



## **GUIDE TO TAX ANALYSIS**

**5 ways to thrive as a tax accountant  
when the tax rules keep changing**

**blueJ**



## Taxpayers today are expecting the best of both worlds from their accountants and tax lawyers.

Taxpayers want their tax professionals to predict the likely consequences of every tax-planning option while staying up to date on the most recent tax law changes in case it impacts the tax planning strategy. Tax professionals are caught in a difficult situation - they constantly attempt to make the tax rules knowable and predictable in order to communicate the outcomes and risk to their clients, while at the same time being sensitive to the potential unknowns that are inherent with changing tax rules.

This article will describe 5 of the most common challenges tax accountants face when working in an environment where there is new tax knowledge to be learned daily and client expectations are steadily increasing, and discuss how technology can help overcome these challenges. Technology can complement practitioners to give advice that is accurate, supported by data, thorough, well-documented and timely - even when the tax rules keep shifting.

## CHALLENGE ONE:

# knowing the right questions to drill down on the facts

Getting access to all of the relevant documents and information is a pain. Sometimes the records are disorganized, scattered, damaged or lost. Other times, as tax issues unfold, additional information is needed in order for the practitioner to better assess the tax planning strategy. Even after the client hands over access to their digital storage of financial documents, getting to the bottom of the facts is challenging.

Clients may make certain assumptions which can cause errors in their tax returns. For example, a client may incorrectly assume that they qualify for a particular deduction. If these incorrect assumptions are left undiscovered, these errors may expose the client to scrutiny from the IRS and significant accuracy-related penalties. One of the most valuable skills tax practitioners can use in these situations is their ability to critically evaluate the facts and ask further questions when the information is unclear or appears to be unsupported.

This is more challenging than it may appear. Without a clear picture of what the IRS considers relevant for any particular tax issue, it may be difficult to know when follow-up questions are required to uncover whether the information provided is accurate or complete.



## How technology can help:

Blue J's tools help alleviate these challenges in two ways.

Blue J provides comprehensive factor-based questionnaires tailored to specific tax issues. These questionnaires help practitioners identify all of the relevant information that may impact the outcome. The questionnaires are dynamic and sensitive to the actual situation because it prompts the user with follow-up questions depending on how other questions are answered.

By using Blue J Tax the practitioner can easily identify the most important factors the IRS and the courts consider in certain tax situations - for example, when classifying a transfer of cash as either giving rise to a debt obligation or an equity interest. Practitioners can ensure important information is not overlooked while honing in on the specific facts that warrant further investigation.

The screenshot shows the Blue J Tax Prediction Report interface. On the left, there is a questionnaire titled "Debt vs. Equity" with sections for "Background" and "Key Terms". The main area displays the "Prediction Report" with a "Predicted Outcome" of "Debt" and a "Confidence Level" of 57%. A progress bar shows the confidence level between "Equity" and "Debt". Below the report is a table of "Decisions with similar factors" with columns for Title, Result, and Similar Factors.

TITLE	RESULT	SIMILAR FACTORS
Brake & Electric Sales Corporation v. United States, 287 F.2d 426 (1st Cir. 1961)	Equity	VIEW MATCHED FACTORS
United States v. Haskel Engineering & Supply Company, 380 F.2d 786 (9th Cir. 1967)	Debt	VIEW MATCHED FACTORS
P.M. Finance Corporation v. Commissioner, 302 F.2d 786 (3rd Cir. 1962)	Equity	VIEW MATCHED FACTORS
Charter Wire, Inc. v. United States, 309 F.2d 878 (7th Cir. 1962)	Equity	VIEW MATCHED FACTORS
Am. Metallurgical Coal Co. v. Commissioner, 2016 T.C. Memo 139	Equity	VIEW MATCHED FACTORS
Foresun, Inc. v. Commissioner, 348 F.2d 1006 (6th Cir. 1965)	Equity	VIEW MATCHED FACTORS
Sundby v. Commissioner, 2003 T.C. Memo 204	Equity	VIEW MATCHED FACTORS

Second, by using Blue J's software, practitioners can stress-test the impact of each of each factor on the ultimate outcome. Blue J's software harnesses artificial intelligence to provide practitioners with the predicted outcome of many tax issues along with the confidence range. Each factor has some impact towards the ultimate outcome and a practitioner can uncover those insights by toggling each factor to see how it impacts the outcome. For example, perhaps a particular fact that the client is concerned about actually has almost no impact on the outcome. By uncovering this insight through Blue J's tools, the accountant may determine that further investigation is unnecessary and save themselves time and their client unnecessary costs.

## CHALLENGE TWO:

# getting to the answer without getting lost in legislation

Tax practitioners often need to ensure that their clients are in compliance with the black letter of the law. This may involve carefully reading sections of the IRC and its regulations. Working through the IRC and its regulations has obvious challenges. Unless the accountant is also a tax lawyer, parsing through the complex web of tax legislation and regulations to find the answer is like looking for a needle in a haystack.

