AUTOMATING TAX WORKFLOW

Leveraging Technology to Refine 1040 Workflow
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ALLOWS FIRMS TO LEVERAGE TECHNOLOGY TO MAKE BETTER USE OF THE TAX PROFESSIONAL’S TIME

OVERVIEW what is Automated Tax Workflow?

In recent years, there has been a great deal of discussion among tax and accounting professionals about the need for firms to adopt an automated workflow. As paperless processes become mainstream and new technology continues to refine workflow automation, opportunities for firms to achieve greater efficiency by automating workflow are more abundant than ever.

In this Technical Product Brief, we’ll focus on the concept of automating the tax workflow. Let’s start by defining exactly what this means:

Quite simply, automating tax workflow allows firms to leverage technology to make better use of the tax professional’s time, allowing them to focus on chargeable tax work and advice and reducing the number of administrative tasks that typically consume their days. As our thinking on automated tax workflow matures, we can also apply these new technologies across every phase of the tax return preparation process—for instance, appropriately distributing tax preparation duties to staff members based on level of experience, standardizing client communication processes for consistency, and reviewing tax returns more efficiently and effectively so that sound tax advice can be offered to your clients.

ADVANTAGES of an Automated Tax Workflow

Firms that have automated all or part of their tax workflow are finding great advantages in the process, as they can:

• **Perform More Work with the Same or Smaller Staff**—Eliminating manual work and automating repetitive tasks to ensure they’re handled consistently frees up firms to take on more work.

• **Save on Paper and Mailing Costs**—With a paperless tax process, the cost of paper supplies and postage are significantly reduced.

• **Speed Turnaround Time**—An automated workflow greatly reduces the time it takes to engage clients, process their source documents, file the return, and deliver the completed return to the client.

• **Improve Client Service**—The consistency of an automated tax workflow enables firms to give their clients an accurate estimate of when they can expect their return—and keep them informed of its progress.

• **Demonstrate to Clients That They Are a Progressive Firm**—High-end clients look for firms that use the latest technology and stay current with industry trends. Clients often express greater confidence in financial services offered by firms who employ advanced technology and adhere to industry standards.

• **Keep Pace with Competition and Fee Pressures**—Automating tax workflow can allow firms to keep pace with the aggressive competition to retain clients and grow their businesses.
**FRONT-END** Paperless Workflow Strategy

This Technical Product Brief will focus on the comprehensive front-end Paperless Workflow strategy, since it offers the best return on investment for the average firm. Let’s begin by examining the tasks involved in preparing and filing a tax return.

The workflow process diagram above illustrates the high-level, three-phase approach that most firms will cite when asked to describe their tax workflow. But let’s take a closer look at the workflow process to identify the steps that can be automated. Note that we’re not changing any of the work done in the three-step process—just breaking the workflow process down in greater detail.

1. **Collection of Source Documents**—Includes the initial client meetings and collection of the source documents. It can take several rounds of communications with the clients to capture all missing information.

2. **Organization of Source Documents**—During this phase, source documents are organized into a standard firm-wide structure.

3. **Preparation of Tax Return**—All data is entered into your tax-compliance system.

4. **Review of Tax Return**—This phase includes reviewing the return and correcting outstanding errors and issues by clearing all diagnostic messages.

5. **Delivery of Tax Return to Client**—The completed return is delivered to the client, whether in person or via online client portal.

6. **Delivery of Tax Return to IRS**—The completed return is delivered to the IRS, either by U.S. mail or by e-filing.

As we automate the tax workflow process, firms now have opportunities to eliminate steps or apply technology to re-align staff to tasks that were once done by tax professionals. The diagram below shows how the Thomson Reuters technology solutions work together to automate various pieces of the workflow process.
Five Steps to an Automated Tax Workflow Process (cont.)

Because automating the entire tax workflow process involves several stages, firms can choose to take either a conservative or progressive approach to implementing an automated tax workflow, thereby controlling the pace at which new procedures and technology are adopted. Firms that choose the conservative approach can start small and integrate complete tax automation over months and even years, while firms that prefer a progressive approach can automate more quickly. Here are five steps to consider when automating your tax workflow process:

**Step 1—Determine Your Workflow Strategy**
Take some time to consider the efficiencies you’re trying to achieve. Identify exactly where in your current tax workflow process you’re spending excessive time and resources.

