

A tax-time look at the relationships between U.S. small businesses and accountants, and their attitudes to business finances

Xero to Sixty

2015 edition



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Foreword

It is my pleasure to introduce Xero to Sixty, a look at attitudes and experiences surrounding small business finance and tax issues.

While in years past our research has focused exclusively on accountants, this year we cast a wider net to include businesses with twenty or fewer employees. Our customers represent both groups, so we were curious to see where their attitudes and experiences are in sync – and where they differ.

The results? Some we expected. For example, a disconnect between how much accountant/client communication the two groups think is necessary. But others surprised us. One notable finding was that despite recent gains in the stock market, an uptick in the GDP, and a reduction in the unemployment rate, our research indicates that the prevailing sense of optimism about the economy hasn't yet reached the owners of the smallest businesses.

We also saw overwhelming evidence that technology is having a powerful and positive impact on the accounting practice: 85 percent of respondents said so.

Perhaps there's a lesson there for business owners who haven't yet embraced it to the extent that they could or should. We also found it interesting that accountants believe policies such as the Affordable Care Act and minimum wage increases will pose a bigger challenge to business than their clients seem to think they will.

Why Xero to Sixty? In today's always-on society, everyone is looking to accelerate profit, if not growth. We firmly believe that it's hard to do that without investing in the right tools and advisors, so in the following pages we offer insights to help both business owners and accountants get where they want to be – faster. We'll also look at some of the unifying themes that emerged in our research, plus some eyebrow-raising nuggets we included for light-reading.

Curious? Read on!

AMY VETTER

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Xero Head of Accounting and Global
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What's different in 2015?

The business owners we included in this year's survey represented a wide range of industries – including, but not limited to – professional services, retail, insurance, healthcare, construction, hospitality, and real estate, with nine out of ten owners having been at the helm for at least three years, and more than a third clocking at least a decade. We were struck by the following:

Accountants are taking a macro view – and staying one step ahead of their clients.

While last year just eight percent of accountants said that rising minimum wage was the biggest challenge facing small businesses, this year that number jumped to 21 percent. However, this year only eight percent of business owners listed rising minimum wage as the biggest challenge they face.

Do accountants see something the business owners don't? Or are they just looking harder?

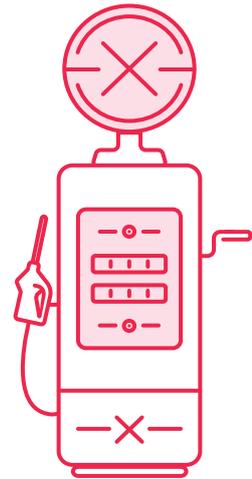
Another notable difference from last year's results also lies in the question of the biggest obstacles ahead: In 2014 more than a third of accountants surveyed predicted that new tax policies (e.g. Affordable Care Act, Marketplace Fairness Act) would be the biggest challenge facing small business, but that number dropped to 20 percent this year. In this year's survey just 14 percent of business owners saw new tax policies as their biggest challenge, with more than half citing the economy.

The one area where small business respondents were able to provide insight on last year was a surprise to us. A full two-thirds of respondents said business in 2015 is the same or worse than last year. Could much of that be due to poor business planning without professional help? In our opinion the answer is not always, but often.

Gas prices

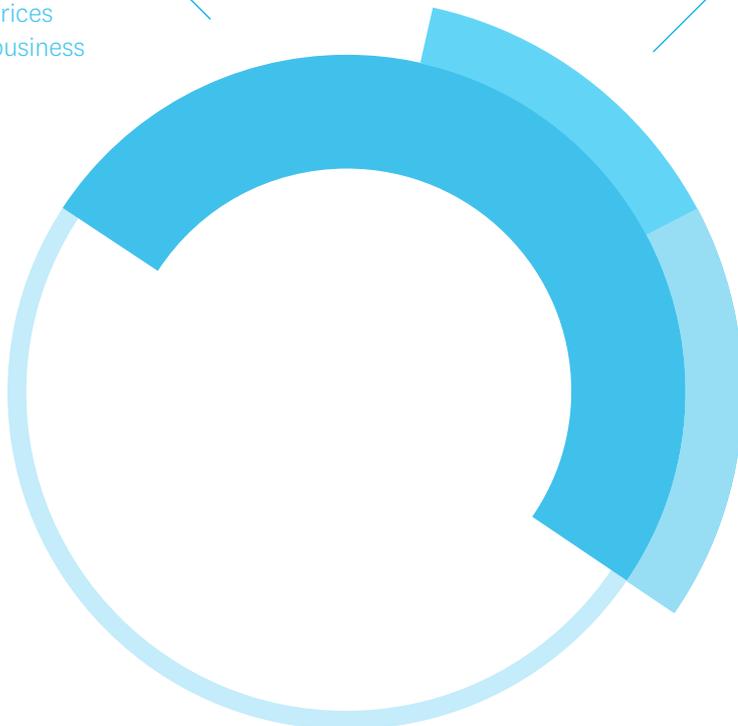
Lower prices at the pump – pumping up business.

