into the tax software. While AI and machine learning capabilities certainly improve results, firms that truly want to automate and streamline the preparation phase might also consider a verification service whose staff will validate the accuracy of the OCR data.

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Take, for example, [SurePrep's 1040SCAN](#), which bookmarks and organizes source documents into a standardized workpaper index that follows the order of the tax return. It integrates with several tax prep solutions, including Thomson Reuters® [UltraTax CS](#). 1040SCAN leverages AI and machine learning capabilities and features patented auto-verification technology. SurePrep also offers firms an optional verification service.

*“When the preparer begins working on the return, approximately 80% or more of the data is already in UltraTax.”*

“Firms that really want to automate and streamline the preparation phase are using 1040SCANverify. No one in the office is doing any data entry. No one is doing any verification,” said Pope. “When the documents run through the system, they go to the preparer and the preparer’s role is then elevated because they’re actually doing the first level of review. They’re not putting the workpapers together — that happened automatically. They’re not doing the data entry or even the verification. When the preparer begins working on the return, approximately 80% or more of the data is already in UltraTax.”

Integrating scan-and-populate technology with a robust tax software solution is also essential for optimizing workflow. This means using tax software that streamlines data entry, simplifies the filing of advanced returns, and provides ultimate integration capabilities and flexibility. Features to consider include:

- Reduces duplicate data entry through automatic linking between business entities and personal tax returns.
- Pulls in previous year data and uses to-do diagnostics to link directly to the input field.
- Emails a list of missing data to clients with a click of a button.
- Creates allocation worksheets automatically, making it easier to prepare multi-state returns.
- Can simultaneously view all relevant information — including input, forms, prior year input, diagnostics, and more — on multiple monitors.
- Integrates with a robust research platform that is powered by AI and machine learning to get targeted search results in less time.
- Supports a paperless experience with e-signature and e-filing capabilities.

## Revamp the review process

Reviewers bill time at the highest rate. This makes the review the most expensive phase of the 1040 income tax process. Unfortunately, it is often overlooked as an opportunity for improvement. It's time the review process gets a closer look — and, possibly, a complete overhaul.

"The billable rates are so high, especially compared to some of these other tasks, but firms don't think about that. When they think about, 'Where can I save my time?' they think about the data collection process, they think about the return preparation process. We need to think about the review process," said Corey Greene, Senior Product Marketing Manager, Outbound, at Thomson Reuters, during the Thomson Reuters webcast.

The review process depends on the phases that happened before it — how does the firm gather documents and how were those documents prepared? Is the firm reviewing paper-based or PDF workpapers?

Reviewing paper-based workpapers is very difficult and inefficient, but even firms that are reviewing electronic workpapers (i.e., PDFs, Excel, Word documents, etc.) have important factors to consider such as:

- How are the documents being managed?
- Are the documents in a document management system? If so, is there version control?
- Can you download the PDF or open it and edit it? Is there something that prevents someone else from also editing it at the same time?
- Are there multiple levels of sign-offs in the document management system? In other words, can the preparer sign off on a workpaper and then a reviewer sign off on it?
- Are there sign-offs in the document management system?

"Clearly, the main downside to either a paper-based process, or even one where you're reviewing the PDFs and Excel files that are managed in a document management system that was not intended for tax prep, is the lack of standardization," said Pope. "One person in the office might manually bookmark the workpapers in one way, and another person in the office does it another way. So, when the reviewer is going through their review, it adds time because things are not always in the exact same place. So, that lack of standardization really costs firms time. ... And that's at the highest billing rate."

The good news is that there are several tools available to help firms facilitate and improve the process. With the right [workpaper management system](#) in place, firms can minimize review time and ensure standardization by automatically bookmarking and organizing tax documents.

Furthermore, the right solution can help increase staff leverage. In other words, partners can review more work from more managers, and managers can review more work from staff. Adopting this high-leverage model will increase the firm's productivity and profitability.

Said Pope, "We had a customer recently tell us that his review that used to take 20 to 30 minutes per return now takes five to 10. Across 1,000 returns or 1,500 returns, that's a significant amount of time. ... That's the highest billable time too. So that really should be the focus. The review is the area that you want to really streamline."

It is also important to keep in mind that leveraging tax software with robust diagnostics and hyperlinks to relevant guidance and research can help firms further improve the review process.

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## Improve delivery

How is your firm delivering completed tax returns and processing payments?

Many firms continue to use several different options when it comes to delivery of the tax return. There's still a lot of paper. There are a lot of disjointed digital options, such as email, file exchanges, and portals. The problem is that nearly all these methods are time-consuming. And nearly all of them are inconvenient for both the firm and the clients.

"I see so many firms out there having to remind the taxpayer several times over what the next steps are that they need to take at this point in the process. Think about your own experience and the experience of your admin staff, if they're the ones handling this process," said Greene. "Once you deliver that tax return, that end product, to the taxpayer, how often are you getting questions from them about what different things mean, or what they owe, or what the refund is they should be expecting? How often do you have to reach back out to them saying, 'Hey, have you signed that return yet? When can you get around to signing that return?' ... Think about how many interactions are associated with this delivery stage of the workflow."



