Top Accounting Trends Impacting the Profession

WHITE PAPER

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Over the next five to seven years, 75% of tax practitioners are planning to retire. This, coupled with a downward trend of new accounting graduates, is stirring up profound changes ahead for the accounting profession.

What does this mean for the future? Are you concerned about the state of the industry with so many people eyeing retirement? If so, you are not alone.

There has been talk, for some time, of the silver tsunami sweeping the accounting profession given the number of Baby Boomers within the industry. And, based on new research by Thomson Reuters®, the findings are in line and just as concerning — 75% of tax practitioners plan to retire in the next five to seven years.

The fact that so many professionals are planning to soon retire may not be so worrisome if it weren't for the dwindling pipeline of new accountants entering the profession. According to the AICPA, accounting graduates trended downward in the 2019–2020 academic year, with decreases of 2.8% and 8.4% at the bachelor's and master's levels.

Now, throw into the mix the rise in client expectations and demands, as well as the pandemic-related workforce shifts. It's a perfect storm that is forcing many firms to rethink how they work and serve their clients to remain competitive.

During the recent "The Future of Accounting: Top Accounting Trends" webcast, Thomson Reuters heard directly from practitioners on what's keeping them awake at night and gained more perspectives on the future of accounting. The discussion was insightful. The takeaways were powerful.

Reeling from strained bandwidth and increased workloads, many of today's practitioners feel as though they are simply "treading water" right now, as they plot how they'll expand their capacity and grow their practice.

"There's never been a time in history that 75% of the people in this industry were retiring at the same time. Your challenges are going to be different. Your path is going to be different," said Nadine Weiskopf, product marketing, Thomson Reuters, during the webcast.

Retirement/succession planning

By 2030, the profession is likely to look much different given the tsunami of retirees headed our way. As stated earlier, 75% of tax practitioners are planning to retire over the next five to seven years.

And among the respondents in attendance for the "The Future of Accounting: Top Accounting Trends" webcast, nearly half (42%) said they are planning to retire in the next five to seven years.

"I'm concerned because we're not seeing the rush of people entering the profession to absorb the people that are leaving. That's really the concern," said Greg Pope, vice president of Marketing for SurePrep, during the webcast.

While some retiring professionals may be looking to simply "wind down" the business or, in other words, slowly reduce their number of clients, the more favorable approach is to restructure or have a succession plan. Restructuring/succession planning even outranks merging or selling the practice.

"Not surprisingly, we've seen this consistently in other sessions, people would prefer to restructure and do succession planning. This is really an industry that's more like an apprenticeship, in many ways. It's a very traditional industry, where people take others under their wing. Where there's a lot of loyalty, and a lot of loyalty not just to your clients, which is very high, but also to your partners. So, it doesn't surprise me that most would prefer to restructure," Weiskopf said.

The problem, however, is that practitioners eyeing retirement often fail to have a formal succession plan in place. That disconnect between saying they have a plan and actually having a formal, documented succession plan can prove troublesome for a firm's future success.

In fact, an AICPA succession planning **survey** of multi-owner firms found that more than half of firms said they did not have a written and approved plan in place — with the smallest firms least likely to have one and the largest firms most likely. The survey also found that a large majority of respondents (73%) expected succession planning challenges in the near future, and more than half (55%) were currently facing them.

"I agree. In some of the research we've done, we've found the same thing. That is the disconnect between saying you have a plan and the actual execution. I guess that's where the challenge lies," said Pope during the webcast.

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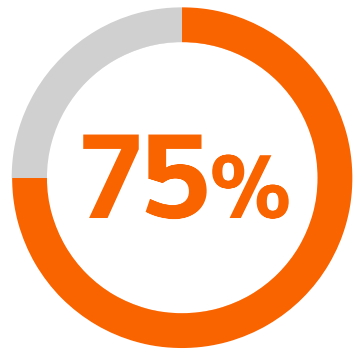

of tax practitioners are planning to retire over the next five to seven years.