- Almost half of respondents (48 percent) say lower gas prices are impacting business. How exactly? Of that group, 34 percent say expenses are down, and 28 percent say revenue is up
- Many of those business owners are putting those savings right back into the business through infrastructure (36 percent), hiring (17 percent), or expansion (16 percent)



48%

say lower gas prices are impacting business



28%

say expenses are down as a result of gas prices

34%

say revenue is up as a result of gas prices

Political agendas

Elections affecting the bottom line? Depends what color the bottom is.

Not surprisingly, our respondents were divided among (geographical) party lines when asked if the Republican majority in Congress will affect their business.

- Almost half (49 percent) of business owners in red states think it will help compared to less than a quarter (24 percent) in blue states
- On the flip side, more than a third (37 percent) of business owners in blue states think it will hurt compared to only 14 percent in red states

24%
of business owners
in blue states think
it will help

37%
of business owners
in blue states think
it will hurt

49%
of business owners
in red states think
it will help

14%
of business owners
in red states think
it will hurt

Accountant and client contact

What do accountants want? More time with clients! When do they want it? Now!... or very soon.

While it's hardly surprising to learn that accountants want more client contact, we thought it was worth pointing out that a full third of accountants surveyed believe that communicating with their accountant only during tax time is the single biggest mistake small business owners make. But do clients know their accountants feel this way? We suspect not.

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I've worked with countless accountants, and the majority of them don't like to “sell” themselves. But they should! The door is ajar for accountants to play a more advisory role with their clients – I'm just hoping they'll push it open.

AMY VETTER

70% of accountants recommend monthly contact, and nearly a third prefer a weekly check-in

While 70% of accountants recommend monthly contact and nearly a third prefer a weekly check-in, fewer than half of small business owners surveyed meet with their accountant monthly, with a quarter meeting only once or twice a year.



Geographic challenges

Location, location, location!

Our data indicates that romantic bonds aren't the only ones that suffer in a long distance relationship. Accountants say their rural clients commit the error of talking to them only during tax time, a mistake made by them more often (47 percent) than by their urban clients (27 percent). While 85 percent of accountants responding to the survey said that recent technology advancements have allowed them to be more efficient.



Ideas for accountants

- Adjust your service offering to a value-pricing model
- Talk to clients about moving from merely compliance to an advisory role as well
- Consider a cloud-based solution like Xero to obtain regular – and secure – visibility into client finances, regardless of geography

47% of rural clients speak to their accountant only at tax time, vs. 27% of urban clients

85% of accountants said that recent technology advancements have allowed them to be more efficient

Accountants as advisors

More than compliance –
accountants as advisors.

It's clear from our survey results that today's accountants are in a position to provide their small business clients with invaluable advice that reaches far beyond the scope of compliance and can help to accelerate growth. What's also clear is that many of them aren't playing that advisory role. A full quarter of our business owner respondents admit to not understanding their tax obligations, and twenty percent say that not linking their business goals to their finances had negatively impacted their business.



Show your value!

When a bakery owner feels he can ask his accountants questions about his business (How can I become more profitable? Why is my inventory so high?) and not just his tax preparation, the shift from merely compliance to an advisory role will be natural.

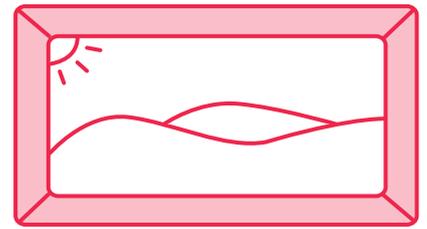
A full quarter of our business-owner respondents admit to not understanding their tax obligations



