



A Passage To India

A swelling amount of 1040 data is getting offshored.

Availing itself of the CCH ProSystem fx Outsource service, Brigante Cameron Waters & Strong last year outsourced about 250 individual returns to India. This year, the Torrance, Calif.-based practice expects that number to exceed 350, representing as much as 95 percent of its 1040 paperwork.

"We try to promote a quality-of-life firm here," where staff aren't obliged to stay late night after night as tax season ramps up, notes principal Carol Kulencavich, CPA. "Also, we try to promote challenging work to the staff." By outsourcing virtually all of the 1040 preparation work, BCWS leaves more time for its associates to focus on wealth planning services for its individual clients, not to mention a full range of business services.

That has resulted in happier employees, which was a driving force behind the shift to outsourcing in the first

place. As Kulencavich explains, "The problem facing CPA firms, at least out here, is hiring good quality staff. They're just not around. So we had to do something" to both attract and retain motivated staff.

Brigante Cameron's predicament is shared by a lot of other tax and accounting firms, which increasingly are looking toward Business Process Outsourcing providers to shoulder back-office functions such as tax preparation.

New York-based Outsource Partners International has seen the number of returns handled by its staff in Bangalore, India, "more than double" this tax season versus a year ago, reports president Kishore Mirchandani. He expects the total to approach 20,000 returns. Likewise, "We're projecting 10,000 returns this year," quadruple last year's number, says Xpitax chief executive Mark Albrecht.

By Richard McCausland



GKM's American outsourcing clients can "reach us immediately, anytime of the week," according to chief executive Viji Sudhakar.

The litany of benefits provided by outsourcing is pretty familiar by now: cost savings per return of as much as 60 percent; reductions in overhead such as extra tax season staff, software licenses, and training; less paper as a result of Web-based document management; speedier turnaround; and a less frazzled staff that has more time for more challenging assignments that can generate higher revenue.

Of course, the list of concerns presented by outsourcing—especially to foreign countries—is also pretty familiar by now. These include: How secure is the data? How competent are the preparers? Will there be a communications barrier?

Outsourcing providers have attempted to dispel these concerns by setting up data centers in the U.S., arming their facilities in India with the latest data encryption and firewalling technologies, providing the offshore staff with extensive training in all or many of the leading tax prep packages, and continually stressing that all returns—in keeping with legal and professional requirements—are subject to final review by the outsourcing client.

Their efforts appear to be paying off, judging by the number of strategic alliances between U.S. tax prep vendors and BPO providers. Partnerships include those between RIA and G.K. Management Services, OPI, and SurePrep; between Creative Solutions and both SurePrep and Xpitax; and between CCH and both Data-matics (headquartered in Mumbai, India) and Mphasis Group.

Another sign of outsourcing's growing popularity is the emergence of new market participants. One newcomer is Casper, Wy.-based Accountants in India, which launched in February. AII promotes itself as a global staffing firm, securing trained Indian workers to assist U.S. accounting firms with such back-office functions as bookkeeping, write-up, and tax prep.

Outsourcing's popularity, however, is creating a backlash of sorts. Newly-introduced congressional bills propose to "protect" financial data sent overseas, while *Time* magazine wonders aloud on a recent cover, "Are too many jobs going abroad?" Some vendors have begun talking about "insourcing" within the U.S., as opposed to "offshoring" to foreign countries, notably India.

A sign of the times: Peoples Income Tax, which operates 15 offices in central Virginia,

began offering "USA outsourcing to rival India" earlier this year. There's an average charge of about \$75 per outsourced return, according to Charles McCabe, chief executive of the Richmond-based firm.

While acknowledging that this is still higher than the average \$50 fee for a return prepared overseas, McCabe stresses that his staff is subject to Internal Revenue Service scrutiny. Also, "Communication with us is easier because our preparers are located in the U.S." Turnaround time is typically 12 to 24 hours.

K.N. Vaidyanathan, director of Tax & Accounting BPO for Mphasis, plays down the controversy over outsourcing, noting that his company offers CPAs the option of preparing a return in-house, outsourcing it to a U.S. site, or offshoring it to India. "This is not about 'either/or' but about 'and/and,'" he says.