As recommended by the **AICPA,** firms eyeing succession planning should, if they have not done so already, establish a formal plan documenting:

- Who is retiring and when
- How future retirements will affect the firm financially
- The firm's future strategic plans
- How the firm plans to replace each retiring partner's technical capability, work capacity, and client relationship connections and skills
- What the successful transition of clients looks like and how to transition success or failure will affect exiting partners' payout
- How partner transition of referral sources will be handled
- How the firm will develop future leaders
- Compensation and benefits for retiring partners
- The role of former owners post-retirement

The AICPA also recommends creating policies for critical issues such as partner roles, damages for taking clients and/or staff, partner termination, mandatory date of sale, and minimum age and years of service for retirement.

For some firms, mergers are an attractive approach, and, going forward, Pope suspects that M&A activity may pick up.

"I was reading another article, about M&A activity in this industry. There was a quote from Alan Colton, of the Colton Consulting Group, saying that there are many buyers seeking acquisition targets. It's becoming a feeding frenzy. Which is true. I'm sure that M&A activity probably dipped quite a bit during the pandemic, but it's not picking back up," Pope told attendees. "Given the fact that 75% of the workforce is going to be retiring in the next five to seven or 10 years, that feeding frenzy is probably going to pick up too."

The AICPA **survey** also made note of merger plans among firms and recommended, "For those firms seeking acquisition targets, consider the size of prospective firms in relation to your own NAR. Going too small may not warrant the time, energy, and effort required. Going too large will require increased capital requirements and a more complex operating and management structure. For those looking to be acquired, be the firm others want to buy. This includes being fully staffed, billing rates in line with your market, and keeping up with technology."

Labor shortage

Attracting and retaining top talent is not a new concern for the accounting industry. The pandemic, however, further fueled the issue and it is one of the most talked about struggles currently facing firms.

The AICPA's **2022 PCPS CPA Top Firm Issues Survey** found that finding qualified staff was among the top five concerns for all firms (except for sole practitioners). Among those firms with 11-plus professionals, it ranked as the No. 1 concern.

"This is probably one of the most significant trends impacting everybody on this call. The first trend is, of course, the fact that 75% of the market is retiring. That wouldn't be an issue if we saw just as many people coming in. But what we're feeling is a labor shortage across the industry. Especially in the professional accountants," said Weiskopf. "… I haven't had a single conversation with a practitioner who isn't trying to hire someone. Sometimes they're trying to hire managers. Sometimes they're trying to hire, they could be trying to hire CPAs. Sometimes staff. Sometimes technical. But I have yet to hear someone say, 'You know, we don't really need to hire anybody. We've got everyone we could use.'"

Added Pope, "This is from an AICPA report. Apparently, in 2020, the total hiring of new accounting graduates by U.S.-based CPA firms was down 10%. You couple that with all of the people leaving, you've got a real problem."

"'Too much work, not enough people' seems to be the universal theme these days," Pope said.

Further highlighting the concern, a 2022 hiring and employment trends **survey** of finance and accounting professionals conducted by human resource consulting firm Robert Half found that 87% said it's challenging to find skilled professionals. The survey also found that nearly half (43%) of finance and accounting employees said they are actively searching for a new role or plan to by the end of the year.

During the Thomson Reuters webcast, concerns about labor shortage rang loud and clear, with participants indicating that staff (44%), CPAs (32%), and managers (14%) were the top three types of hires most difficult to find.

Furthermore, 32% of webcast respondents said they have missed a deadline due to the talent shortage.

Clearly, the labor shortage challenges facing the profession remain very real. In order to expand their bandwidth and attract and retain talent, firms must embrace new ways of thinking and new flexibilities, such as remote or hybrid work capabilities and, perhaps, even hiring from outside of the accounting profession.

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Remote/hybrid work environments

The desire for a greater work/life balance has long been a topic of discussion among employees. But there's no doubt that the pandemic accelerated the move toward more remote or hybrid work environments and changed the way employees can and want to work.

