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In all economies, both individuals and enterprises are taxed to varying degrees and the tax policies have come to reflect the requirements of the times and often have appeared to be complex. With the constantly changing tax laws and regulations, tax preparation has hence become an activity best performed by tax specialists.

The tax return processing outsourcing business has dramatically changed and expanded beyond the client to tax preparers and now, to back-office outsource processing. As the cost of mainland tax services costs increases, more and more accountants and companies are turning to back office tax outsourcing to help minimize operating costs and maximize efficiency and profits.

Problems that CPA/CA firms are facing during tax season:

- ❖ Many firms are selective about accepting new work during busy season due to existing commitments and most have had to turn away profitable clients at times;
- ❖ Firms are losing time tracking of returns and keeping up-to date on the status of each return;
- ❖ Overloaded staff and possibly manual workflow and tracking;
- ❖ High cost of processing a return;

Moreover recruiting new tax professionals is increasingly competitive. Recent study in US reveals the number of undergraduate and advanced degrees awarded to accounting majors declined by 20% from 1996 to 1999. In addition, the number of candidates sitting for the CPA examination has been declining since 1993. Although there are encouraging signs of increased enrollment, temporary shortages of available U.S. tax professionals can be alleviated by outsourcing. (Source: NYSSCPA Journal)

Benefits of tax return preparation outsourcing:

- ❖ An outsourcing arrangement can accommodate new engagements that come up during periods of peak demand;
- ❖ It increases the speed of tax return processing; by capturing and storing client tax information in digital format, CPAs/CAs are able to take advantage of the latest technology to improve workflow and speed of tax preparation processes;
- ❖ CPA/CA firms maintain original hard copy of their customers' records and can access their electronic files from anywhere on the Internet to see the status of each return;
- ❖ Tax return preparation outsourcing moves to a mostly web-based system, it can significantly reduce the volume of stored paper files;
- ❖ CPA/CA Firms can reduce - or even eliminate - their need to increase staff during the peak tax season and consequently outsourcing reduces labor costs;
- ❖ It generates substantial cost benefit. Processing fees charged by the Service Provider is substantially less than the average tax preparation cost currently incurred by a mainland firm. This reduction in cost will not only ensure increased profit margins, but also provide a significant marketing advantage for acquiring new clients;

- ❖ It frees tax professionals' time from performing perfunctory duties such as form filing and data entry and thus time savings can be used more productively in tax and estate planning services;
- ❖ Favorable time zone difference between US/UK (Outsourcer) and India (Service Provider); for example, the differences between U.S. and Indian time zones means that a return sent overseas for preparation in the afternoon can be completed after hours (daytime in India) and downloaded by the U.S. CPA the next morning;
- ❖ Some economists argue that outsourcing jobs overseas improves world labor market efficiency and mainland labor productivity, and also reduces both world and mainland inflation.

Here's how this outsourcing process works:

- ❖ The Outsourcer gathers the client's tax information and scans it into electronic files;
- ❖ The Outsourcer then transmits these files to the Service Provider using the ASP/FTP;
- ❖ Once the tax information files are received at Service Provider's facility, trained tax professionals examine the available information, interpret the taxability and treatment of various accounts;
- ❖ Trained tax professionals then record the information into Outsourcer provided tax software;
- ❖ After data entry, the tax return is audited by the Supervisor at the Service Provider's facility to verify that all information received has been correctly entered and accounted for;
- ❖ Service Provider then electronically transmits the completed returns, workpapers, notes and reconciliations to the Outsourcer for review using ASP/FTP. Outsourcer receives completed returns, including comments- the preparer thought necessary;
- ❖ The Outsourcer then downloads, reviews and signs the return, and forwards it to the client for filing.

In the past 24 months alone, the ITES industry has recorded blazing growth. Global IT-ITES spending is expected to grow at a CAGR of 7.9 percent over 2004-08. IT spending, comprising amounts spent on hardware, software and IT services is forecast to grow at a CAGR of 6.3 percent over the same period. ITES-BPO is expected to grow at a significantly higher CAGR of over 11 percent over the same period (Source: NASSCOM). Many large CPA/CA firms in US and UK have already begun shifting tax return preparation work overseas, to Chartered Accountants (CA) in India. ITES –BPO firms expect smaller CPA/CA firms to follow their example.

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Sincerely,

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