"I think the potential demand is large enough for a number of service providers to co-exist," continues Vaidyanathan. "But the key is domain expertise coupled with technology—the former to ensure effectiveness, and the latter to ensure efficiency."

BPO with CPA Roots

Braintree, Mass.-based Xpitax, which handles outsourced individual and business returns, promotes itself as "built for CPAs by CPAs." It's affiliated with KAF Financial Group, an accounting firm also headquartered in Braintree. KAF, in fact, built the Web application that underlies the Xpitax outsourcing service.

Xpitax partners with Aithent in India to provide outsourcing. Clients are provided with a team that will work with them throughout tax season. There is a two-month training program that covers U.S. tax law and various tax prep software applications.

More than 45 CPA firms in the U.S. have signed up. "They're using outsourcing to alleviate that time crunch [that arises during tax season] and to bring quality of life back to the CPA firm," contends Albrecht. "We find that our own [KAF] staff is going home at 6 o'clock in the midst of the busy season."

Xpitax customers feel comfortable with its security arrangements, notes Albrecht. For instance, the facility in India has restricted Internet and email access, and there are no printing

facilities. All communication is handled via the proprietary Xpitax Client Manager (Xcm 2.0) application. No client data resides on servers in India, he stresses. "All that [the tax preparers] see in India are screen shots."

Xpitax has a formal partnership with CSI/UltraTax, but preparers are well-versed in all the leading tax prep packages. A return can be completed, reviewed, and sent back in as little as 12 hours. Price spans from \$50 for a "kiddie" return, to \$110 for a return submitted in March or April, up to \$125 and more for returns that exceed 160 pages of source documents. "The average price is \$90 or \$95," estimates Albrecht.

He's sure on one point: "Outsourcing is absolutely a godsend to this industry." He cites the shortage of young, qualified accounting professionals—a shortage he attributes to "all the crazy hours" that accounting apprentices have traditionally worked during tax season. Outsourcing can remedy that situation, insists Albrecht. "We can bring normalcy back into their personal lives."

Robert Goodman, CPA, who heads his own practice in Chestnut Hill, Mass., turned to Xpitax last year to outsource some of his tax work. Cost-savings weren't the reason, he points out. After all, "I'm not a 1040 factory." Rather, "It made sense with the staffing problems and the workload compression [during tax season] to

have this outlet."

Goodman explains, "The big problem in the accounting field is getting qualified people," and once having found them, ensuring they don't become "stressed out" by laborious returns. So he is currently outsourcing "maybe 15 percent" of his 1040s. He cites as a good candidate a return that involves Schedule D capital gains and a multi-page Merrill Lynch statement outlining scores of stock transactions. He's quick to point out that any outsourced return "goes through my normal review process."

With headquarters in Tamil Nadu, India, G.K. Management Services began offering tax outsourcing last year. "The trend is very encouraging," says chief executive Viji Sudhakar. The company now has a formal alliance with RIA in place, is working with seven U.S. CPA firms, and expects the number of outsourced returns it handles to exceed 1,500 this year.

"Last year, most CPA firms had to be educated on the concept of outsourcing," she says. "They had their misgivings and apprehensions." Experience has dispelled those concerns, she says. "Our present clients have expressed their satisfaction with the fact that they are able to reach us immediately, anytime of the week," says Sudhakar.

GKM's pricing schedule starts at \$45 for a basic 1040 return. The staff is "trained on all



SurePrep's number of outsourced tax returns has quintupled this year compared to last, notes chief executive David Wyle.

All to CPAs: Be Candid About Outsourcing

Accountants In India, a global employment start-up that matches understaffed U.S. CPA firms with trained tax and accounting professionals in India, is urging American practices to disclose to their clients the extent to which they outsource services.

In a white paper addressed to the accounting community, Casper, Wy.-based All states, "If you are working with a staff member that is located outside of the United States, we recommend that you disclose to clients the locations of the staff and offices up-front, and reassure them that the same security and supervision applies throughout your organization."

