Top opportunities for accounting firms today

"Every success story is a tale of constant adaption, revision, and change."

– Sir Richard Branson, British entrepreneur and founder of Virgin Group

The accounting profession is in the midst of a transformation. Faced with an influx of new technologies, increased client demands, a revolving door of legislative changes, and strained bandwidth, today's tax and accounting firms can find it challenging to keep pace. The good news is that firms are not powerless.

Firms looking to remain competitive and profitable in today's environment must be open to change and understand how to turn challenges into opportunities.

According to the 24th annual Rosenberg Survey, a yearly study of the CPA industry in the U.S. published by consulting firm The Growth Partnership, revenues at accounting firms are on the rise. Based on the findings, the average accounting firm revenue experienced a nearly double-digit increase (9.5%) — the largest boost since 2007 — and almost double the 5.7% average reported in the prior year's survey.

Even with revenues on the rise, firms must embrace innovation and invest in new technologies. With the influx of new technologies, such as artificial intelligence and greater automation capabilities, complacency can quickly lead to missed opportunities if your competitors implement solutions and capabilities that your firm doesn't.

The 2022 Virginia Society of CPAs (VSCPA) Future of Work Survey of VSCPA members revealed that the top five technologies respondents were planning to add in the next year included:

- Advanced cybersecurity measures (21%)
- Artificial intelligence (AI) (14%)
- Workflow software (13%)
- Robotic process automation (RPA) (10%)
- Enterprise resource planning (ERP) (10%)

of tax professionals believe their clients want business advisory services

Today's clients want and expect more from their accounting firms. Without the right technologies in place, effectively serving clients can prove challenging.

The rise in client expectations was kicked into higher gear by the onset of the COVID-19 pandemic as many clients swiftly turned to their accountants to help them find ways to save money and leverage government assistance initiatives, such as the Payment Protection Program and Employee Retention Credit, to stay afloat. In today's post-pandemic environment, clients' increased demands remain.

Looking to serve clients better and maintain their competitive edge, a growing number of firms are bidding adieu to a compliance-driven business model in favor of providing more forward-looking, strategic advisory services.

As outlined in a study by the Thomson Reuters® Institute, the majority (95%) of tax professionals said they believe their clients want business advisory services, underscoring the staying power of the trend accelerated by the pandemic.

It is a significant shift that is not going unnoticed, as evidenced by the creation of CPA.com's CAS 2.0 methodology and framework. As explained by CPA.com, CAS 2.0 aims "to enable firms seeking to deliver high-value client advisory services (CAS) in a technology-enabled service delivery model."

Being able to run a successful and scalable advisory practice depends, in large part, on having the right technology in place.

"No. 1 tactic CPAs are using to address capacity is automation and enhancing work with technology."

– 2022 VSCPA Future of Work Survey

On a different front, many firms continue to feel the pressure of staffing constraints. Firms are being asked to do more with less. Therefore, it comes as no surprise that the 2022 PCPS CPA Top Firm Issues Survey, sponsored by the AICPA, found that "finding qualified staff" was among the top five challenges facing firms.

More recently, a 2023 hiring and employment trends report by human resource consulting firm Robert Half found that 89% of finance and accounting managers said they are facing challenges finding skilled talent.

As Allan Koltin of Koltin Consulting explained in a conversation with Thomson Reuters Institute, "All roads lead to talent. The recruiting of it, the retaining of it, and the growing of future partners and future stars. The talent pool keeps shrinking, and even within the pool, the subset of very talented individuals keeps shrinking."

In an effort to create greater capacity and broaden bandwidth, a growing number of firms are turning to technology to improve efficiencies and better serve clients.

Underscoring this point, the 2022 VSCPA Future of Work Survey stated that the "No. 1 tactic CPAs are using to address capacity is automation and enhancing work with technology."

To better compete, firms need to understand the critical role technology plays in successfully attracting and retaining talent. They need to automate as much as possible and improve workflow efficiencies.

Streamlining workflows and eliminating mundane, repetitive tasks like manual data entry enables professionals to work more efficiently. This, in turn, gives them more time to focus on more meaningful and satisfying work like strategic advisory services. Plus, younger, tech-savvy professionals expect — not just desire — that their firms have the latest innovative technologies.

