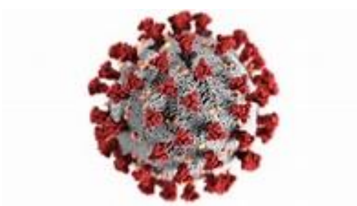
Building the Post-Pandemic Practice

Insights and Tips to Help Sole Practitioners and Small Practices Seize Emerging Opportunities to Increase Revenues and Practice Value

By Jon A. Hayes, Executive Director
October 28, 2021

The COVID pandemic that began in March, 2020 continues to challenge our state and country into 2022. Medical, scientific and economic experts predict the worst of the pandemic may pass in early 2022, but we should all be prepared to deal with ongoing outbreaks into the foreseeable future.



Significant events during this time have challenged accounting and tax professionals to quickly adapt and change to meet client needs. They have also brought very good opportunities to leverage your expertise so you work more efficiently and profitably.

The goal here is to provide information members can use to 1) assess current operations; 2) consider service changes and enhancements; 3) consider upgrades in technology and security to improve operations, and 4) develop plans to eventually buy or sell a practice.

Challenges Brought on by the Pandemic

Compliance Work has Exploded

1. Passage of several federal bills has created personal and business loan/grant programs that required completion of confusing and changing government applications, forgiveness applications, and more.

2. New tax credit programs for businesses and individuals have been rolled out with vague and confusing instructions on eligibility, application and reporting.

3. The rush to make these programs available also brought many consequences as taxpayers and practitioners discovered that provisions impacted other tax management areas Congress and the IRS did not anticipate.

As a result, practitioners have reported a substantial increase in compliance-related work that many have either undercharged for or not charged for at all. This comes at a time when longtime employees have opted to retire or leave the firm for other job opportunities, leaving less workers to handle these increased workloads.

In addition, the required shift to remote work systems further stressed the practice as owners had less control over employees, and staffs had less opportunity to collaborate on confusing issues.
The shift also increased the threat of cyber attacks and ransomware attacks since practices had not anticipated using remote work options.

Increasing Demands for Advisory Services

1. Tax minimization demands have substantially increased with passage of each federal rescue bill, and it will likely culminate with an explosion of demand should the multi-trillion dollar "Grow Back Better" infrastructure bill pass with currently-proposed major tax increases and law changes, hidden rate hikes in retirement and investment activity, and possible expanded financial reporting requirements. We believe practitioners will see:

    - Increased requests for tax minimization strategies by both business and individual clients, especially if any IRS reporting provision by banks on personal accounts remains in the bill. This will definitely ramp up emotions and demands to keep government out of bank accounts.

    - Requests for retirement planning reviews will increase to minimize exposure to anticipated reductions in estate sizes subject to tax, etc.

    - Capital gains assistance as investors seek ways to better shelter their profits from taxation, especially if current legislation to increase that taxation passes.

    - Requests for new services in emerging areas like cryptocurrency are inevitable as the economy continues to change quickly as people seize opportunities.

Loss of Employees and Difficulty Hiring Replacements

The stresses and burdens brought on by the pandemic have seen many retirement-aged staff reassess. Many have opted to retire while others have chosen to move on. Most importantly, practice owners should assume every staff member has been solicited by competitors who are also dealing with similar staffing issues.

As owners of small practices move forward, it is vital that they review salary and benefit packages for their employees, use of remote work systems to help alleviate health and family issues that conflict with normal business operations, and benefit packages and incentives that can reward employees for bringing in new business, working past a normal 40-hour work week, and upselling clients on services the practice offers.

These topics will be touched upon further in this whitepaper as we cover other important issues that impact staff.

With Every Challenge Comes Opportunity

As the age-old saying goes, "With every challenge comes opportunity." However, for sole practitioners and small practices to seize opportunity, difficult choices will have to be made that run contrary to the long-standing "ways of doing business."

Assessing the Investment of Time

Time has become the most precious commodity since the pandemic outbreak hit. If a practice has been requiring 40-plus hour work weeks of staffers to meet growing client compliance demands, or a sole practitioner has been investing that amount of time each week to meet demand, this must be assessed and changed.

A growing number of younger employees simply will not tolerate excessive hours, even if the industry eventually returns to "just tax preparation season requiring overtime hours" status. As new employment opportunities continue to emerge that don't require that time commitment and competitors continue to sweeten packages and ramp up recruiting efforts, practices will lose employees if changes aren't made.

And as we stated earlier, employees nearing retirement age will continue to assess their positions, weighing the benefits of retiring now to staying on.