All's position goes a step beyond the American Institute of CPAs' Code of Professional Conduct, which does not require members to advise clients regarding their use of a third-party

service provider. "Such disclosure is at the sole discretion of the practitioner," as the AICPA reminds its membership in an article published in the March issue of the *Journal of Accountancy*. However, the Code specifically states that a member remains responsible for ensuring the accuracy and completeness of the services rendered by any third party.

In making its own disclosure recommendation, "We're raising the bar as to what needs to be done," says Wayne Harding, chief operating officer for All. Repeated instances of computer security breaches, "and especially with identity theft skyrocketing," make it mandatory that CPAs be completely forthcoming about their use of outsourcing, he contends. It's especially important that accountants do so to protect their status as "trusted business advisors."



The CCH outsource service operation is beginning to handle "more difficult" tax returns such as voluminous 1040s and some 1041s, says sales and marketing vice president Mike Sabbatis.

the [tax prep] softwares" such as UltraTax and Lacerte, as well as RIA's GoSystem, notes director Karthi Keyan. He cites the operation's high security: Cisco firewall, Verisign authentication, and "no papers are allowed to be brought in" to the tax preparation environment.

Customer Satisfaction

With two processing centers in India, Newport Beach, Calif.-based SurePrep turned around 99.7 percent of its returns within three days during the 2003 tax season, notes chief executive David Wyle, CPA. For this year, the company has a "greater than 98 percent" customer renewal rate. Also, as of early March, "we are processing five times the number of returns that we processed last year by this time," mostly 1040s but some 1041s.

SurePrep has four price points for a return depending on complexity: \$50, \$75, \$100, and \$150. Last year, the average fee was \$93.

In an effort to differentiate itself, SurePrep provides Web-based tax binders with bookmarked source documents for each return. This enables the U.S. accounting staff to access and review workpapers from any location, at any time. This year, the company introduced Dream-Workpapers, which allows reviewers to drill down from any tax return line to the source document image containing the related amount.

Wyle cites the mutual benefits of SurePrep's existing strategic alliances. "On the one hand, getting recognition from RIA and CSI adds legitimacy to the [outsourcing] process in the eyes of their users," says Wyle. "At the same time, many firms are moving towards outsourcing and want to know that their tax software vendor is progressive and will support that process."

Meanwhile, OPI's volume of outsourced returns is mostly 1040s, although some CPA practices are beginning to "dabble" at outsourcing business returns, according to Mirchandani. Pricing can range from \$30 to \$300 for a return, depending on the type of return and complexity, but the average has been "around \$75 to \$90," he says.

He attributes the surge in demand to OPI's insistence on accuracy, security, and privacy. "We own our own operation in India; we employ the latest document imaging technology; and our security and privacy policies are well defined

and documented," he says. There not only are teams dedicated to a particular tax brand, but also to handle specific states.

With data centers in Dallas and El Segundo, Calif., along with three locations in India, Bangalore-headquartered Mphasis Group can handle "in-sourced" returns via its Smart 1040 hosting service, as well as returns offshored to India via the company's Virtual Tax Room framework. In either case, data resides in the U.S. Price of an outsourced return is \$80 to \$100.

Mphasis expects to handle "several thousand" outsourced returns this season, both for individuals and businesses, according to Vaidyanathan. The company has an alliance with CCH (ProSystem fx), although it also boasts domain expertise in RIA GoSystem Tax RS and other packages.

Mphasis' VTR Professional service includes the preparation and review of tax returns, as well as organizing and indexing the related source documents. With the VTR Professional Plus service, the CPA firm gets a dedicated team of preparers.

As for startup Accountants In India, it's still working out a price schedule for its tax work, according to chief operating officer Wayne Harding. However, a basic return will probably cost \$75 to \$100.

All has nine overseas staffers who are well-versed in U.S. tax law, according to Harding. Currently, the majority are trained on UltraTax. Noting that All has a sizable staff trained on Intuit's QuickBooks for accounting work, Harding adds, "I've always been a big fan of [Intuit's] TurboTax. I can see us doing something potentially with TurboTax or [Intuit's] Lacerte, but we don't have anything in place yet."