There's no denying that today's firms face a host of challenges. However, as stated earlier, firms are not powerless — they can turn these challenges into growth-oriented actions. More specifically, firms can leverage opportunities to grow their business and enhance their value proposition, including:

- Embracing innovation to improve workflows through AI and automation
- Expanding advisory services and diversifying revenue streams
- Investing in technology to better attract and retain talent

This white paper explores some of the primary challenges facing firms and provides actionable insights they can employ to turn these challenges into opportunities.
Let's take a closer look.

Challenge #1: Embracing innovation — AI and automation

Change can be daunting, especially when it means implementing new technology.

Often, firms believe it's too cumbersome and difficult to implement new technology and train staff. Either they are too busy with day-to-day work or uncertain if changes, like recent tax software, will deliver enough value to the firm and its clients. Unfortunately, maintaining the status quo and ignoring the importance of innovation can prove detrimental.

A recent survey by Accounting Today found that half of the firms surveyed said they plan to boost their spending on technology in 2023. However, the survey also found that keeping up with technological changes is among the top challenges facing firms.

Technology is advancing at a rapid pace and the influx of data that firms can access with the right tools in place can be dizzying. Firms are often left wondering which solutions will best meet their needs and the security and privacy risks that may come with them. That's why it is vital that firms turn to a trusted solution provider for guidance.

When it comes to AI, the technology is increasingly gaining traction and will continue to transform the tax and accounting profession going forward.

While there are a number of benefits you can gain through AI, it is important to recognize that there are things for which AI is not ideally suited. For instance, AI struggles with:

- Adjusting to unseen/uncertain situations
- Gaining a semantic understanding of text
- Interpreting nuanced language, such as legal documents
- Providing clear and tailored guidance and advice

Now, throw generative AI into the mix, which is being met with very cautious optimism. Generative AI (GenAI) — which is a subfield of AI that focuses on creating content from scratch, such as text, images, or video — has the potential to be transformative. Still, many firms are taking a wait-and-see approach.

According to new Thomson Reuters research on generative AI, 78% of respondents believe that generative AI tools such as ChatGPT can enhance accounting or legal work. Furthermore, roughly half of all respondents believe that generative AI should be used for tax or legal work.

Many firms, however, are treading cautiously — if at all — as risks to security, privacy, and accuracy weigh heavily. According to the research, there is a 15% adoption or planned adoption rate among tax and accounting firms — a higher percentage than legal firms.

of respondents believe that generative AI tools such as ChatGPT can enhance accounting or legal work

However, there is only a

adoption or planned adoption rate among tax and accounting firms — a higher percentage than legal firms

"The future of professional work is set to be revolutionized by generative AI, and as an industry, we need to work together to find the right balance between the benefits of technology and any unintended consequences. We believe this will help our customers to first trust the transformative power of generative AI, and then harness the opportunity to shape the future of their professions."

– **Steve Hasker,**
President and CEO of Thomson Reuters

That's not to say there aren't several generative AI use cases of interest. According to the research, the top five use cases of interest among tax firms are:

1. Tax research (79%)
2. Back-office functions (70%)
3. Accounting and bookkeeping (70%)
4. Tax prep (65%)
5. Question-answering service (63%)

"The future of professional work is set to be revolutionized by generative AI, and as an industry, we need to work together to find the right balance between the benefits of technology and any unintended consequences. We believe this will help our customers to first trust the transformative power of generative AI, and then harness the opportunity to shape the future of their professions," Steve Hasker, President and CEO of Thomson Reuters, said in a recent press statement.

Managing the complexity surrounding AI and automation

Meanwhile, leveraging greater automation capabilities can also come with some challenges.

For starters, it is essential to ensure that disparate systems are tightly integrated to reap the full benefits of automation. Unfortunately, this is sometimes easier said than done for firms still operating on legacy desktop solutions.

Migrating to the cloud is becoming table stakes for firms in today's environment. Improving efficiencies through automation, as well as taking advantage of AI-driven innovation, begins with the cloud.

Take, for instance, SurePrep, a provider of cloud-based 1040 tax automation software and services, now part of Thomson Reuters. From its 1040SCAN to SPbinder to TaxCaddy tools, SurePrep aims to elevate a firm's performance with AI-powered automation.