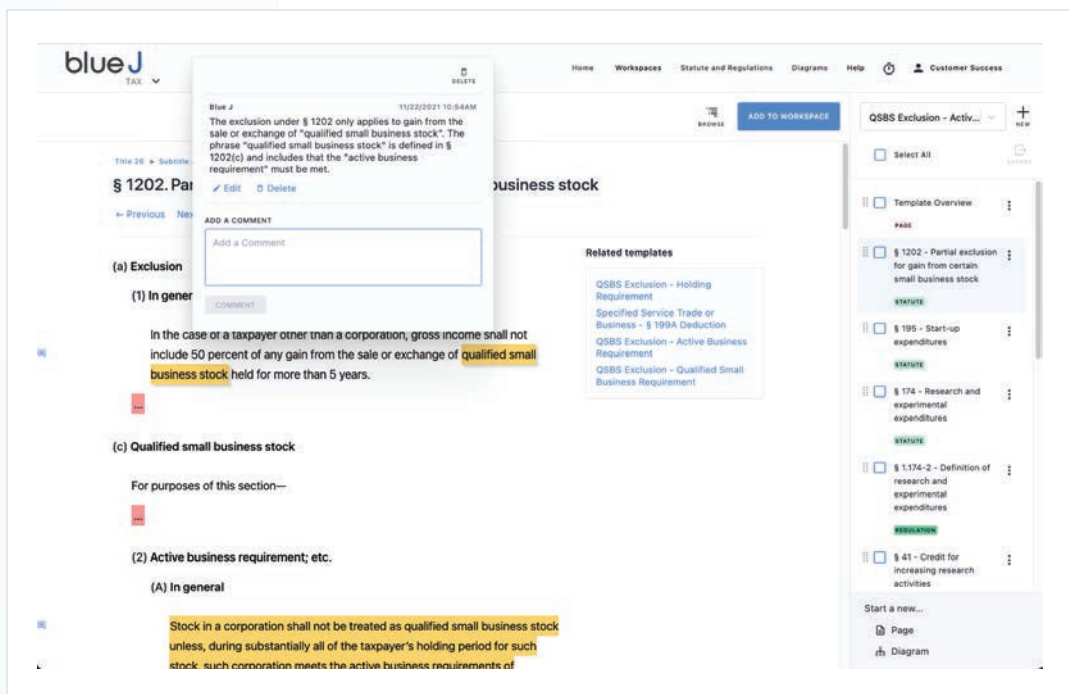
Practitioners often want a faster way to work through the legislation or the regulations without being bogged down by the legalese. Particularly when new regulations are released, it can take time to understand the changes and how it impacts the tax return.



## How technology can help:

Blue J's legislative analysis tools help practitioners complement their factor-based research and analysis on specific topics by working directly with the statute and regulations. Practitioners can easily gather the relevant sections and regulations that impact their specific situation in one place (a "Workspace"), comment directly in the text, highlight important sections, hide sections that are not relevant and download their analysis to share with colleagues.

To provide practitioners with a better starting point for their research and analysis, Blue J's legal research team have created summaries on specific tax topics that provide an overview of the common legal issues involved with a particular topic and gathered the relevant sections of statutes and regulations in a step-by-step manner alongside precedential court cases and important IRS revenue rulings (a "Workspace Template").



Suppose a client had questions about whether they are eligible for the Qualified Small Business Stock exclusion or questions related to the taxation of cryptocurrency for federal income tax purposes. A practitioner could refer to Blue J's templates to quickly gain an overview of these taxing issues to understand the applicable sections of the IRC and regulations along with any clarifying cases, IRS documents and secondary source material.



### CHALLENGE THREE:

## keeping track of interrelated entities

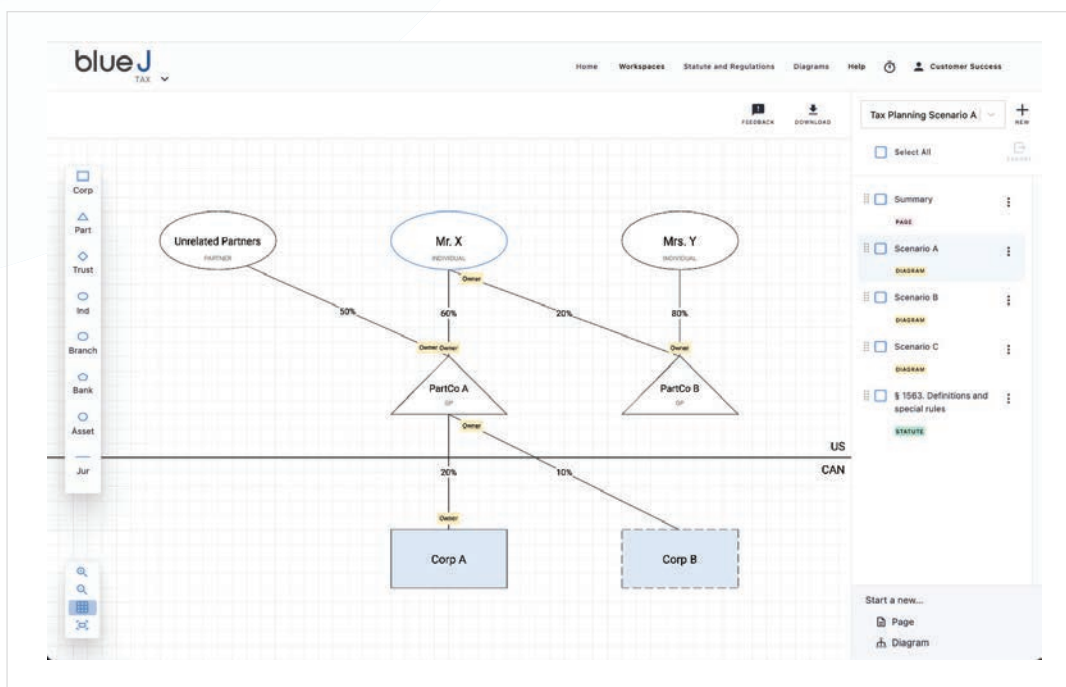
When it comes to strategic tax planning for complex transactions, a picture really does speak a thousand words. Tax planning strategies that involve multiple transactions are often best conveyed through a diagram that illustrates the relationships between the parties, their respective roles, the movement of assets and liabilities as well as the steps involved.