All had a pilot tax project going on this past season. "You'll see us pushing more into this space next tax season," says Harding.

Clayton & Associates in Lakewood, Colo., is participating in the tax pilot. It has outsourced about 250 returns, "probably 97 percent" of its tax prep work, according to owner Nigel Clayton, CPA. He's more than satisfied with the quality of the work and the rapid turnaround. "With the Application Service Provider model, we can see what [the overseas preparers] are doing the next day," he says.

All About Options

Tax software publishers, for their part, are pushing outsourcing with noticeably varying degrees of warmth.

RIA, for instance, has outsourcing alliances in place with GKM, OPI, and SurePrep. Boyd Gackle, product marketing manager for GoSystem Tax, comments, "We leave it completely up to our clients to feel free to contact them" to work out the outsourcing details. "If that fits their business model, GoSystem Tax wants to be positioned to help clients with that."

Dexter, Mich.-based Creative Solutions, developer of UltraTax, has partnerships in place with SurePrep and Xpitax. As with RIA, the outsourcing is "handled 100 percent" by the two partnering firms, notes CSI marketing vice president Jack LaRue. "We neither encourage nor discourage [the practice]."

He explains, "We understand that some of our customers may feel they have a need to outsource." But he stresses, "This is a decision that each firm makes on their own." It is CSI's view, however, that "While there are circumstances where outsourcing may help a firm get through a temporary crunch, we do not believe it is a long-term solution, as it does not address the central issue, which is process efficiency in the firm."

Rather than "masking" the efficiency problem by advocating outsourcing, CSI prefers to concentrate on achieving "zero-time" data re-entry for its customers, according to LaRue.

CCH Tax and Accounting, meanwhile, is taking a more aggressively promotional stance with its ProSystem fx Outsource service. Scanned source documents, along with current- and prior-year tax returns, may be encrypted and relayed to CCH's outsource partners—Datamatics and Mphasis—for preparation and review. Upon completion, the U.S. tax professional can download the returns directly into ProSystem fx Tax for final review.

"The process is working," states Mike Sabbatis, sales and marketing vice president for the Riverwoods, Ill.-based CCH Tax and Accounting group. He expects the number of returns that pass through the CCH outsource center this tax season will triple last year's total. "We're looking for a pretty rock-solid year," he says.

Clients are satisfied with the quality of the outsourced returns, to the point that "we're beginning to get some of the more difficult returns"—both voluminous 1040s, and now 1041 returns for estates and trusts, notes Sabbatis. ■

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RIA leaves the outsourcing option "completely up to our clients," says marketing manager Boyd Gackle.

Carving Out a Sales & Use Niche

Even within the fairly constricted realm of tax outsourcing there are ways for a service company to differentiate itself through specialization. Take the case of Tax Partners, which is exclusively focused on sales tax data management.

Sales and use tax compliance is especially suited to outsourcing because it is data intensive and usually crosses departmental functions, notes Jim Musselwhite, alliance manager for the Atlanta-based company. There are also frequently changing rules involving over 7,500 jurisdictions. In sum, "it is highly administrative because there are dozens, hundreds, or even thousands of returns, checks, and notices that need to be managed on a monthly basis."

Enter Tax Partners, which this year will remit over 450,000 tax returns and over \$7 billion in tax payments on behalf of clients. The company has relationships with the Big Four accounting firms, as well as with national tax specialty houses such as Ryan & Co., Burr-Wolff, and Cbiz Property Tax Solutions.

More recently, Tax Partners has begun working with local and regional practices among the top 100 in the U.S. "Many firms are realizing that their clients have growing sales and use tax burdens as they grow from a regional to a national focus," says Musselwhite. Tax Partners can oversee this sales burden and ensure the proper compliance, while the local CPA firm can "wrap their own tax consulting services" around this outsourced activity, he explains.

Tax Partners' entire operation is based in the U.S., and client data is never sent outside the country. A primary reason for this stateside approach is that sales and use tax compliance necessitates timely notice management. "This requires that the service provider maintain close relationships with state and local jurisdictions, and keep up with the ever-changing state and local tax laws," explains Musselwhite.