1040SCAN, for example, delivers the following innovation:

- AI-powered technology auto verifies optical character recognition (OCR) data for 65% of standard documents. This percentage is expected to increase over time.
- OCR uses computer vision (CV) to read letters, numbers, and symbols and convert them into data. SurePrep's application of Machine Learning (ML) to OCR is currently contributing to 1040SCAN recognizing more documents for auto verification.
- "Do it like last year" (DILLY) uses CV and natural language processing (NLP) to recognize documents, even if they change. After one tax season, DILLY compiles enough information to begin performing useful tasks, becoming more responsive and intuitive as time goes on.

Tips for successfully implementing new technology:

Begin by taking a step back to define your goals and vision.

Assign a champion to spearhead the project.

Get feedback from staff and teams at all levels within the firm.

Celebrate milestones and achievements.

Test the new technology on a handful of clients before rolling it out firmwide.

Clearly communicate with staff the benefits to be gained.

Perhaps one of the greatest challenges firms can face when embracing innovation is change management. Communication is critical, and staff must have a clear understanding of why the change is taking place and how it will benefit them and their work.

When it comes to implementing new technology and navigating change management, consider the following tips for greater success:

- Begin by taking a step back to define your goals and vision. Every project must begin with a vision.
- Assign a champion to spearhead the project.
- Get feedback from staff and teams at all levels within the firm. When associates feel they have a voice and are being heard, they are more likely to embrace change.
- Celebrate milestones and achievements. That can help maintain staff engagement and morale.
- Test the new technology on a handful of clients before rolling it out firmwide.
- As noted earlier, clearly communicate with staff the benefits to be gained. Be sure associates understand that innovative technology is meant to augment (not replace) staff and improve their ability to do their jobs.

If the challenge is embracing technology, the opportunity is leveraging it to work for you.

Opportunity #1: Leveraging innovation to improve workflows through AI and automation

Firms that overcome the challenges of embracing innovation are ready to reap the benefits of greater efficiencies and streamlined workflows. These benefits can prove especially critical during the busy tax season.

Time-consuming tasks such as printing and mailing organizers, scanning source documents, and manually entering data place a strain on staff and efficiency. When firms leverage technology to drive greater automation and eliminate manual tasks, they can be more productive, mitigate the risk of human error, and, ultimately, be more profitable.

Consider, for instance, the gathering of source documents. It is no secret that tax professionals can spend hours tracking down and gathering client documents — no more.

Gone are the days of hunting for documents or waiting for clients to bring you a pile of paper. With technology in place that enables clients to upload documents securely throughout the year, staff can get access to the information they need earlier in the tax season, so workload compression drops dramatically.

Furthermore, firms can reduce or even eliminate time-consuming data entry with scan-and-populate tax software. Through scan-and-organize functionality, preparers can avoid the need to assemble tax work papers painstakingly.

SurePrep, through its 1040SCAN, SPbinder, and TaxCaddy solutions, can provide firms with the end-to-end 1040 tax workflow automation they need. With access to these tools, firms can:

- Automatically create a document request list based on the proforma data in the tax software. Both staff and clients can easily see which documents were already uploaded to the tax client portal and which are still outstanding.
- Address taxpayers' needs with native iOS and Android mobile apps, photo scanning, e-signatures, and automated document retrieval.
- Automatically bookmark and organize source documents into a standardized work paper that follows the order of the tax return.
- Eliminate data entry with scan-and-populate technology. Data is directly exported into the firm's tax software.
- Minimize review time for managers and partners by facilitating detailed work paper preparation at the staff level. Adopting this high-leverage model will lead to increased profitability.

SurePrep also integrates with tax preparation software, such as Thomson Reuters UltraTax CS, which substantially boosts efficiency.

With UltraTax CS, firms can further streamline processes and eliminate duplicate data entry. The data-sharing capabilities within UltraTax CS automatically link between business entities, personal tax returns, and the automatic population of data that already exists within a firm's other CS Professional Suite applications.

Digitizing the entire tax process means that firms can simplify the filing of even the most advanced tax returns. Additional capabilities of UltraTax CS include:

- Pull in previous-year data and use diagnostics to link directly to the input field.
- Emailing a list of missing data to clients with the click of a button.
- Automatically create allocation worksheets, making it easier to prepare multi-state returns.
- Ensure complex returns are accurate before filing with pre-submission dynamic diagnostics that make it easy to spot errors.
- Enable users to view all relevant information, including input, forms, prior-year input, diagnostics, and more — all at once on multiple monitors.
- Use e-signature and e-filing features.

