

Shortage of accountants in the US leads to tax returns prepared from India

ValueNotes, November 2006

A report by Pune-based ValueNotes, estimates that as many as 360,000 US tax returns were prepared in India in 2006. It anticipates further growth, estimating at least 1.6 million returns will be prepared here in 2011. The estimates are conservative and the potential is much larger at 22 million returns per year by 2011, but actual offshoring will be limited by CPA firms' inhibitions about offshoring. However, competitive pressures could force many more firms to offshore.

Says Glen Keenan, President of Xpitax, a facilitating outfit "The whole outsourcing business requires quite a shift in thinking for the CPA firms, so comfort factor has to be really high in order to do that"

The accounting and audit services are relatively new in offshoring and are gradually gaining maturity with each passing tax season. Unlike other services, which are traditionally outsourced due to cost pressures, the demand for Returns offshoring stems from the lack of accountants and excessive workload during the "tax season". The number of CPAs and other qualified accountants in the US are just not enough to meet the increasing demand from increasing tax compliance, Sarbanes–Oxley related work, estate planning, advisory etc. The demand-supply mismatch has led to severe competition for experienced accountants and salaries are skyrocketing, even at starting levels. CPA firms are discovering that offshored Returns are not only turned around faster, but are also 40% to 60% cheaper. CPA firms after initial success with Returns preparation is slowly sending more work offshore: bookkeeping, financial statements analysis etc

Adds ValueNotes CEO, Arun Jethmalani, "The industry will quickly move beyond 1040s. Both the vendors and buyers are at an inflection point on the maturity graph, and we expect tax returns preparation will drive penetration into a wider range of offshored professional accounting services."

The Indian offshore services provider landscape consists of captives of the Big Four audit firms (*KPMG, PriceWaterhouseCoopers, Deloitte and Touché and Ernst & Young*), American facilitating firms / agencies (*Xpitax, SurePrep, CCH, IFR*), Tier-1 multi-service BPOs (*Mphasis, Datamatics, OPI*), Tier-2 BPOs (*PB Tech Impact Solutions, Cosmic Internet Technologies*) and F&A BPOs owned/ controlled by Indian Chartered Accountants (*GKM Management services, Business Accounting Services, Accountant Anywhere, Enablizer*)

Pratibha K, analyst at ValueNotes feels “Facilitators like Xpitax and SurePrep are best positioned to service CPA firms, while Indian CA BPOs are well placed to operate as complete back-offices for accounting firms”

Based on analysis that included extensive primary research, ValueNotes has picked three winners from the current crop of vendors: Xpitax, GKM Management Services and Business Accounting Services.

Karthikeyan, MD, GKM Management Services opines, “As Chartered Accountants, we feel our biggest advantage is that we can speak the global language of accounting with the CPAs. We feel this is a good differentiating factor for us compared to the large corporate vendors. CPAs are bound to trust us more than the tech companies because of our common accounting background.”

The ValueNotes report titled “**Offshoring Tax Return Preparation to India**” suggests that return preparation will set the stage for other accounting services to be sent to India.

About ValueNotes

ValueNotes Database is a leading provider of business intelligence and research, with expertise across selected domains and types of customer needs. Working with clients across the globe we have significant understanding of international markets.

About ValueNotes Outsourcing Practice

The ValueNotes Outsourcing Practice is one of the largest information providers on the outsourcing industry. Our Outsourcing Practice uses a comprehensive, analytical framework providing fresh insights into the fast emerging and yet, complex outsourcing space. We extensively track the outsourcing space in-depth through a regular analysis of news and events and continuous primary research and contact with the industry.

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