In fact, according to Thomson Reuters Institute **research**, 89% of tax professionals said they could identify lasting positive impacts as a result of the pandemic, and, of those, 26% cited remote working now being an accepted practice.

Of those tax professionals who have been working remotely most of the time, nearly half (48%) said remote work has had a positive impact on their well-being, and 38% said their working practices have improved, according to the research.

Adopting remote work flexibility provides staff the greater work/life balance they desire, which can help firms better attract talent. On the flip side, tearing down geographic borders and hiring talent to work remotely, regardless of their geographic location, enables firms to significantly broaden their pool of job applicants.

"If you can offer that kind of a work environment, and it results in a better work/life balance, and you're just a happier team, that's a huge benefit to the firm," Pope told webcast attendees.

Added Weiskopf, "Agreed. Agreed. In the beginning of the pandemic, when I would talk to clients, there was a lot of anxiety. Some people would put everybody in a Zoom call, so they could talk to anybody at any moment in a Zoom meeting. But I think trust has developed. Seeing people hit their deadlines, hit their work goals, and produce as expected — it's less of a foreign concept now."

Some firms may even find that providing remote work flexibility is not simply a nice-to-have benefit, but instead a necessity to attract and retain talent.

Consider this: **research** by Robert Half found that a desire for remote work flexibility is among the top three reasons why finance and accounting professionals plan to look for a new job.

Echoing the sentiment, one participant in the Thomson Reuters webcast said, "Our staff was fully in office pre-pandemic and are now fully remote. We would prefer hybrid, but staff is happier at home. For the most part, it works, and they are pretty efficient. In this job market, if we push for return to office, we run the risk of them finding something else that is remote only."

Hiring non-accountants

Firms that are struggling to hire new talent may also want to consider hiring non-accounting professionals. Someone who would be a great fit for the firm and could be trained to do certain accounting-related functions. It's a move more firms are making.

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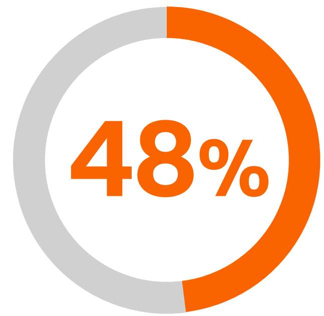

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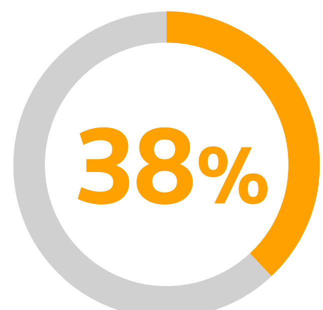

said their working practices have improved, according to the research.

"One thing I've heard a lot is that it's starting to become more about the attitude of the person that you're hiring, than their degree. Because you can teach the topic, but you can't teach the work ethic and attitude. One of the trends that we're seeing here is the fact that people are starting to hire outside of accounting degrees. Finding ways, finding talent in other markets, and in other areas," Weiskopf said.

Hiring and training non-accountants to handle lower-level work can be an effective way for firms to expand bandwidth.

Said one webcast attendee, "We have and are. At a staff level, we feel we can have them do our very easy returns and free up our more experienced staff."

Noted another practitioner on the webcast, "Yes, we have hired several and trained in-house out of necessity."

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Outsourcing

Some firms are also taking a closer look at outsourcing. While it may not be the right fit for everyone, it can be an effective way for some firms to further expand their bandwidth.

According to a Business 2 Community **blog** post, prior to the pandemic, about 6.2% of accounting firms used offshore staffing. Today, that number has grown to 41.3%

"Before COVID, a lot of people hadn't tried outsourcing. Some were just getting their toes wet. I think COVID really, and the shifts that happened during that time to remote work, really helped push people into trying outsourcing in a very serious way," said Weiskopf. "In the beginning, there was a lot of, 'Oh, outsourcing is too hard,' or, 'My clients won't be okay with it.' But as people saw more and more clients have to accept remote work in other ways, and they themselves accepted remote work, they started to recognize how outsourcing can really reduce your costs and reduce the challenges that we were all facing."

