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TECHNOLOGY

Transition To Digital Tax

Tax processing is the lifeblood service for many tax and accounting firms, and the profession has seen the significant impact that technology has had on productivity as firms evolved from manual procedures towards digital automation.

Roman Kepczyk • Oct. 01, 2006

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Tax processing is the lifeblood service for many tax and accounting firms, and the profession has seen the significant impact that technology has had on productivity as firms evolved from manual procedures towards digital automation. The key to successful adoption of these technologies has been to get everyone in the firm to understand the next logical step and standardize it before moving on to the next step. These steps will be discussed in detail to ensure that your firm continues to evolve toward today's optimum digital practices.

For firms that continue to keep physical copies of tax returns in their file room, the first step in the process is to develop confidence in digital files in order to stop storage of hardcopies. Keeping a hardcopy for the next seven years comes with a substantial storage cost as well as the cost of time spent physically locating and moving files. This first phase of the transition begins by generating a digital copy of the return at the same time that the final return is processed. Most of today's tax programs can generate a *.PDF version of the return directly from the application. This can promote standardization of the final return as the program can be set to include or suppress pages within the return. The key to success in this step is to have a standardized directory

structure and file-naming convention so that documents go to the right location with a name that can be easily identified. For those firms that are still keeping a physical tax file, it is suggested to do both through this extension season, with the intention of building confidence in the process in order to stop storing the paper copy of the file beginning with all returns the next busy season. Additional benefits of the digital *.PDF over the paper copy include the fact that they are backed up as part of the firm's data backup system and that they can be accessed from a person's workstation, rather than having to search the file room or other offices for the file. The entire network can be searched in minutes, compared with the difficulty in finding a misplaced physical file folder.

The next phase in the process is to capture the client's supporting documents as part of the return. This can be done in two ways. For firms that make a copy of the entire return at the back end of the process (return and supporting documents), most copiers today have scanning capabilities. So instead of making a paper copy, these types of copiers create an image file that can be stored in the client directory with the standard name previously described. For those firms that generate the image file from the tax program, only the supporting documents would be scanned, and a second digital file would be placed in the directory with the tax return.

Many of today's network attached duplicators (copier/scanner) require the individual to put in a code to deliver the image file to their e-mail or to store it into a firm-wide default directory. The individual must then go back to their workstation to open the file, rename it and place it in the appropriate directory. If there are problems with the image file, the preparer must repeat the scanning, viewing and naming process, which can be time consuming and expensive.

To streamline this process, I recommend that firms centralize the scanning within the administrative department and utilize a dedicated scanning station with viewing capability so the scans can be more standardized and produced at a lower cost than having the preparer scan the documents. This scanning station would consist of a dedicated scanner and computer so the images could be verified immediately upon scanning.

Having dual monitors to view images and work with multiple applications is a critical component of the digital evolution, and it is recommended that all professional staff and administrative personnel working with images have two

displays. Studies done by tax and accounting firms have shown increases in individual productivity of 10 percent or more just by having the ability to view multiple applications, rather than tabbing between multiple views on a single screen. Today, 19-inch flat panel displays are the standard for firms at this phase of the process, with many of them being used in a vertical or “portrait” mode so that the entire scanned image can be viewed without scrolling.

The next phase of the digital tax process is transitioning the scanning of the client source documents to the front end of the process rather than the back end at completion, and processing the return with image files rather than with the hardcopy of the source documents. This is the most difficult phase of the transition as the data must be effectively organized so that it can be intuitively entered by the preparer. While having the preparer physically organize the client source documents before scanning can be quite expensive, some firms have outsourced this process overseas and others have utilized automated scanning tools. The cost of the outsourced organization is usually less than \$10 per return and often includes the use of highly automated tax workflow tools (described further in the next paragraph). For firms that want to automate the organization process in-house, “intelligent scanning” tools have evolved either as stand-alone products or as part of a document management suite. These tools will run optical character recognition (OCR) on every client supporting document scanned and organize all recognized documents into the logical order to be input on-screen, knowing that a W-2, 1099-R and K-1 would go in different locations. Some products claim recognition of 80 percent or better on the initial scan, which means that the preparer would only have to review the remaining documents and place them in the appropriate order for inputting.

As all files are digital at this phase of the process, it is important to have a system to manage the digital flow of these documents. Today, most high-end tax products have a tax workflow capability built into their tax programs and/or their document management application that will streamline the movement and accessing of digital images of the client supporting documents. These tools also manage overall production workflow, including staffing assignments and due-date monitoring. When integrated with the document management application, policies for scanned images can be pre-configured to standardize the naming of each file as well as other default search criteria, including the eventual destruction date when the document will be tagged for deletion.

Once the firm has standardized on front-end scanning and completely digital production processes, and is viewing the previous year's returns on-screen, it is helpful to expand the viewing capabilities once again so that the preparer can see not only the current input and source documents, but also the previous year's returns. Firms are utilizing 24-inch or larger wide screens or a third monitor to view this information. We feel this will be the standard setup in the future, so firms should budget accordingly and make sure all equipment purchases have this expansion capability.

In addition to the firm's internal digital processes, it is important to evolve the use of digital technology when dealing with the government and client files. State and federal government requirements for electronic filing are increasing, so it is important to incorporate these procedures and standardize them within the firm until eventually all returns will be e-filed. Many firms are providing clients with password-protected *.PDF versions of their returns, but the security of e-mailed documents is beginning to be questioned. This is driving firms to utilize encryption software or consider secured client portals on the Internet. Encryption software allows firms to set up software at the client site so all electronic communication between the two parties is automatically encrypted. Most of the tax/document management application providers have also set up secure client portals, which are also known as FTP (file transfer protocol) sites, to store the client copies of the tax return. These client portals can be used for transferring and storing all kinds of files including large accounting files or client documents. When used to store digital copies of the client's personal wills, trusts and other important documents, they become the client's "lockbox" as well.

HOW TO GET YOUR TAX PRACTICE TO A DIGITAL ENVIRONMENT

- Develop confidence in digital files in order to stop storage of hardcopies.
- Capture the client's supporting documents as part of the return.
- Provide all professional staff and administrative personnel working with images with dual monitors.
- Transition the scanning of client source documents to the front end of the process, and process the return with image files.
- Implement a system to manage the digital flow of documents.

- Budget accordingly and make sure all equipment purchases have expansion capability for wide screens or a third monitor.
- Evolve the use of digital technology when DEALING WITH THE GOVERNMENT AND CLIENT FILES.

The successful evolution of the firm's tax practice to a digital environment requires that everyone be on board with each phase of the transition before taking on the next challenge. By understanding what that next step is and discussing it with peers, firms will be able to confidently adopt each phase and continue to improve productivity. □

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