Practitioners often create a “before” and “after” sketch to communicate the overall series of transactions. This is a crucial step that lets the client and the practitioner visualize the complex web of interconnected entities and the movement of property between them. Without a clear diagram to show the interconnected entities and transactions, it is nearly impossible to clearly identify all of the compliance requirements involved in each step of the strategy.

Conventional tools are ill-equipped for this challenge. Commonly used tools such as PowerPoint were not designed for tax practitioners nor were they designed by tax practitioners. Hand-drawn diagrams are sometimes convenient but they create different problems. They are hard to store, exceedingly difficult to share and collaborate with and are easily lost or damaged. An error in judgment on the number of parties involved or the number of transactions makes the diagram a poor fit to the size of the page and any error generally means starting over.

## How technology can help:

Blue J Diagramming is built specifically for tax practitioners to use for tax-specific issues. The tool allows practitioners to quickly and easily drop common entity shapes onto a canvas, draw connecting relationships between entities and capture key data related to the entities and relationships. The tool provides a faster and seamless diagramming process with pre-built formatting options so that the key information can be embedded into the diagram with just a few clicks.



Blue J Diagramming complements the other Blue J tools mentioned to allow practitioners to truly see the whole picture of the tax planning strategy and communicate it to their clients.



## CHALLENGE FOUR:

# recognizing close-call opportunities for tax savings

It is already challenging enough to keep track of all of the potential deductions, credits, exemptions etc. that may apply to a taxpayer to reduce their income taxes. Accountants and tax practitioners already have tools and checklists to ensure none are missed. Many of these checklists and tools help practitioners perform a cursory check to ensure that they have considered a specific deduction or exemption. Rarely do these tools allow the practitioner to imagine how close the taxpayer is to actually realizing its benefit.

For example, in some situations a client could make a few strategic changes to the business activity and be in a situation where it is more likely than not that a business activity is tax-exempt. In their situation, some facts weigh in favor of the tax exemption while others weigh the opposite direction. Without the ability to scrutinize each fact and its impact, there would be no way for the accountant to determine which strategic changes would allow the client to obtain the tax exemption. Had the client known their situation was a close-call, they might have investigated further and prioritized changes in order to obtain the more favorable outcome.

### **How technology can help:**

Blue J's Predict Outcome tools are designed to provide insight into these close-calls, the straight-forward situations and everything in between. Blue J's Predict Outcome tools allow practitioners to determine the probability of the possible outcomes for a given tax issue.

Practitioners can determine exactly which changes to the scenario will allow the client to obtain their desired outcome. By toggling the answers to determine which ones actually will impact the outcome, and by how much, tax practitioners can provide strategic advice for their clients and help them create a tax planning strategy to maximize tax savings.





## CHALLENGE FIVE:

# documenting the advice

Although the world is shifting towards more digital tools, often, picking up the phone and speaking with the client is the simplest and most convenient method of communicating information and advice. However, this instinct can result in information and advice being documented in a piecemeal fashion, through emails, texts, memos and verbally.

Additional challenges occur when clients have not fully understood the options presented or the advice given. In these instances, practitioners must ensure that their instructions are well documented while also preserving the relationship of trust that exists between the client and the practitioner. If the IRS challenges a particular transaction, or queries a business decision that has tax consequences, the practitioner will need to ensure that their position is well documented with supporting authorities.

### **How technology can help:**

Each of Blue J's Prediction tools and Guided Analysis tools generate a report detailing the most likely outcome for the particular legal issue, an analysis of the issue backed by leading authorities as well as a curated list of the most similar IRS rulings and court decisions. Having a neutral third-party report that's backed by data analysis and machine learning is an effective way to communicate both the options and the range of risks to the client.



## Looking to stay up to date on the latest tax rules?

Contact our team today to learn how Blue J  
can benefit your research process.

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