Leveraging innovation to drive efficiencies and streamline workflows no doubt unlocks growth opportunities for firms. With the time saved, firms can focus on better serving clients and providing higher-margin services. All this leads to happier clients, happier staff, and, ultimately, a happier bottom line.

"Respondents to this year's survey left no doubt that their clients are looking for more business advice. In fact, more than 93% of those surveyed replied that their clients are now looking for some form of advisory services, and close to 65% said this desire was "strong."

– 2023 State of the Tax Professionals Report by Thomson Reuters Institute

Challenge #2: Maintaining client relationships and satisfaction

Today's clients expect and demand more, so maintaining their relationships and satisfaction can be challenging. Unfortunately, misunderstandings and unmet expectations can lead to dissatisfied clients who may take their business elsewhere.

Consider this: HubSpot's Annual State of Service in 2023 report found that 88% of customer service professionals surveyed agreed that customers have higher expectations compared with prior years. Furthermore, 79% believe customers are more informed than they were in the past. "As the world becomes more fast-paced and hybrid, these expectations are growing," researchers stated.

Clients have long turned to their accountants for their expertise. However, the onset of the pandemic no doubt shifted client demands and expectations into a higher gear. In today's post-pandemic environment, those demands and expectations remain.

Further elevating your role as a trusted advisor and providing more strategic, value-added services can help your firm maintain strong client relationships and satisfaction.

Strained client relationships not only affect clients but can negatively impact staff morale and the firm's profitability. Therefore, firms must take steps to effectively communicate and collaborate with clients and ensure they provide clients with the services they want. Too often, firms fail to clearly understand what clients desire and, instead, provide services they **think** clients want.

So, what services do clients want? According to the 2023 State of the Tax Professionals Report by Thomson Reuters Institute, clients are seeking more business advice.

"Respondents to this year's survey left no doubt that their clients are looking for more business advice. In fact, more than 93% of those surveyed replied that their clients are now looking for some form of advisory services, and close to 65% said this desire was "strong," the report stated.

More specifically, clients want advice on the following:

- Tax strategy services (91%)
- Business consulting (73%)
- Financial planning (63%)
- Decision-making support (46%)
- HR or organizational issues (30%)

It is also critical that firms set boundaries as early on as possible to help avoid unmet client expectations and misunderstandings. There are several reasons why this is important:

- Not setting proper expectations hinders a firm's profitability and ability to provide good customer service. It also negatively impacts the work-life balance of staff.

- Failure to set boundaries and manage expectations often leads to scope creep and giving away free advice or services.
- Without a clearly defined scope, clients will too often try to push the boundaries of the accountant-client relationship.

To effectively manage client relationships, firms may consider implementing the following best practices:

1. **Proactive communication.** Regularly communicate with clients to address concerns and answer questions. Utilize content marketing to reach multiple clients at once efficiently.
2. **Collaboration tools.** Implement tools such as a user-friendly client portal to facilitate collaboration between staff and clients.
3. **Client classification.** Categorize clients to identify those who require additional attention and resources.
4. **Clearly defined scope.** Define the scope of service and the client relationship in an engagement letter to prevent scope creep and manage client expectations.
5. **Client feedback.** Conduct surveys to gather feedback from clients and identify areas for improvement.
6. **Client-centric approach.** View the firm and its services from the perspective of the client to ensure you're meeting their needs and expectations.

Opportunity #2: Expanding advisory services and diversifying revenue streams

In an effort to better serve clients and drive greater profitability, more and more firms are shifting away from a compliance-based business model in favor of focusing on higher-margin advisory services — and the momentum shows no signs of slowing.

Underscoring this point, the 2023 State of the Tax Professionals Report found that enhancing client service moved up as a priority relative to 2022. According to the findings, 33% of firms cited client services as a strategic priority compared with 19% in 2022 — a dramatic 14 percentage point rise.

