



# The Tax Industry Today:

**5** Major Shifts Impacting the Market –  
and How You Can Respond





# Introduction

You probably don't think much about the tax forms market. After all, it's a seasonal product line and nothing really changes. Sure, the IRS makes a few form modifications now and again but that's about it, right?

Actually, this product line is experiencing major shifts. Distribution channels are changing, manufacturing costs are tumultuous and customers are moving away from tried-and-true processes.

In this whitepaper, we're going to explore the dynamics impacting the tax industry today. You'll get a strong understanding of the current market so you can make smart decisions on how to maximize your revenues.

## **Specifically, we'll cover:**

- The Rise of Cloud-Based Processing
- Why Manufacturing Cost are Skyrocketing
- Changes in E-Commerce (and the so-called "Amazon effect")
- The IRS Push Toward Electronic Filing
- Strategies to Respond and Increase Market Share



## Shift #1:

# The Rise of Cloud-Based Processing

We live in an increasingly digital world – from our homes to our workplaces and everything in between. There's online banking, the paperless office, mobile apps for everyday tasks, cloud applications (such as accounting, HRM, payroll) and, now, electronic tax reporting.

As we replace more and more manual processes with online solutions, it's no surprise that tax reporting is experiencing the same shift. Just as most individuals use software to complete personal returns, employers are moving to W-2 and 1099 cloud processing. In fact, electronic filing is fast becoming the preferred choice for small businesses.

E-filing is a popular method for filing W-2s, 1099s and other informational tax forms because everything is done online – eliminating the need for paper forms or software.

### Specifically, e-filing is gaining traction because it's:

- **Convenient:** Instead of navigating software or handling mountains of paperwork, online filers follow a few easy prompts from their desktops. No more trips to the office supply store and post office – or struggling with paper jams and misaligned forms in printers. E-filing is more environmentally friendly, too, thanks to less paper and toner cartridge use.
- **Affordable:** The online filer pays only for the number of forms filed, even if it's only one. In most cases, online tax reporting is much more affordable than purchasing software and bundles of forms.
- **Accurate:** In addition to the numerous prompts that ensure compliance with the latest tax rules, e-file sites do the complicated calculations. Data entry errors are caught, and mistakes are prevented. In fact, the IRS considers e-file returns to be virtually error-proof.
- **Helpful:** Online filers appreciate the regular communication during the e-file process, including email notifications when the government agencies receive filings. Plus, the business can check the status of a specific filing any time, from any computer, laptop or tablet.

# Shift #1:

*Continued*

## DID YOU KNOW?

Electronic filing is mandatory if the employer has 250 or more forms to complete. And, the IRS is lowering that threshold every year. Their goal is for all businesses with over 25 employees or contractors to file electronically.

**Many businesses choosing to e-file will seek a provider that can also print and mail recipient copies. Using a one-stop partner is appealing because:**

- **It saves money.** In addition to the dollars-and-cents impact of paper filing, there are labor costs to consider. Online filers who select an all-in-one tax reporting partner save on payroll associated with having an employee manually print and mail forms.
- **It saves time.** The data is entered or uploaded online and then the provider handles the rest. No time is wasted standing by the printer, fixing paper jams, stuffing envelopes and affixing postage. And again, no more trips to the office supply store and post office.
- **It's more secure.** Printing forms such as W-2s on the office printer and having employees handle mailing aren't the most secure or confidential processes — a little worrisome when you consider these documents contain such sensitive information as annual salary and Social Security numbers. Mismatching forms and envelopes is a concern, too. Imagine what would happen if an employee received a coworker's W-2. Outsourcing to a specialized and reputable provider can give employers valuable peace of mind.

## THE BOTTOM LINE

Offering new services, like e-filing, keeps your customers happy and satisfied with your company. They won't look elsewhere when they're ready to make the switch from traditional, time-consuming paper filing. It also provides you with additional revenue streams to offset the declining sales of forms you may be starting to see.

## Shift #2:

# Skyrocketing Manufacturing Costs

With people today handling more and more tasks electronically, it might surprise you to learn that paper prices are rising. Prices for the pulp necessary to manufacture paper have increased up to 40%. Manufacturers are absorbing a large percentage of the cost but they must raise prices in order to survive.