The following table illustrates the steps in a common workflow process, efficiencies that can be gained, and technology solutions that can help your firm achieve its goal.

<table>
<thead>
<tr>
<th>Workflow Steps</th>
<th>Efficiencies Gained</th>
<th>Technologies to Implement</th>
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<tbody>
<tr>
<td><strong>Collection of Source Documents</strong></td>
<td>Reduce the amount of time spent meeting with clients and collecting documents and missing information.</td>
<td>UltraTax CS Web Organizer, Personal File Exchange</td>
</tr>
<tr>
<td><strong>Organization of Source Documents</strong></td>
<td>Maintain standardized tax files, making it easier to reference supporting details and reducing the need to manually sort documents and enter data.</td>
<td>Workpapers CS, Source Document Processing</td>
</tr>
<tr>
<td><strong>Preparation of Tax Return</strong></td>
<td>Assign administrative tax prep tasks to non-tax professionals, reducing costly data entry mistakes and freeing tax professionals to focus on advising clients and performing chargeable tax work.</td>
<td>Source Document Processing, UltraTax CS Source Data Entry</td>
</tr>
<tr>
<td><strong>Review of Tax Return</strong></td>
<td>Improve accuracy and quality of tax return; streamline review process with an array of online review tools, such as referencing, hyperlinking, diagnostics, and client follow-up management.</td>
<td>UltraTax CS, Workpapers CS</td>
</tr>
<tr>
<td><strong>Delivery of Tax Return to Client</strong></td>
<td>Reduce mailing costs by posting the completed return to a private, secure NetClient CS online portal. Portals also eliminate time spent monitoring and processing clients’ Form 8879.</td>
<td>NetClient CS, FileCabinet CS</td>
</tr>
<tr>
<td><strong>Delivery of Tax Return to IRS</strong></td>
<td>Timely, accurate e-filing of tax return improves accuracy and IRS acceptance of return.</td>
<td>UltraTax CS</td>
</tr>
</tbody>
</table>
FIVE STEPS to an Automated Tax Workflow Process (cont.)

STEP 2—Create a Solid Foundation with Tax Compliance Software

The foundation of the front-end paperless workflow strategy is the right tax compliance software. The most successful tax workflow process implementations make use of tax compliance software that integrates with other automated solutions and has the following capabilities:

• Integrates with portal technology
• Integrates with a document management system
• Offers strong e-filing with high IRS acceptance rates
• Reads scanned OCR data
• Integrates with on-screen review tools such as tick marks, hyper-linking, and logic-built diagnostics
• Integrates with online tax research

STEP 3—Increase the Efficiency of Your Tax Preparation and Review Work

As shown in the first diagram on page 3, viewing the tax return process as two distinct processes (tax preparation and review) can help increase the efficiency of your firm’s tax prep work.

While progressive firms keep their eyes open for business growth opportunities, it can be difficult for their tax professionals to take on the preparation of more returns without compromising the quality of their work. Firms can overcome this challenge by empowering non-tax professionals (such as administrative staff) to complete general tax prep tasks, freeing tax professionals to spend their time focusing on their specific areas of expertise and to generate more returns.

How many additional tax returns could your firm take on if your tax professionals weren’t burdened by administrative tasks such as copying, scanning, sorting, gathering missing information, reconciling data entry mistakes, and answering general client questions? Consider the improved quality of the tax advice clients could receive from your firm if your most valuable tax professionals were able to take the time to think through the tax position of every file, and judge the best way to take advantage of tax law changes. And how much more confident would you feel knowing that you can rely on tax automation tools to detect errors before submitting your returns to the IRS?

There are other advantages to separating the tax return process, as well:

• **Separation of work/roles**—While it can be challenging to have more than one person working on a single engagement, there are definite benefits to separating tax preparation and review tasks. Creating tax returns with the aid of administrative staff or automated solutions is helpful when there are clear role definitions that both staff and tax professionals follow consistently.

• **Consistency in source document organization**—Imagine the time that could be saved if source documents were systematically and consistently labelled and sorted in each file. The task of sorting and interpreting information in the file could be virtually eliminated, and data could be entered immediately into tax compliance software. Automatically preparing source documents, and separating this task from tax preparation, provides tax professionals with tremendous efficiency gains across all tax returns.