If you're a sole practitioner who has absorbed substantial increases in your weekly hours to meet growing demands, you will literally hit a physical and emotional wall that can impact your health and wellbeing and those close to you.

Reducing the Hourly Commitment

The big "red hot button" issue being discussed in the tax and accounting industry is compliance services. With the onslaught of government pandemic assistance and relief programs requiring additional compliance, and with the compliance requirements constantly changing and often requiring the amendment of filings, the vast majority of firms are reporting substantial "unbillable hours" as the time required can fluctuate wildly from client to client.

With many of those issues not the fault of the client, firms either charge a flat rate or feel compelled to discount an hourly rate. Those "hollow hours" not only reduce profitability; they increase staffing expenses.

Many firms have addressed this by:

1. Eliminating compliance-based services for areas that cannot be managed consistently for a profit, and/or

2. Shifting exclusively to an hourly rate for executing compliance services.

Many who have reduced compliance-based services say the loss of employees and the inability to reasonably execute those services compelled the decision. They have simply accepted the loss in revenues as they contract.

Others have made the bold decision to shift those hours to advisory services with many creating "tutorials" that help clients with compliance issues resolve them.

There is much fear in shifting services and losing clients. A recent article in The Journal of Accountancy sheds light on why firms are and should be going in this direction:

Has the Time Come for Firms to Cull Clients

https://www.journalofaccountancy.com/news/2021/oct/right-size-firm-client-base.html?utm_source=mnl:cpald&utm_medium=email&utm_campaign=20Oct2021

Here are some of good reasons given in the article for culling clients:

- **Staff are tired of feeling overwhelmed.** They are worried that the turnover you're experiencing will make the next busy season worse than the last one. And we haven't even hit the peak "quitting month" of November yet. If you're like many firms, you don't have the right headcount for your current client load, and you'll risk burning out your best and brightest if you don't make an immediate shift.

- **The 80/20 rule indicates you have cuttable clients.** In most firms we analyze, 80% of a firm's revenues are generated by 20% of their clients, and the other 80% of the clients make up 20% of the revenue. This big group of small clients are the "tail that wags the dog," and they require an immense infrastructure to manage. The cost to set them up in your systems, deliver services to them, and then bill and collect from them can outstrip the revenue they produce on an individual basis. As your firm grows, your ideal target client and engagement size grows, too. Serving clients that don't fit any longer does not serve them or you.

- **Your people have clients they don't want to work with.** These clients may be mean, be disorganized, feel risky, have an unappealing environment to visit, fail to value your services, or pay slowly or not at all. They are the D-level clients you know you shouldn't serve. These D clients are definitely working against you as you fight to keep your people in your firm and in this profession.

- **We have entered a seller's market for services.** Firms don't have the capacity to take more work in certain areas. When demand is up and supply is down, *fees go up*. This is a perfect time to downsize your client base to let go of those unwilling to pay your fees, or who meet some of the other criteria outlined above.

- **You can achieve bigger growth with a smaller client roster.** When you increase capacity, you'll have time to implement other capacity expansion ideas. This will give you increased room to grow your business in areas that appeal to you and your team. You can expand services with existing clients, providing them more advisory services and making a bigger difference. Or you can go after more targeted "ideal" clients who fit your profile for an A client and who will bring more joy into your life and the lives of your team members.

- **You can bring real hope to your staff talent.** When you cull clients and increase capacity, your people will see that you're serious about changing your underlying business model to improve everyone's quality of life.

So, if you are going to take a bold stand and bravely lead your firm through a client reduction initiative to free up capacity and improve lives, it must include objective analyses of:

1. Your client list, with emphasis on how they spend or could spend their financial resources; what services they are currently utilizing at your firm, and what services they could be using whether those services are currently offered or not.

2. Your services -- what revenue they produce and what staffing hours and resources they require to provide them.

3. **Your fee schedule**. To help you analyze that, here are some recent surveys that can help you compare your prices and charging methods with comparable firms:

   2021 Fee and Income Survey by the National Society of Accountants
   https://www.michigantap.net/docs/NSA_Fee_Survey_-_2021.pdf

   2021 Fee and Income Survey by the National Association of Tax Professionals
   https://www.michigantap.net/docs/2021-NATP-Fee-Study.pdf

4. Your capacity to grow based on current and projected staffing if you were to 1) maintain current operations; 2) prune clients who don’t generate acceptable revenue, and 3) add clients more likely to utilize revamped service offerings.