So why is this happening? E-commerce is partly to blame. As Americans shop more online, the need for packaging materials increases. Many mills have stopped traditional bond paper manufacturing and instead are producing cardboard boxes and other packing materials.

Other mills have converted to producing different types of paper products, such as toilet paper and diapers. This drastic decline in bond paper production has led to the price increase.

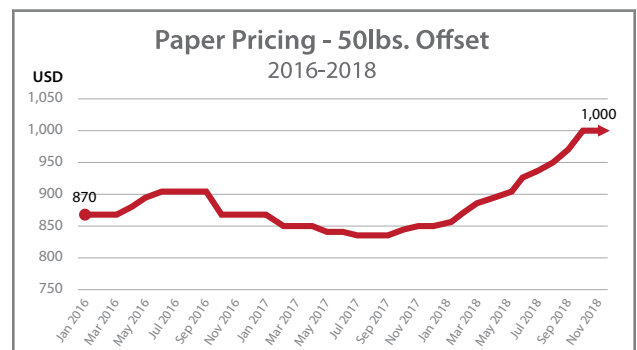
In addition to the increase in price for raw materials, there is also a lack of mill capacity. In 2017, there were significant mill closings which reduced North America's capacity to produce paper for pressure-sensitive labels and printing grades. The industry today has fewer label businesses capable of producing specialty products such as release liners, thermal transfer face and prime labels. There doesn't appear to be any new entrants on the horizon — meaning there won't be any new sources of supply. And with demand expected to increase, lead times will be longer.

There are many other contributors. Here are just a few:

- **Freight pricing is increasing:** Diesel fuel prices have gone up over the past few years so it costs more to transport products to consumers.
- **Tariffs have been implemented on paper imports from Canada:** This has strained the paper supply.
- **Labor costs are rising:** This year alone, 20 states and many cities/counties have increased the rate they pay minimum wage workers.

### THE BOTTOM LINE

As the price for paper surges, it makes sense to consider offering electronic solutions to customers. Without the costs related to physical goods, online solutions allow you to see a much higher profit margin.





## Shift #3: Changes in E-Commerce

It's no secret that Amazon has changed the way consumers purchase ... well ... everything. The online retailer has made shopping incredibly easy with "1-click" shopping and lightning fast delivery. This "Amazon effect" is greatly impacting the tax market as well.

### **First, let's define the term.**

*The Amazon effect is the ongoing evolution and disruption of the retail market, both online and in physical outlets, resulting from increased e-commerce. The name is an acknowledgement of Amazon's early and continuing domination in online sales, which has driven much of the disruption.*

How is this affecting tax forms? Amazon is becoming a leading source for the product line because just about anyone can sell through the site. And there's no real limit on how many resellers can offer the exact same product.

Consider this: If consumers are looking at a 50-pack of paper tax forms from numerous sources, which one will they choose? If the products are the same, they will likely go for the lowest cost option. So the only way resellers can secure sales is to undercut one another.

Unless you want to be a budget provider, selling on Amazon isn't the answer. But how can you compete with the giant? A key way to counteract the Amazon effect is through knowledgeable customer service. This is something Amazon can't provide due to the vast array of products they offer.

You know your customers best and can help meet their specific needs. If they have questions or problems, you can provide answers and resolutions. (And by-the-way, we're here to supply with you all the resource materials and training you need!)

### THE BOTTOM LINE

By providing customer service, knowledge and value – along with a variety of solutions that today's consumers seek – you can grow sales and increase customer loyalty.

## Shift #4:

# Recent Compliance Considerations

### DID YOU KNOW?

When businesses use paper tax forms, there is an average 20% error rate. When e-filing, that number drops to just 1%.

**As usual, there are governmental revisions and updates. Three factors to consider:**

1. The IRS is requiring fewer red forms. The agency has created a process allowing filers to substitute black-ink Copy A files for the W-2/W-3 Forms sent to the SSA. However, it's important to note these files must be preapproved. It's only a matter of time before the IRS allows the same for the 1099 Forms.
2. Routine form changes continue. With new IRS regulations, forms are updated every year. As a result, tax form providers must dedicate considerable resources to monitor the agencies and revise the forms.
3. IRS continues to provide free forms ... with zero sense of urgency. Filers can still request free forms from the IRS, but there is no guarantee of timely receipt. (And there are quantity limits.) The IRS doesn't consider the ordering date and expedite shipping when necessary to ensure the deadline is met. The forms are free after all. That's why the vast majority of filers head to a retail store or go online.