• **Ability to utilize remote staff and locations**—The separation of tax preparation and review opens new opportunities in staffing for firms. Full- or part-time clerical staff could be hired from anywhere in the country and trained to work remotely on basic tax preparation activities without ever needing to meet clients, touch paper source documents, or have knowledge of tax compliance laws.

STEP 4—Extend Your Workflow to Your Customers with Secure Online Portals

When asked to describe the tax workflow process, many firms fail to include their clients in the workflow process definition. While it’s true that the client is the basis of the entire tax return process, many firms mistakenly believe that they must accept source documents in whatever format clients provide because there’s nothing they can do to change the client’s behavior. Luckily, technology has changed significantly over the past decade, and what were once merely new trends, such as online banking and web-based self-service transactions, are now an indispensable part of doing business for many people.
FIVE STEPS to an Automated Tax Workflow Process (cont.)

STEP 4—Extend Your Workflow to Your Customers with Secure Online Portals (cont.)

These types of services are based on portal technology, which allows providers and clients to exchange documents, software, and more easily and securely. Because services like online banking are so commonplace today, it’s likely that the majority of your clients are already predisposed to work in a paperless environment. Portal technology gives firms the opportunity to gain even more efficiency by using portals to:

• Communicate source tax information requirements to clients
• Gather source documents and data via online organizer
• Follow up with clients about missing information
• Distribute clients’ tax returns electronically
• Accept e-file approvals (Form 8879)

STEP 5—Use Secure Portals to Offer Value-Added Services to Clients

After you’ve integrated your clients into the workflow process and are comfortable communicating with them electronically, your firm can use secure portals to keep clients updated on firm news and provide them with other valuable services, such as:

• Online credit card payment of fees
• Bookkeeping services
• Payroll services
• Check writing and invoice payment authorization

As you can see, the five-step approach is really a straightforward process. However, there are a number of technologies that must work together to provide the end-to-end workflow process to your clients and firm. The Tax & Accounting business of Thomson Reuters offers expert consulting services to help you strategize and mature your tax workflow process, as they have done with hundreds of other firms. A Thomson Reuters consultant can help you integrate new technologies into your firm that are compatible with your existing tools and software applications. Successfully automating your tax return process means that you can use integration features that support your firm’s process, as well as your client’s needs.

OCR TECHNOLOGY and the Tax Workflow Process

In recent years, products that use OCR (Optical Character Recognition) technology, a process that organizes client source documents, have become an industry trend. Some OCR processes convert printed materials into text or word processing files you can edit or store, while others are capable of transferring client data from their source documents directly into tax compliance software. All OCR products fall into one of the following categories:

• **Scan and Organize**—Processes with this capability scan client source documents and create a PDF file that categorizes documents in a logical order, regardless of the order in which they were scanned. The PDF file contains labelled bookmarks for easy navigation.

• **Scan and Populate**—This capability allows users to scan client source documents and identify tax information, which is then transferred to the tax compliance software. The fields are populated with the data from the source documents, essentially eliminating the need for data entry.

• **Scan, Organize, and Populate**—OCR processes with this capability scan client source documents, organize the documents in a logical order, and populate correct fields with data from source documents in tax compliance software.

**BENEFITS** of Source Document Processing

Whether you choose a Scan and Organize or a Scan and Populate solution, integrating OCR into your workflow can help your firm realize significant gains in efficiency, such as:

• Administrative staff can assist with part of the tax preparation process, freeing tax professionals to apply their valuable oversight to more returns.

• The consistency of source documents makes it easy to reference and review returns.

• Time spent sorting through client source documents is greatly reduced.

• Time spent entering data into tax compliance software is reduced or even eliminated.
SOURCE DOCUMENT PROCESSING from Thomson Reuters

Thomson Reuters has developed a Source Document Processing service, which scans client source documents, organizes the documents in a logical order, and populates the correct fields in tax compliance software. The following diagram illustrates how Source Document Processing can be used as a solution in a front-end, paperless workflow strategy.

WORKFLOW
Scanned client source documents are uploaded to the secure data centers, where they are converted with a secure OCR process to make the data readable.