It is very important that you take the time to carefully assemble the information above since it will greatly influence the choices you make as we continue.

Is it Time to Sweeten the Employee Pot?

Now, more than ever, it is imperative that owners look at ways they can sweeten employee wages and benefits to keep a staff viable and as stable as possible.

Remote Work Options Can be a Key to Keeping and Attracting Employees

The sheltering orders imposed by Michigan in last spring, late fall and winter forced practices to employ remote work systems to keep employees working while meeting client deadlines. Many practices were not prepared to make this shift, so the changes were fraught with systemic problems. The shifts also left many vulnerable to cyber attacks since current security systems did not provide protections for remote access of client files and information.

Now that the prolonged tax filing season has finally closed (for the most part), practices have a short window of time before the next filing season to assess remote work systems and their options for implementation. GEAR UP provided a very informative chapter on remote systems in their 2021 Business Entities Seminar Workbook that provides practical insights. Here is a link to download that information:

Remote Work System Analysis by GEAR UP Seminars

https://www.michigantap.net/docs/Remote_Work_Systems_-_GEAR_UP_Business_Entities_Seminar_-_2021.pdf

Here's another helpful primer on remote work systems:

Wolters Kluwers Remote Work System Whitepaper

https://www.michigantap.net/docs/CCH_eBook_-_Working_Remotely_with_Clients_3-30-2020.pdf

Implementing a remote work option is not just the new normal in our industry, it is the new normal in our business economy. They bring instant advantages like:

- Helping to maintain a healthy work environment because sick workers or workers with sick children can stay home until they are fully healthy to return to the office, thus significantly reducing the risk of spreading sickness to other staff members.

- Helping to keep local communities healthier since parents can keep sick children home until they are fully healthy.

- Those who are sick but still able to perform some or all of their duties remotely can significantly reduce other staff having to step up and cover those hours and duties.

- They significantly enhance the employment package offering by allowing your company to widen its geographic search for employees and negotiate either a fully remote or hybrid remote-in office schedule that benefits both parties.

For many older firm owners, it is hard to embrace remote work systems simply because it is an unknown and it seemingly reduces oversight. GEAR UP Speaker Rick Oelerich provided a great analogy on this at a recent seminar where he discussed remote work, saying:

Remember when virtual filing cabinet systems came on the scene in the early 2000s? All of us were panicked by the prospect of no paper client records. Many refused to jump on board. But today, none of us question cloud storage or using secure portals and VPNs to electronically transmit sensitive information. Believe me when I say remote work is following suit and we should embrace it quickly.

With proper hardware, software and cybersecurity investment, remote work is as safe if not safer than cloud storage of client information. And with new variants of COVID emerging with every seasonal change, you simply cannot ignore implementing a system into your business since employees expect it and clients have become accustomed to it too.

Why Your Cybersecurity Must be Upgraded

We have all seen and read about countless cyber and ransomware attacks that have literally shut down major corporations and even government entities. When identity theft issues began emerging, the criminals focused on stealing individual identities and information. Yes, that still continues today as the phish using emails with phony links, make phone calls impersonating banks and even taxing agencies, and even knock on doors purporting to be "officials" needing to check on something requiring a person to share sensitive information.

But the smart cybercriminals don't waste time trying to scam one person at a time when they can target small businesses like yours and possibly access that information on hundreds, if not thousands of clients that pays off in big bounties.

Adding remote work systems can expand the opportunity for hackers to exploit weaknesses in your security systems, especially if you don't use properly-vetted cybersecurity professionals to help you set up, operate and monitor your system.

Whether you are a sole practitioner, small firm, or a larger firm, you MUST budget for consistent investment in the operation and monitoring of your security systems. If you don't, and you get hacked, the damage can be catastrophic to your practice, and most especially to the clients who entrust you with their financial information.

Many very good cybersecurity companies offer these services. Many are locally-owned and operated if that is a priority for you. Others are regionally or nationally based and through remote communication and operation can provide this needed service.

IRONTECH SECURITY

MTAP partners with Irontech Security, a leading provider in cybersecurity consultation and service. To learn more about them and their services, click the link below:

Irontech Security

https://michigantap.net/your_cyber_security_experts.php

Cybersecurity Resources at IRS.GOV

We also strongly urge you to access and review the [IRS Security Summit](https://www.irs.gov/newsroom/security-summit) resources at this link:

IRS Security Summit Resource Page

https://www.irs.gov/newsroom/security-summit

The website contains access to identity theft resources, up-to-the-minute news updates, and other important cybersecurity aids. Take the time to learn what your information security responsibilities are; how to respond to security breaches, and how the IRS can help when a breach occurs.