"The prioritization of client services is especially evident at midsize accounting firms, where both individual and business clients are asking their accountants to play a more active advisory role. Midsize firms see expanding their services into areas such as tax strategy, financial planning, and business guidance as a key growth strategy, both to differentiate themselves from small-firm tax preparers and to compete with larger accounting and auditing firms, most of which already provide such services," the report stated.

As noted earlier, most respondents (93%) said their clients are now looking for some form of advisory services.

Expanding into advisory services is undoubtedly a crucial move for firms that want to expand their client relationships. Providing strategic advisory services not only helps firms strengthen loyalty among clients but also helps firms future proof their practices and enjoy a more consistent and diversified revenue stream. These are all important factors in today's competitive environment.

Unlike traditional compliance work, which reports on past events, advisory services provide clients with proactive, forward-looking guidance and advice.

There are many different types of advisory services firms can provide. Such services could include, but are certainly not limited to:

- Tax planning and strategy
- Benchmarking and analysis
- Cash flow planning and forecasting
- Business entity structure planning
- Business best practices

Furthermore, providing specialized advisory services can prove to be a significant growth opportunity. When firms specialize or cater to specific niches — for example, construction, nonprofits, or real estate — they can further differentiate themselves from the competition and command higher fees for their tailored expertise.

When clients clearly understand the value a firm provides, they will be more willing to pay a premium for those services.

To successfully expand into advisory services, firms must consider a solution that provides proven methodology, guidance, and content. One such solution is Thomson Reuters Practice Forward.

Practice Forward provides firms with a proven roadmap for shifting their business model to support advisory-centered client relationships. Features include, but are not limited to:

- Access to tools — templates, pricing tools, checklists, videos, and more — to execute the Practice Forward methodology.
- Guided implementation through one-on-one individual coaching sessions with a dedicated consultant.
- The opportunity to ask questions, share stories and ideas, and hear from other firms navigating their advisory journey via virtual meetings hosted by a consultant.
- The ability to easily collaborate with other Practice Forward members and listen to recorded webinars and podcasts.

Firms that have implemented Practice Forward are seeing the benefits. In fact, firms have reported a 150% jump in existing client monthly billings and a 200% increase in new client billings. This data proves Practice Forward can pay for itself within two to three months after implementation.

Challenge #3: Attracting and retaining talent

A dwindling pipeline of new accounting graduates and a growing number of seasoned professionals eyeing retirement has long fueled the staffing concerns within the industry. However, the pandemic further intensified the talent war as many employees began to rethink their priorities and where and how they wanted to work.

Today, the war wages on. According to the 2023 State of the Tax Professionals Report, 67% of tax firm leaders said their ability to recruit new employees with the skills and experience necessary to thrive at their firm would continue to be either "highly challenging" or "somewhat challenging."

As stated earlier, the 2023 hiring and employment trends report by human resource consulting firm Robert Half found that 89% of finance and accounting managers said they are facing challenges finding skilled talent.

In order to better compete, firms need to understand the critical role that technology plays in their ability to attract and retain talent successfully. Competing effectively means automating as much as possible and improving workflow efficiencies.

Streamlining workflows and eliminating mundane, repetitive tasks like manual data entry enables professionals to work smarter and faster. This, in turn, gives them more time to focus on more meaningful and satisfying work like strategic advisory services.

Today, the younger and tech-savvy professionals expect their employers to have the latest technology.

Firms looking to attract and retain talent better must also embrace new flexibilities like remote or hybrid-work capabilities.

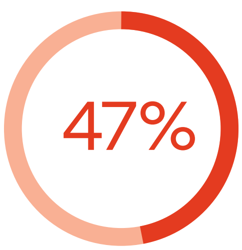
Opportunity #3: Developing a culture of learning and innovation

Consider this: the majority of finance and accounting professionals who are looking for a new job or plan to look for a new job want a hybrid role (63%), and nearly half (47%) want a fully remote position, according to the 2023 hiring and employment trends report by human resource consulting firm Robert Half.

Therefore, it is vital that firms do not underestimate the power and importance of technology.

