Unleashing the Power of Generative AI in Tax Preparation: Taxfyle's Approach to Workflow Automation and Document Understanding

Redefining the Role of Tax Professionals

The accounting industry is facing an unprecedented chronic staffing crisis due to increased demand, an aging workforce, and declining numbers of CPA graduates entering the field. Traditional tax preparation workflows often involve labor-intensive efforts that lead to inefficiencies and costly errors. Taxfyle's industry-leading **generative artificial intelligence (AI)** solution empowers tax professionals to be more accurate and efficient by automating several labor-intensive steps of the preparation process.

After evaluating tax documents and client metadata from the prior year, a comprehensive list is generated, identifying the documents and work requirements for the current year. Taxfyle AI collects the required documents and extracts the relevant information, significantly reducing the complexity and errors associated with tax preparation. Ultimately, our generative AI transforms the role of a tax professional from a **preparer** to a **reviewer**, improving margins and providing a solution to the industry's staffing shortages. Moreover, it empowers tax professionals to achieve unprecedented levels of efficiency, enabling them to overcome the challenges imposed by the scarcity of qualified personnel.

Market Dynamics

The growing demand for tax professionals continues to outstrip supply. Revenue for tax preparation service providers has increased at a CAGR of 3.9% from 2018-2023, reaching a market size of $14.4 billion in 2023. From 2022 to 2032, the market is expected to grow at a 4.7% CAGR, reaching a value of $44.7 billion by the end of 2033.

Meanwhile, more than 300,000 U.S. accountants and auditors have left their jobs in the past two years, a **17% decline**, and the dwindling number of college students coming into the field can't fill the gap. Accounting graduates trended downward in the 2019–2020 academic year, with decreases of 2.8% and 8.4% at the bachelor's and master's levels, respectively. A spring 2020–spring 2023 undergraduate enrollment **decline of 9.4%** is the **largest in 50 years**.

Industry Challenges

Accuracy and efficiency are paramount in the ever-evolving tax preparation landscape. However, tax service providers' current practices and manual processes often result in poor use of their hours, costly errors, compliance issues, and wasted resources. An experienced accountant can prepare a basic return in approximately **two hours** but spends **8 to 10 days** gathering necessary data points and documentation from a customer.

Furthermore, according to recent studies, U.S. companies have incurred nearly **$7 billion** in IRS civil penalties, primarily due to incorrect data handling and spreadsheet errors. About **3 million** amended tax returns are filed each year. According to a recent Bloomberg BNA study, an alarming 27% of accounting mistakes stem from incorrect data entry of tax information.

Traditional Tax Preparation

1. **Labor-Intensive**: Gathering and understanding relevant documents is time-consuming. These efforts can lead to inefficiencies and costly errors, especially in more complex financial situations.
2. **Error Prone Manual Data Entry**: The current approach is susceptible to human error, which can lead to significant repercussions, including tax inaccuracies, penalties, and even malpractice lawsuits.

3. **Focus on Low-Value Tasks**: Professionals often find a significant proportion of their time consumed by lower-value tasks. This can detract from their ability to engage in higher-value work, such as strategic tax planning, advisory services, identifying and anticipating future client needs, etc.

4. **Inefficient Workflow**: The process of evaluating previous years' tax returns to determine the specific work required for the current year can be time-consuming and inefficient. This practice often involves manually reviewing and comparing various documents, which can slow down the overall workflow.

5. **Document Management**: Collecting the necessary documents for tax filing is challenging. Clients may not always provide information in a timely manner, leading to delays and potential inaccuracies.

Taxfyle's Solution

Taxfyle AI automates the vast majority of manual work required for tax preparation by gathering the necessary documents and information to generate the necessary workflows, worksheets, and backup schedules.

1. By employing Optical Character Recognition (OCR) technology, we digitize the information from the previous year's tax returns. This digital data is then tokenized, breaking down the information into distinct tokens representing individual data points such as income, deductions, and tax credits. These tokens are then analyzed to identify specific tasks required for the current year's tax return, thereby automating and streamlining the workflow.

2. Our AI model, guided by the tokenized data, subsequently generates a comprehensive list of all necessary documents for the current tax filing process. By predicting the expected complexity of the tax return based on previous return data, the AI model provides a tailored checklist of clarifying questions and required documents. This level of automation streamlines the workflow, enhances accuracy, and minimizes the potential for overlooked documentation or data points.

3. Taxfyle's integration of OCR and AI transforms the traditionally labor-intensive and error-prone process of tax document management into a more efficient and reliable system.

4. Taxfyle monitors a multitude of data points, spanning both documentation and chat communications. The AI model diligently scrutinizes tax documents, extracting and analyzing relevant data to ensure the completion and accuracy of the information. Concurrently, the model can also monitor chat communications between the client and professional, identifying key information, addressing queries, and highlighting any potential areas of concern that require human attention.

5. Through the guarantee of precise results, Taxfyle's AI empowers tax professionals to accomplish more with fewer resources, enabling them to dedicate their efforts toward error identification rather than data entry tasks. Moreover, this cutting-edge technology affords them additional time to concentrate on other intricate accounting responsibilities that require heightened attention and expertise.

Competitive Advantages

- **Superior Workforce**: Taxfyle boasts an unparalleled team of licensed tax professionals whose extensive experience adds significant value to the tax preparation process on top of the aforementioned AI.

- **Rich Data Reservoir**: The company's rich history of preparing a vast number of tax returns provides the requisite data backbone for an advanced AI-driven system, with superior capabilities in document understanding and analysis.

- **Domain Expertise**: The team at Taxfyle is armed with a profound understanding of the intricate details of tax regulations, deductions, credits, and compliance.

- **Established Trust**: Taxfyle's solid reputation enables it to introduce AI-driven services to its existing client base, giving it an edge over competitors when bringing a new product to market.

- **Smooth Integration**: The established Taxfyle platform is well-suited for integrating the new AI technology, ensuring a seamless transition for clients and professionals.

- **US-Based**: Aligning with Section 7216 regulations around the export of sensitive financial data abroad, complex tax returns can be prepared at price points that were previously unattainable with a domestic workforce.
- **Robust Security Measures**: As a SOC2-compliant and ISO27001-certified organization, Taxfyle strictly adheres to industry-leading standards of data security, ensuring the protection of sensitive client information.

The Evolution of Tax Filing

Taxfyle is at the forefront of revolutionizing the tax preparation industry with our industry-leading generative artificial intelligence (AI) solution. Our advanced AI system, bolstered by an extensive repository of data accumulated over years of preparing hundreds of thousands of tax returns, possesses unmatched capabilities in comprehending and analyzing documents. By automating labor-intensive tasks and streamlining workflows, we empower tax professionals to achieve unprecedented levels of accuracy and efficiency.

In a landscape where the demand for tax professionals consistently surpasses the available supply, our AI-driven approach emerges as a dependable remedy for the industry's enduring staffing challenges. Taxfyle is poised to lead the way in the adoption of AI-driven tax preparation solutions, benefiting the entire ecosystem of taxpayers and tax professionals.