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Preparing for a Paperless Tax Season

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As tax season approaches many firms are still discussing “paperless” strategies to streamline their workflows and take advantage of new advances in digital storage and process improvement. If your firm is one of these, perhaps a systematic approach might be helpful.

The Outputs:

If one looks at tax processing from a systems viewpoint, there are really three outputs to the system: 1) Something to send to various government entities, 2) Something for your own files, and 3) Something for your client. There are ways to approach each of these that drive much of the paper out of the process.

The Government: Most types of returns in most tax jurisdictions can be filed electronically. In fact, the IRS and many of its state counterparts actively encourage e-filing. Taking advantage of this electronic delivery process can save significant time and money for firms. Consider the costs of printing, assembling, preparing for mailing, postage and special handling costs, and other direct costs of mailing paper returns, and it's easy to see why more and more firms are aggressively pursuing the benefits of e-filing. True, it takes some processes adjustments, and some clients will continue to resist for assorted reasons, but the more use a firm can make of electronic filing, the faster, easier, and cheaper delivery to government will be.

Your Files: In the old days a printed copy of your complete accountant's copy of the tax return, along with all workpapers, copies of the client's source documents, notes and other information went into the paper file in your file room. Today, for many firms, that paper file repository has been replaced by its digital equivalent. Some firms are simply using shared network drives and filing digital images of the documents into a folder structure, which largely mirrors the layout of the paper files. Others have adopted a true document management system which allows for faster search, easier retrieval, and more flexible storage. All major tax preparation software applications allow the direct printing of returns to PDF file format, and several vendors provide means of scanning source documents into bookmarked and indexed PDFs. These two files then constitute the primary document storage for your tax return.

Your Client: The third output of the system, the copy you provide for your client, is often the most paper intensive component. The traditional client delivery model consists of a full printed paper copy of the tax return usually assembled in a fancy binder. These materials, coupled with the time required for assembly, can add up to thousands of dollars over the course of a tax season. Is there a better way? A growing number of firms would

answer “Yes, there is!” Some of these firms burn PDF copies of the tax return and supporting documents to a CD. We know at least one firm that uses a small “autorun” HTML file on a CD that presents a marketing message to the client who receives it. Upon insertion into the computer, the CD presents a picture of the firm’s office and an audio message from the managing partner. It then presents two links with instructions to “click here” for the client’s copy of the tax return or the supporting documents. The other option for paperless delivery makes use of a client portal, a secure page on the firm’s website or a third party site, which allows the client to log in and find his or her tax return. These can be downloaded, printed, emailed, or otherwise handled as the client desires.

These client portals are an underutilized and often underappreciated key to better client service and to reinforcing relationships with clients. One of the important benefits of a web portal is its security model. Many firms face problems with sending and receiving large files to and from clients, and unless specific steps are taken to secure them these attachments travel the Internet un-securely and open to interception. A client portal provides the same Secure Socket Layer (SSL) security that commercial websites use to protect credit card transactions, and can easily handle the upload and download of large files. Thus they can provide an attractive solution to both of the email issues addressed above. Once you publish a document to your client portal, you can send a simple email with a link included instructing your client to click the link, log into the portal, and retrieve his or her documents. It’s quick, it’s easy, and it’s secure.

Process Improvements:

The benefits of “going paperless” in your tax department don’t end with the filing and delivery of finished products. In fact, the most significant benefits begin at the other end of the process chain.

Scanning: Several tax preparation software vendors, and some document management software vendors as well, have developed products designed to simplify the scanning and organization of client source documents. The use of these products greatly reduces the time spent by professional staff organizing, sorting, and indexing the paper documents submitted by your clients. By use of bar coded separator pages, a stack of documents can be scanned with minimal preparation, routed to the correct client electronic file, and arrive there sorted, indexed and organized by document type. A few of these products are emerging with the next logical step of reading data from fields on these forms and transferring the values into the proper input fields of the tax return.

Workflow Control: One of the strategic byproducts of the outsourcing movement has been the creation of online (web-based) workflow control models. These are obviously necessary when work is being shared among accounting professionals half-way around the world. The best news is, the outsourcing vendors have made these workflow control tools available for licensing and use by firms whether they outsource any tax work or not. The benefits to multi-office firms that wish to “load balance” work between offices should be obvious, but even single office firms can gain instant access to knowledge

about progress of work through the office, the status of any given tax return, and the workload assigned to a particular tax preparer or reviewer.

The combined effects of these improved scanning products and real-time workflow control mean that firms should move toward scanning “up-front” and process their returns in all-electronic fashion, rather than continuing to work in a paper-based mode and simply scan at the end for archival purposes. Dual computer monitors have become a mainstream feature in firms, and the aggressive firms are moving beyond two monitors to three or sometimes more!

Process Review: One sure path to frustration is trying to overlay some of these new tools on old processes. Now is the time to review the way you do your work, the way you pass jobs around your office, and how and by whom work is done. You may find that some of your time-honored processes no longer make sense when combined with the tools available today. One proven way to analyze your processes is to draw them out. Use Microsoft Visio or some similar flowchart drawing program and document your process steps in the sequence they occur. This effort can be aggravating because of its level of detail, and is best performed by a team or task force of knowledgeable people. But once you have thoroughly captured and displayed your existing process, you can then begin to look at the steps and ask “Why?” Look for loops, dead ends, and redundant activities. If you find that you can delete some steps, modify others, and perhaps add some new ones, then draw a new diagram that captures what the new process should look like and use that for the basis of training your staff and partners.

Steps to take now

There are more tools available today than ever before to take your firm towards paperless tax preparation. From automated and intelligent scanning of documents as they arrive, to controlling work as it flows through the office to the delivery and archiving of the system outputs, the tax preparation process is ripe for automation.

The key to making the transition is to understand how your work is being done today (document the process), analyze it for potential improvements using the tools described, and revise the process accordingly. Then, document the new process, train your staff, and enforce the new standards.

Form a task force of knowledgeable Partners, Managers, Tax Staff and Administrative Staff. Have them conduct the analysis described above. If new software tools are part of your plan make the selection now and get them in place by the end of the year. Paperless tax processing is here today in firms all over the country. Decide now to join them!