2015 challenges

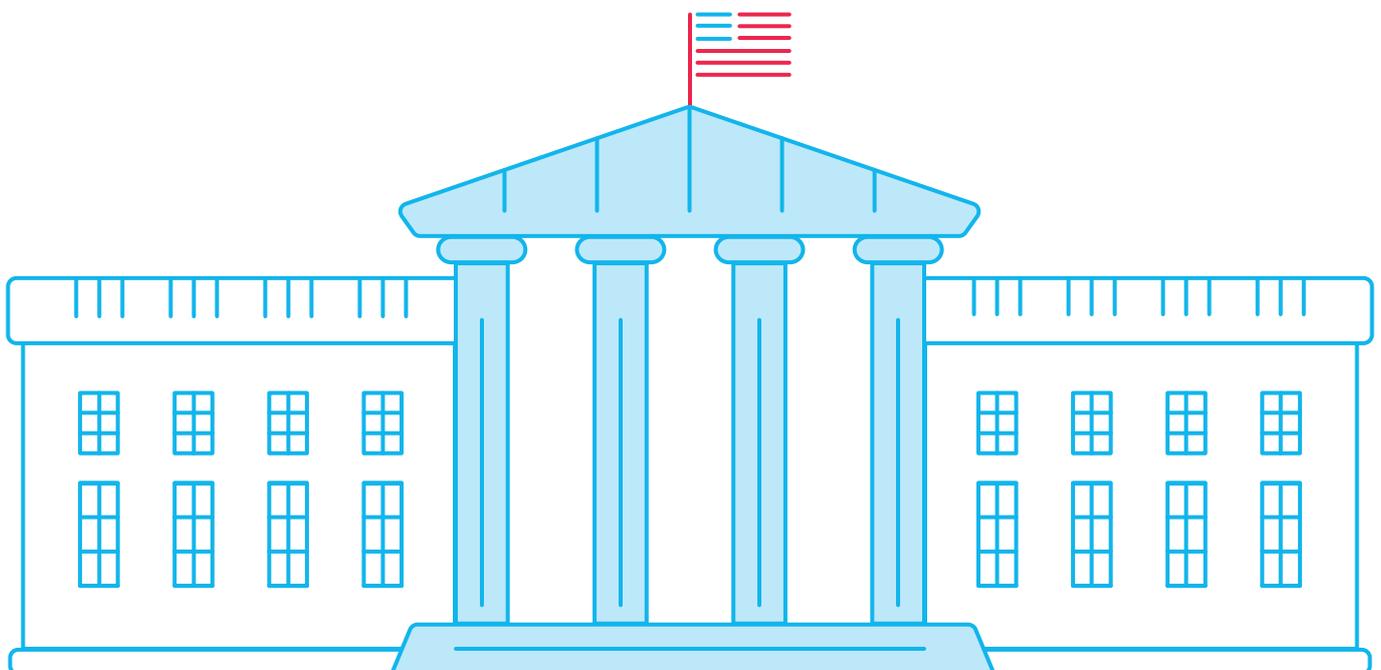
On the horizon...

Whereas business owners are inherently focused on the here and now (bearing in mind that more than half listed the economy as their biggest challenge in 2015), forward-thinking accountants view things on a broader scale. They raised red flags around policy and regulation, citing legislation such as minimum wage increases (21 percent of accountants vs. 8 percent of small business owners) as issues that will affect the bottom line in 2015.



The big picture? Accountants see it.

The takeaway? Accountants have the knowledge to help their clients plan for the future.



Audit alert!

Alert your clients to be mindful of common mistakes that can trigger an audit.

The accountants we polled said the most common mistakes include:

- Mixing personal and business expenses in deductions (23 percent)
- Excessive deductions from income (22 percent)
- Failing to file on time (15 percent)
- Underpaying estimated taxes (14 percent)
- Inaccurate home-office deductions (10 percent)
- Not communicating well with your accountant (7 percent)



The most common mistake leading to an audit is mixing personal and business expenses.

Summary

In a nutshell... In any relationship, there's always room for improvement.

ACCOUNTANTS AND SMALL BUSINESS OWNERS

Where they most agree:

- Key focus areas for successfully managing business finances.

Where they most differ:

- How much accountant involvement is necessary to successfully manage finances.
- What role an accountant can/should play in the business.

ACCOUNTANT TAKEAWAYS

All clients on some level want to accelerate profits, if not grow their revenues, but setting financial goals is your area of expertise, not theirs. Offer that guidance!

A whopping 85 percent of accountants in our survey said recent technology advances have allowed them to be more efficient in their practice. By adopting a solution that provides continuous visibility into finances, we see an opportunity for both accountants and clients to significantly increase the value of the relationship.

Conclusion

Our goal at Xero is to help both small business owners and accountants successfully manage finances, so we found it heartening that a major storyline that emerged from this survey was about the relationship between the two groups, namely the potential to dramatically improve it for the benefit of both parties.

There's no question that everyone's playing for the same team. It's getting the game plan right that's the tricky part – and assigning the positions in a way that produces the best results. As accountants you have the skills to help their clients set goals to increase profitability, freeing them to take their minds off of the books and focus their energies on what they're really passionate about. The advent of cloud-computing solutions makes this possible by removing obstacles such as geography and by introducing value pricing into the conversation, which changes the game for small businesses.

As for the guy who tried to claim his donkey as a legitimate business expense? If you have a theory on what he was thinking, please let us know, because we're still scratching our heads about that one.

Here's to a year of accelerated profit and growth!



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