### THE BOTTOM LINE

For consumers, electronic filing provides peace of mind. The forms are accessible when they need them. E-filing is the fastest way to meet the deadline. And the forms are always the most current version.

## Shift #5: The Push for E-Filing

### DID YOU KNOW?

In the past five years, paper tax form filing has declined by more than 23%.

The IRS has been promoting e-filing for years. Electronic filing makes processing the returns much easier for the agency. Ultimately, the IRS hopes to do away with paper forms altogether.

In 2015, a significant milestone toward that goal was achieved when 75% of all W-2s were submitted electronically rather than via paper. Just two years later in 2017:

- 272.5 million W-2s were electronically filed
- 65.5 million 1099-MISC were electronically filed

This season, the IRS is projecting those numbers to increase nearly 10%. And paper filings will decrease by more than 2.4 million forms.

With more and more businesses choosing e-filing, let's look at how the process works with our online solution.

1. Customers create a free account.
2. They enter their payer information.
3. They set up recipient records.
4. They fill out the on-screen forms.
5. They review and submit completed forms.

It's that simple. If the customer has numerous forms to file, they can upload them all at once with Excel templates, or import them directly with software like QuickBooks and Xero.

We handle the rest. We file electronically with the IRS and/or SSA. We provide forms to employees and contractors via email — if they have provided email addresses and opted for electronically delivery. If paper copies are requested, we print and send recipient forms via first-class mail from our secure, specially certified facility.

### THE BOTTOM LINE

Paper tax forms are quickly becoming obsolete. Offering e-filing to your customers can help you offset declining sales.





# E-File Evolution

Since its introduction three decades ago, e-file has evolved and expanded. Here's a quick history:

- **1986:** E-file begins as a small pilot program with five tax preparers in three metropolitan areas — Cincinnati, Raleigh-Durham and Phoenix
- **1987:** The previous year's program is expanded to include 66 preparers from seven cities, and electronic direct deposit is added
- **1988:** The program is expanded to 16 IRS districts, with the addition of two new forms — Form 1065 (partnerships) and Form 1041 (trusts)
- **1989:** E-file expands to 36 states, with the IRS making a major marketing push to tax preparers
- **1990:** It's official! IRS e-file is now operational nationwide
- **2005:** The IRS terminates its automated voice-response program Telefile, in favor of the more efficient and safer e-filing
- **2011:** E-files hits the billion mark of tax returns filed
- **2015:** 75% of W-2s are e-filed this tax season, fulfilling a goal set by the IRS
- **2017:** 3.6 billion W-2 and 1099 electronically filed with the IRS



# Case Studies

How can you respond to these Industry Impacts? It's clear that the market is changing. Fortunately, we have the solutions you need to combat the issues discussed here and — not only maintain — but grow your tax business. Here are case studies showing the results we've achieved for partners like you.

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## 1. Tax Form Reseller Offsets Declining Paper Sales with E-file

**Situation:** As their regular tax forms declined due to migration to online tax solutions, they wanted to develop an online business where businesses and accountants could manage the 1099/W-2 process online.

**Solution:** We set up a private-labeled e-file website for them. We also provided a marketing plan that included emails, blog content, banner ads and direct-mail pieces.

**Result:** First-year sales were \$21,000 and the second year they jumped to \$105,000 with an 80% retention rate.

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## 2. Online Merchandising Improves E-Commerce Results

**Situation:** This company is in a highly competitive market and needed to find a way to differentiate themselves both online and in their B2B sales.

**Solution:** We worked with their Web team to create a specific landing page for tax forms. We also provided all the materials needed to merchandise tax forms online — product images, product descriptions and marketing copy. We created sales kits for their salesforce and conducted training to over 300 salespeople on tax forms.

**Result:** Sales grew by \$700,000 at very high margins.

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## 3. Print Broker Expands Services to Software Company

**Situation:** This customer provided forms-management services to a financial software client and they wanted to improve their offering to this client.

**Solution:** We worked with the print broker to design specific forms that fit with the software output. We provided form schema and programming guides for the software developers. We also created an e-file site for the clients of the software company to use and have the information exported seamlessly from the software.

**Result:** Sales grew by \$75,000 the first year.

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