IRS
Department of the Treasury
Internal Revenue Service

You Invest in Knowledge EVERY Day
. . . And That is Called EXPERTISE!

Do you sell your expertise? More importantly, do you charge for it?

The pandemic has literally doubled the knowledge and expertise you must possess. You have invested your time and money to acquire and hone it; you're using it every day, and you should be looking for more ways to make that investment pay off.

If you provide business tax services, you should quickly add business consulting since your knowledge of the pandemic rescue bills alone can provide them with targeted guidance on tax minimization, capitalization, and related issues.

If you have 1040 clients who previously filed a Schedule C or hobby-related expenses with their 1040, make inquiries about these ventures with offers to help set up a business, file the entity, and advise on budgeting, marketing, hiring, etc.

And if you have ranked your 1040 clients and your business clients from best to last, you can better target your services in accounting, retirement planning, estates and trusts and investment.

You Can't Avoid Cryptocurrency

So take advantage of it! Add a Service Guaranteed to Make You Money

Cryptocurrency is here to stay. Investments in crypto coins are now made by over half the taxpaying population. The funds are annually growing at double-digit rates. Use of the virtual currency is quickly expanding from personal to business use. And IRS reporting requirements continue to widen in scope.

Investors don't want the burden of keeping proper records and reporting that activity on their tax returns when they can rely on a practitioner with that expertise . . . like you.

Learn all about Crypto from tax reporting requirements to advisory services. MTAP will sponsor a special virtual webinar series in Summer, 2022. Look for details in early 2022!

Building a Profitable Business That Sells

Everything presented to this point can increase your profitability AND your weekly time commitment to executing it. It can quickly diversify the services you offer into non-tax preparation areas, as well as from exclusively compliance-based to advisory-based services.

Most importantly, it will dramatically increase your value as a practitioner, and it will quickly increase the resale value of that business.

In the last 10 years, our industry has seen a steady decline in resale value of tax preparation-exclusive businesses. Back in the early 2000s, that practice sold for about 125 percent of annual gross revenue. Today, these practices sell for under 50 percent of annual gross sales when a buyer is found.

Why? Studies over the last 10 years show that when a practitioner sells a tax preparation business, the buyer realizes almost a 70 percent loss of those clients after 3 years.

The prevailing reason given by those who value and sell these businesses for the massive losses is:

Tax clients lack the trust in the seller as clients working regularly with the practitioner have. If there isn't an instant connection with the buyer, the once-a-year 1040 client tends to leave.

So a tax preparation business with two preparers grossing $250,000 in annual revenues is now seeing valuations at or under $125,000 and little interest by local competitors to buy it since many will gain new clients choosing to leave after a sale and transition. Why pay for clients when many may likely walk through the door?

Conversely, practices where non-tax service revenues equal or exceed those generated by tax preparation are selling at 150 to 175 percent of annual gross revenues. So for a traditional practice offering non-tax services like accounting, business consulting, and tax planning services that grosses $250,000 in annual revenues, with $125,000 or more generated by non-tax service revenues, the market has shown sale prices of $375,000 or more since high retention is very attainable with a good step-down transition process.

If a practice includes financial and/or retirement planning services, the sale could be much higher depending on how those services were provided by the seller and how they were charged for. The sale could be even more lucrative.

You Could Transition a Small Tax-Only Practice In Three Years or Less with Service Add-ons

Nothing is given . . . everything is earned. Nobody implies that it is easy to transition a tax-only practice into a diverse service business. Making the choice will require much work developing or refining the skills for those new services.

One proven way is to initially add tax planning and minimization services for your 1040 clients. As we said previously, the myriad of tax changes in each of the pandemic rescue laws, coupled with the expectation that the latest infrastructure bill will contain massive changes impacting taxpayers in every tax bracket, has taxpayers nervous and looking for help.

The knowledge a practitioner gains just from attending programs like our GEAR UP 1040, Business Entities, and Last Minute Tax Update not only gives them that knowledge (backed by the most current and comprehensive reference guides), it begs using it to profit from it showing clients how to best manage their finances and save on taxes – all at a nice fee of course.

Branching into business and estate tax preparation services is also a natural extension of the 1040 business. These services can be initially targeted at existing clientele as part of an expansion into tax consulting, and as it catches on and begins generating activity, it can be expanded into business consulting and estates and trusts planning. Same goes for specialty services in cryptocurrency, etc.

