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From the August 2007 Issue

English Protestant Reformer John Bradford was imprisoned in the Tower of London when he reportedly saw a criminal being led to execution for his crimes. It was then he delivered his now famous and oft-quoted self-revealing comment: "There but for the grace of God go I." In mid-April (Monday, April 16, to be exact), a tax compliance software developer (who shall remain un-named) quoted this statement to me while relaying the breaking news of the beginning of Intuit's "issues" that resulted in Lacerte and Pro-Series user firms experiencing "significant slowdowns in submitting e-filed returns." Firm association and state society bulletin boards, as well as the Lacerte product-specific LTUG listserv, erupted with stories as frustrated practitioners looked everywhere for a solution. Lacerte's legendary support tried valiantly to keep up, and, while there are anecdotal stories of heroic efforts on their part, the overwhelming available evidence indicates that it was a very frustrating day for a lot of Intuit Lacerte and ProSeries users. This scenario proved particularly interesting for me as, in my professional career, I've warmed seats as a practitioner, a tax compliance vendor, and, since 2004, as the executive editor of The CPA Technology Advisor.

Here are Some of My Observations:

My un-named friend was exactly correct: The problem could have happened to any one of the tax compliance vendors. The 2001 Arthur Andersen debacle was similar in that afterwards, almost all honest practitioners admitted, at least privately, that "it could have happened to any of us."

I've had the opportunity to visit with nearly every tax compliance vendor

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have enough facts to fully understand and react. The processes and procedures in place at each vendor are extensive — far more stringent than those in ANY accounting firm. All vendors have automatic fail-over, redundant systems that are tested regularly both internally and by the IRS. All vendors know and understand the seasonality of our profession, and they design their systems to meet that peak. Contrary to public opinion, what happened at Intuit was not necessarily a volume problem. It was actually a database error unrelated to volume. There is no doubt that, had the problem occurred a month earlier, Intuit would have had a better chance to react and solve the issue. The sheer number of practitioners affected by the problem apparently made timely communication difficult, if not impossible. Later that week, when I visited with Intuit's Professional Tax Division VP, Sasan Goodarzi, he explained it as a database overflow problem exacerbated by very high filing volumes.

Only a handful of competitors are left in the tax compliance market.

The "Big Three" consists of Intuit, CCH and Thomson. Intuit is the clear leader with over 107,000 firms using its ProSeries and Lacerte products.

CCH follows, having just last year bolstered its 23,000+ ProSystem fx users with 30,000 ATX and 9,000 TaxWise users. Finally, rounding out the triad, is Thomson Tax & Accounting with its 21,000 UltraTax CS and 1,200 GoSystem

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to the vendor where those files are aggregated and forwarded to the IRS and, if applicable, state taxing authorities. The number of returns actually e-filed by these programs varies wildly. As expected, a relationship can be established between the number of user firms and the number of e-filed returns actually transmitted on each of these platforms. However, that relationship is not determinative because the demographics of user firms are so different. Many small tax-driven firms produce tens of thousands of 1040s each year — volumes that dwarf many of the largest full-service tax and accounting firms that often produce fewer but more complex returns. Interestingly enough, these more complex returns have not, until recently, been e-filable. The net result is that some smaller user bases actually file huge numbers of returns. The chart to the left details the breakdown (by vendor and product where available) of the number of e-filed returns over each of the last three years. A quick glance reveals that Intuit users file more returns than all other competitors combined. [An interesting aside: The percentage of total e-filed individual returns professionally prepared has remained fairly constant over these years at about 60 percent.]

Intuit stands alone among its above-named competitors as the one also servicing the “do-it-yourself” consumer market. Its competitors are hitting hard on this fact in advertisements and direct

mailers.

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complaining

loudly. The antidote? Intuit executives should be front and center at public events wherever practicing accountants gather.

My Analysis & Advice

To Practitioners: Understand that every one of the shrinking few tax compliance vendors offers technologically excellent services.

The bump that Intuit hit is roughly analogous to the undiscovered error on that one return that got out the door at your firm. And you KNOW it's happened! It is NOT indicative of overall quality. It really could have happened to anyone.

To Vendors: Your executives should be accessible. You have to talk to and, more importantly, LISTEN TO, your customers. Personally. Every

month. It's not enough to read reports or send people out to meet with customers. This is a handshake business, and you need to listen to practitioners

across the board. Don't confuse listening to your own customers with listening to the marketplace. Remember that there are many more accountants

out there who have chosen someone else's product. Don't you want to know why?

Technology

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