Next, data is specified by type (W-2, brokerage statements, etc). The documents are automatically organized, labeled, and returned to the firm—all without taking up the tax professional’s time.
KEY CONSIDERATIONS for Automated Tax Workflow Process

1. Assign a Responsible Project Leader

Keep in mind that your project manager will have the most critical role in ensuring the successful outcome of your automated tax workflow system. The quality of your project manager will not only help determine the deployment speed of the project, but the benefits your firm will enjoy as well. Be careful to select a project manager who displays the following qualities:

- **Excellent Communicator**—Consistently and proactively keeps staff informed of valuable project information
- **Organized**—Organizes and prioritizes project tasks
- **Task-oriented**—Identifies and manages action item lists and due dates
- **Respected**—Makes key project decisions for your firm

2. Plan to Support Technology Infrastructure

To continue offering the highest level of service to clients and to remain competitive, firms must commit to adequate support of the tools and technologies that streamline the tax automation process, such as:

- **Multiple Monitors**—Multiple monitors are now commonplace in the accounting industry, allowing tax professionals to quickly prepare and review on-screen tax returns, with some firms even using triple monitors. Multiple monitors allow tax professionals to view source documents on one screen and the tax return on another screen, which can significantly reduce the time spent referencing and reviewing tax returns.

- **Production Grade Scanners**—Scanner technology has advanced over the past several years and can now combine scanning hardware and image enhancement. Software such as VRS enables scanners to auto-rotate documents, remove stray marks, and improve image clarity, which decreases the time needed to scan and read information. Thomson Reuters partners with Fujitsu, a preferred vendor, to offer this type of advanced scanner technology to users at a reduced price.

- **Web-hosted Solutions**—Thomson Reuters offers several hosted solutions, such as Virtual Office CS and SaaS (Software as a Service) for the CS Professional Suite. These web-hosted solutions manage technical hardware, infrastructure, disaster recovery, and data replication so you can focus on automating your tax workflow.

3. Training & Consulting take Advantage of the Programs Thomson Reuters has to Offer

Thomson Reuters has developed specific firm and product consulting programs to guide your firm through key decisions and best practices as you implement a front-end paperless workflow strategy. These established programs help you eliminate costly mistakes and speed up the adoption of your automated tax solution.
KEY CONSIDERATIONS for Automated Tax Workflow Process (cont.)

4. Portals Introduce Your Clients

While many of your clients already use portal technology when they conduct business with financial institutions and banks on the Internet, they frequently don’t understand how portals can enhance their interaction with your firm. The best way to promote excitement over portals is to educate your clients about the many benefits of exchanging information with your firm through automated tools and processes. Mention it during phone conversations, in your letters, on your website, or tell them more about the technology via a webcast or podcast. Some firms even offer clients incentives for using portals, such as reduced fees for clients who choose electronic submission. While reinforcing messages over a period of time is important, and multiple reminders to your clients may be necessary, remember that once your clients start using portals, word of mouth will become a powerful marketing tool as well.

While you probably won’t see 100 percent adoption of portals from your clients, you may be surprised at the number of clients who are excited that you’re offering them convenient and flexible ways to exchange information securely with your firm, especially if you’re open to client feedback and willing to adjust where necessary to engage your clients. Thomson Reuters offers marketing tools you can use to educate your clients on the benefits of online portals at CS.ThomsonReuters.com/Support/MarketingTools.

5. Get Staff on Board

Even the most successful firms can struggle when implementing new technologies or improving workflow processes. Most of the time, challenges stem from poor management of newly-developed processes rather than inadequate personnel or poorly designed systems. Successful management of new processes generally requires buy-in from your staff, which is more likely if you’re careful to take the following steps:

• Clearly communicate new processes to all staff members throughout the firm.
• Clearly define the goals, target dates, and objectives for everyone—especially those who will oversee the initiative.
• Identify a team leader who can balance existing responsibilities and become an integral part of the new solutions by acting as an expert in the new technology.
• Identify symptoms that may indicate staff are not following the new procedures, and make adjustments to achieve stronger acceptance of the process.
• Make sure the technical environment consists of all necessary tools and technologies, and keep current with upgrades and fixes.
• Provide appropriate, thorough up-front training and consider additional training after several months of experience with the new technologies.
• Create incentives to help users maintain a positive outlook.
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