In today's rapidly changing business environment, it is essential for firms to develop a culture of learning and innovation. This means fostering an environment where employees are encouraged to learn, grow, and innovate continuously. By doing so, firms can better adapt to change, remain competitive, and drive growth.

of finance and accounting professionals who are looking for a new job want a hybrid role



want a fully remote position

Developing a culture of learning and innovation involves several key elements:

- **Encouraging continuous learning.** Firms should provide employees with continuous learning and development opportunities, including training programs, workshops, and access to online learning resources. By investing in the development of their employees, firms can ensure that their staff have the skills and knowledge needed to succeed in today's fast-paced business environment.
- **Fostering a culture of innovation.** Firms should encourage employees to think creatively and come up with new ideas, which can be achieved by creating an environment where employees feel safe to share their ideas and where innovation is rewarded. By fostering a culture of innovation, firms can ensure that they continuously improve and stay ahead of the competition.
- **Leveraging technology.** Technology plays a critical role in driving innovation and learning. Firms should invest in the latest technologies to improve workflows, drive automation, and enhance collaboration.

By leveraging technology like UltraTax CS, firms improve their efficiency, better serve their clients, and attract and retain top talent. With UltraTax CS, firms can optimize workflows and increase profitability through streamlining data entry, simplifying the preparation of advanced tax returns, and benefitting from robust flexibility.

Furthermore, UltraTax CS seamlessly integrates with other Thomson Reuters solutions, including CS Professional Suite and Onvio® cloud software, so firms don't lose billable hours to manual processing and staff can work smarter and faster.

When looking to attract and retain talent, consider the following tips:

- Utilize solutions, such as UltraTax CS, that promote automation, increase efficiency, and foster collaboration. These solutions empower staff to optimize their productivity and achieve a desirable work-life balance.
- Provide professionals with the greater flexibility they desire through hybrid or remote work capabilities.
- Keep pace with current salary expectations. Expanding client services to include higher-margin, higher-value advisory services can provide firms with the increased profitability they want.

Conclusion

The accounting profession is in the midst of a transformation, and firms looking to remain competitive and profitable in today's environment must be open to change and understand how to turn challenges and learnings into growth-oriented actions.

Doing so includes leveraging innovation to streamline workflows and drive automation, expanding into advisory services to meet client demands better and boost profitability, and understanding the importance of technology in today's talent war.

The good news is that firms are not alone in their journey. Turning to a solutions provider like Thomson Reuters can help set firms on the path to success.

Here are some resources you might find useful.

UltraTax CS

Thomson Reuters UltraTax CS automates your entire business or individual tax preparation, delivering powerful, time-saving tools. You'll access a full line of federal, state, and local tax programs, including 1040 individual, 1120 corporate, 1065 partnership, 1041 estates and trusts, multi-state returns, and more.

UltraTax CS seamlessly integrates with other Thomson Reuters solutions, including CS Professional Suite and Onvio cloud software, so you never lose any billable hours to manual processing. Meet all your tax workflow needs with a customized, end-to-end solution built on cloud computing, advanced data sharing, and paperless processing.

SurePrep 1040SCAN

Why choose SurePrep 1040SCAN? Eliminate data entry with our industry-leading scan-and-populate solution, which automates four to seven times as many documents as the alternatives and exports data directly to your tax software: UltraTax CS, GoSystem Tax RS, CCH Axcess Tax, or Lacerte. Scale 1040SCAN according to your needs with three service level options: organize only, organize with data capture, and organize with data capture and OCR verification.

SurePrep SPbinder

Make it easy to manage digital workpapers — and, in conjunction with 1040SCAN, automatically organize them into a standardized index that follows the flow of the tax return. With SurePrep SPbinder, powerful preparation and review tools streamline the process and shorten review time. You can facilitate distributed and remote collaboration with cloud-based binders, change tracking, and multi-level sign-offs. Export information directly to your tax software and generate a bookmarked, organized PDF with all notes and annotations for long-term storage. Plus, SPbinder integrates with UltraTax CS, GoSystem Tax RS, CCH Axcess Tax, or Lacerte.

SurePrep TaxCaddy

SurePrep TaxCaddy is the ultimate 1040 client collaboration software and provides the most taxpayer-focused tax client portal available while integrating with UltraTax CS, GoSystem Tax RS, CCH Axcess Tax, or Lacerte. It connects taxpayers and tax professionals to streamline communication, document gathering, questionnaires, e-signatures, tax payments, invoicing, and tax return delivery, both as a mobile app for iOS and Android and as a website.

Thomson Reuters™