Again, MTAP can help you. We are working to add special virtual seminars that offer sessions on accounting; preparation of 1041 returns; transitioning from compliance-based services to advisory services; adding Cryptocurrency services, and creating a practice you can build and manage without long tax season hours; more vacation time, and more.

Our goal is to launch these programs in early summer, and continue them into the early fall. Hoping for sufficient member interest, we would continue to offer targeted education to help you hone those skills and build the new post-pandemic practice.

The Successor Issue Has to be Addressed

It wouldn't make much sense to transition and/or build a practice featuring diverse and profitable services if there isn't someone there to eventually buy it. Currently, the industry is seeing a shrinking base of younger professionals looking to step into ownership and a growing number of businesses owned by older practitioners looking to sell. The trends certainly don't complement each other.

Any owner looking to sell in the next 3-5 years is already behind schedule. If there isn't a possible internal successor candidate or an external younger colleague being nurturing, the task becomes even more dire. If this is you, it's a tough road. But it certainly isn't unattainable.

Mentioning the concept of “networking” often brings a cold sweat, but in the case of selling your practice, you won’t find a good buyer unless you make a commitment to it. Virtual-based networking continues to be a trend as new apps and platforms emerge offering connections. It’s a good place to begin your eventual search. But so is offering lunch to area competitors or colleagues to break the ice and discuss areas of mutual interest. At the least, it opens a possible door to collaborate and to possibly even service share via referrals as a way to expand services. At best, it can forge a relationship that culminates in a mutually-satisfying sale and transition.

Why Should a Younger Professional Consider Ownership?

At no time in the last 20-25 years have conditions shifted so quickly and abruptly and created opportunity. The “new normal” has people becoming much more receptive to new technology in communication, transmission of information, and rendering of services. It also has people taking a hard look at their careers and businesses with an eye on their retirement target and how to manage their retirement to properly fund it.

The days of working 80-100 weeks during the filing season are the biggest detraction from employees wanting to take on ownership. It’s also becoming less lucrative each year as taxpayers opt for self-preparation platforms that are either less expensive or even free. And the tax preparer community cannot deny that the IRS is always working to create a “seamless tax filing system” where they provide the preparation platforms to taxpayers with returns already prepared based on data reported to the Service, with taxpayers simply confirming the return before signing off.

Could this happen in the next 3 years? That’s probably a hard NO. But could it happen over a 5 to 10 years? Absolutely.

A younger professional who acquires skills in areas outside of tax preparation – especially in financial planning and advisory services – can quickly build a lucrative practice with a strategic purchase of clients with interest in those areas. Buying and transitioning such a business to feature financial services would naturally peel off clients who don’t produce the level of revenue for the investment in time, and it would create a smaller, more robust and growing clientele where mutual trust anchors the relationship and service delivery doesn’t require constantly burning midnight oil.

If you are an employee who performs a specific service like tax preparation, accounting, or payroll, you really should consider expanding your skill set as demand for financial services grows. If you work in a traditional practice weighted heavily in tax preparation and compliance services, and you have any ambition to either make more money or succeed in ownership, you need to approach your owner to discuss many of the issues discussed here. Same goes for an owner who sees an employee who could become a successor and supporter of shifting practice services the way we have laid out.

Building a Business Rooted in Advisory Services Can Quickly Increase Value and Energy

We work in a service industry. The key to any service business' success is the delivery of quality and consistent service to clients. The more clients know they can depend on you to help them best manage their finances, the more trust is nurtured and the more viable and profitable that business becomes.

A practice offering more diverse services founded in a consistent investment in skills training, a commitment to marketing and selling, and financial rewards when bringing in new or expanded business will attract interest by both potential employees or future buyers.

Most importantly, it can significantly increase your profitability, ownership perks, and rewards.

Informative Article:
Transitioning from Compliance to Advisory Services
https://growwithable.com/blog/pivot-practice-from-compliance-to-advisory-services/

Concluding Thought

This whitepaper is based on my 35 years of actively interacting with practice owners, shareholders, employees, seminar presenters, and industry experts. It contains concepts based on their insights and supported by extensive reading of industry publications, information gleaned at countless meetings, and suggestions drawn from all of it.

This is intended as a call to action and by no means is it meant to be a "one-size-fits-all" blueprint to success. It is my hope that sharing these insights will help interested practitioners begin an informed journey towards increased happiness, satisfaction, and profitability.

Sincerely,
Jon A. Hayes, Executive Director
Michigan Tax and Accounting Professionals