

Tax Software White Paper

A year ago, I attended a program called “The Future of Work”. The gentleman that was moderating this program began his introduction stating that accounting jobs were going to be obsolete in the future due to the use of accounting and tax preparation software. We live in a “do it yourself” culture. The software was going to take all your financial information and “poof” create a perfect tax return, or financial statement. Those of us that work in the accounting field know that these software programs are far from perfect and often create more errors than if someone just input their data into an excel spreadsheet or wrote it out by hand.

There was a period where many people attempted to use the “do it yourself” tax software programs. Although Congress has attempted to make income tax filing easier, the fact is that correctly filing your income taxes has become more difficult than it ever has been. The tax software companies have run some pretty creative commercials to try and lure users back to their programs, even offering them for free. Unfortunately, there are few to no statistics provided related to comparison of errors from self-prepared, tax software-based tax returns versus those prepared by licensed and trained professionals.

So how does self-tax preparation software work in comparison to a licensed tax preparer? First, while a licensed preparer often prepares a wide variety of tax returns, the over the counter tax preparation software tends to focus on a pretty basic individual tax return with W2 income, mortgage interest and a few other common deduction items. If you own and operate a small business or are self employed over the counter self-tax preparation software is not going to help you. Do you have kids in college? Then you definitely do not want to use the self-preparation software either. We have corrected numerous self-prepared tax returns that involved college age children. The self-prepared software often does not include every form you may need to correctly file your taxes. It is a pretty narrow target market of those that have a very standard income tax return.

Both the self-preparation software and a licensed preparer are going to ask you questions. With the self-prep software, it is up to the user to interpret the question and provide the answer. With a “real life person” they can narrow down the answer from you to where it fits within your overall tax planning. There may be instances where a tax payer will want to allocate income or losses to future years, instead of taking them in one lump sum on one year. This cannot be done with a self-prep tax software. It does not recognize these types of tax planning strategies. Most self-prep software providers are hiring retired, or unemployed licensed accountants to assist with any questions that a user may have. Keep in mind, they are not putting their signature on the bottom line of the tax return and will not be there to assist you in the event of an audit.

While almost all tax preparation software programs offer audit assistance, ultimately it is up to the tax payer/preparer to represent themselves in the event of an audit. All the software manufacturer is really going to do is state that they worked from the information the tax preparer/payer/filer input into the software and that their program worked as intended. Using a “real person” allows for personal representation when the tax collecting entity conducts its audit. The licensed tax preparer has a vested interest as they have signed your tax return and are responsible for the

contents within it. The licensed preparer will often be sitting next to you should you be audited. The software manufacturer will be nowhere to be found and leave you out there to fend for yourself.

Licensed preparers do use a tax preparation software to prepare their clients tax returns. While similar to what is available to the general public online or over the counter, the licensed preparer software is more robust and allows for flexibility depending on a number of circumstances that may benefit or correctly capture their client's income and tax position. The software, whether personal or professional, is often manufactured by the same company, whether it be Intuit (the company that makes TurboTax, Quickbooks & Quicken), H&R Block, TaxAct, etc. However, the difference between their personal and professional based software could not be more different. Someone not familiar with the professional software will have a very hard time preparing their tax return than a professional that uses the software on a daily basis for a variety of clients.

The self-prepared tax software industry is not going away anytime soon. It is a multi-million to billion-dollar industry for these companies. In turn, as long as people are going to try and be economical and self-prepare their income tax returns there will be a need for a licensed professional to correct the mistakes they are making and re-file the corrected return with the tax filing agencies.