Added Pope, "Ten years ago, I think we saw a lot more outsourcing pushback. These days, we don't see much client pushback from the firms we talk to. I think firms are more comfortable with it now, and they're able to have that conversation with the clients."

SurePrep, for example, offers both onshore and offshore outsourced tax preparation services. Full prep outsourcing is an option, or firms can outsource specific tasks like Optical Character Recognition (OCR) verification.

Addressing the strict security measures that are in place at SurePrep, Pope said, "We have very, very strict security protocols in our service centers. There are cameras, and everybody uses badges to enter and exit the building. So, we know who has access to the building, and who doesn't. The work is being done on terminals. They're not like normal desktops or laptops. They don't have any USB drives, or removable media. There are no printers. They don't have access to the internet, or email, or anything like that. The environment is very, very secure."

Technology

Faced with limited resources and increased workloads, many firms are leveraging technology and greater automation and integration capabilities to help bridge the gap and find ways to do more with less.

This was evidenced in the Thomson Reuters webcast as more than half (56%) of participants polled said they plan on adopting more technology to help ease staff shortages.

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As noted in a **blog post** by Raleigh, N.C.-based Technology Associates, which provides IT services and support to small to medium-sized businesses, "Investing in and implementing automation strategies can reduce the heightened stress your firm feels during the busy season and boost productivity for your accounting team. Additionally, the right use of technology can also foster a stronger team culture."

Take, for example, scan-and-populate software. "We surveyed customers recently and asked them, 'what were the top reasons for implementing scan and populate software?' This was a multi-select question, so they could select more than one answer, so these percentages won't total 100%. But 50% said, 'We had difficulty finding quality staff to perform the necessary work.' Then, 70% said, 'We spent too much time manually entering data into tax software,'" Pope told webcast attendees.

Furthermore, implementing technology for greater integration and automation can also help firms better manage the inflow of client data. This can prove especially beneficial for firms that find themselves constantly chasing client data, which is a strain on staff and eats away at the time that could be spent on higher-value work.

Noted Weiskopf, "When leaning into the technology piece, this also gets you into the people who can do the analytics, to help you reduce and better find the data you need to do more consulting work. If you have better insight into your client's data, you can also find where they need more help that they weren't even aware of."

Firing bad clients

Is it time to fire unfavorable clients? More firms are saying, "Yes." Weeding out clients who are not an ideal fit can help firms expand their bandwidth and drive growth. These are clients who have become too much work for the amount of revenue they generate. Firing difficult and unprofitable clients also means less stress for the staff — an important factor to consider given the challenging job market.

Think of it this way: the time and energy a firm spends dealing with less-than-ideal clients is time that can be spent better serving ideal clients currently in their book of business and, perhaps, even bringing in new, more profitable clients. And, again, this will also mean less stress for the staff.

Said Weiskopf, "We've also seen quite a bit of firms culling clients that are difficult, or abusive to staff. That has helped lead to higher retention rates. Because when staff has become so valuable, you don't want clients that are berating them. Especially when you don't need those clients because there are others waiting."

Added Weiskopf, "Clients that aren't complying, you give them a deadline to get you documents and to get you data and they have you scrambling at the 11th hour. Some firms are taking a very firm approach to that, and saying, 'No, you don't hit my deadline, you're gone. I don't have the bandwidth for you. I must plan things out. Hit our deadline, or you're done.' I've seen people really pushing through on that, and it is having a positive impact on morale, and on their revenue."

Conclusion

Clearly, the accounting profession is facing profound change. Now is the time to stay in tune with the trends impacting the profession so your firm can remain competitive and is ideally positioned for future success.

Lean on peers for guidance and support, network with key players at industry events and conferences, and turn to solution providers, like Thomson Reuters, for help in navigating the change.

"Transforming in this market, and understanding how to do that, is critical to everyone on this call. To everyone in a company," said Weiskopf. "It's a big time to get ahead of it, and to really plan and prepare before we're all underwater and surprised."