Firms can improve and modernize the client experience by implementing the right [1040 client collaboration software](#). Leverage a solution that makes it easy to deliver final tax returns, tax payment vouchers, and the firm's invoice. Furthermore, it should enable clients to easily render Knowledge-Based Authentication (KBA) e-signatures to sign Form 8879 for e-file authorization, make tax payments, and pay their invoices directly from an iOS or Android app.

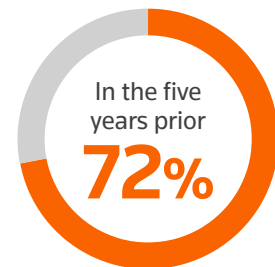
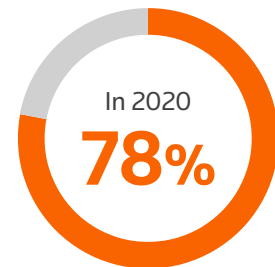
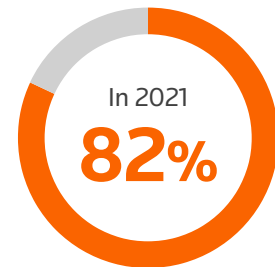
As noted earlier, today's clients have grown accustomed to the conveniences of the Internet and mobile applications. Underscoring this point, McKinsey's [2021 Digital Payments Consumer Survey](#) found that 82% of Americans used digital payments — defined to include browser-based or in-app online purchases, in-store checkout using a mobile phone or QR code, and person-to-person (P2P) payments — in 2021, exceeding 78% in 2020 and the 72% five years prior.

Today's tech-savvy clients expect the same modern experience from their accounting firm as they get from their other service providers. Consider this: a Bill.com [survey](#) of millennial business owners revealed the following:

- 56% want their accounting firm to work with cloud-based accounting technologies;
- 33% prefer digital payments, and
- 25% use their mobile devices for accounting.

Then there's the question of what does the firm, and its clients, do with the tax information? Helping taxpayers interpret and consume the information is obviously important, as well as mining the data for additional growth opportunities. Therefore, it is important not to overlook the value of customizable data mining tools. For instance, let the system help you identify clients that fall into specific categories (i.e, qualified business income (QBI) deduction, cryptocurrency, etc.) and are ideal for additional tax planning or advisory services.

**Percentage of Americans that used digital payments:**



## Better attract and retain talent

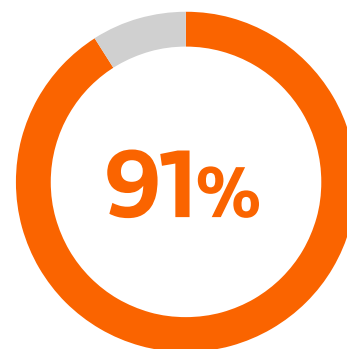
Weeding out inefficiencies in the firm's tax workflow process not only leads to happier clients and improved profitability, but it can also help firms better attract and retain talent.

Attracting and retaining top talent has long been a concern for the accounting industry, fueled by the downward trend of new accounting graduates and the growing number of baby boomers looking toward retirement. The pandemic, however, further exacerbated the need for talent as many people — those both inside and outside of the profession — began re-evaluating their careers and priorities.

In fact, a [survey](#) of finance and accounting professionals conducted by human resource consulting firm Robert Half found that 91% said they are concerned about valued employees on their team leaving for new opportunities.

Leveraging [tools that help ease the heavy workload](#) of tax busy season means that staff are less stressed and also have the time to focus on more fulfilling work.

"When you think about the talent issue, the talent difficulties that all the firms out there are facing, how could you not look for ways to elevate the role of the preparer and elevate the role of all your staff members? Whether that's elevating someone who typically focuses so much of their time on review work into more of an advisory role, preparer into more of a review role, your admin staff into more of a preparer role? With a lot of these tools, elevating these staff members is more and more possible and being enabled each and every day," Greene said.



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## **Don't let inefficient tax workflow processes cost your firm time, money, and its competitive edge.**

Advancements in technology are enabling today's firms to modernize the collection of client documents, automate data entry, improve the review process, and enhance delivery of the completed returns to their clients. This is resulting in happier staff, happier clients, and, ultimately, greater profitability.

Yes, change can be intimidating, but don't be afraid to embrace it. Turn to trusted solution providers for guidance and take manageable, bite-sized steps as you wade through the implementation process. The time to "find your flow" is now. What are you waiting for?

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### UltraTax CS

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Learn more at [tax.tr.com/ultrataxcs](https://tax.tr.com/ultrataxcs)

### SurePrep

Thomson Reuters has partnered with SurePrep to provide your firm with solutions that automate your 1040 tax workflow. You can streamline the gathering of information from clients and electronic delivery of your final product with TaxCaddy, eliminate data entry with 1040SCAN, and increase the efficiency of tax workpaper preparation and review with SPbinder while conveniently integrating with [UltraTax CS](#) and [GoSystem Tax RS](#).

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