TAX

Tax season kickoff: 'The calm before the change'

By Antoinette Alexander December 19, 2024, 9:30 a.m. EST 12 Min Read

Jo Panuwat D - stock.adobe.com

"The calm before the change" — that is how one industry source aptly described this year's tax season as Donald Trump returns to the White House, Republicans take control of Congress, and tax professionals navigate an evolving, tech-driven landscape.

While it is unlikely that this tax season will be impacted by any significant changes, the same will likely not hold true as we head into 2026 and beyond. As a result, much of the focus for this season will be on proactive planning, as significant portions of the Tax Cuts and Jobs Act are set to expire at the end of 2025, if they are not extended.

"We don't expect radical changes for this upcoming tax season or the tax season after that. The current tax laws are in place until the end of 2025. However, the return of the Trump administration to the White House signals that the current tax foundation will likely be renewed into 2026 and beyond, with some possible new provisions. This means that proactive tax planning continues to be essential for

As noted in a recent Wolters Kluwer tax briefing: "The expectation is that tax legislation will ramp up in early 2025. With the GOP in control of the Senate and the House, Trump's agenda will have a much easier path to legislative approval. Action on the soon-to-expire TCJA is likely to be high on the to-do list for the new Congress."

That being said, many tax professionals will also find themselves navigating stricter reporting requirements, evolving tax laws, technological advancements, and staffing constraints.

Keeping pace with regulations, legislation

As the regulatory landscape continues to evolve, it will be important for tax professionals to stay up to speed on potential changes and effectively manage client expectations this tax season.

Said Hughes, "The most significant changes include potential new regulations around cryptocurrency transactions, increased IRS scrutiny on high earners, and adjustments to clean energy credits. Most changes will not be changes to tax law, but the implementation of laws that are already in place. So being familiar with this implementation is important."

"For our clients, this means being vigilant about reporting accuracy, especially in emerging investment spaces," Hughes continued. "Top of mind for us is ensuring clients are compliant while maximizing available credits and deductions, particularly for business owners leveraging green energy initiatives."

The Treasury Department and the Internal Revenue Service, for instance, released in June 2024 final regulations on the Infrastructure Investment and Jobs Act reporting requirements for brokers of digital assets. As explained by the Treasury, this will "require brokers to report gross proceeds on the sale of digital assets beginning in 2026 for all sales in 2025. Brokers will be required to also report information on the tax basis for certain digital assets beginning in 2027 for sales in 2026."

For transactions occurring in 2025, anyone who is considered a custodial digital asset broker must file the new Form 1099-DA to the IRS.

"The broker reporting of crypto transactions on the 1099-DA is going to start in 2025, so that has sort of postponed the concern a little. We won't be seeing those forms until probably early 2026, but the other thing that is more of a concern for 2024 is the [Form] 1099-K," said Mark Luscombe, principal federal tax analyst for Wolters Kluwer Tax and Accounting.

In late November, the IRS announced transition relief for third-party settlement organizations regarding transactions during calendar years 2024 and 2025. Under the IRS guidance, TPSOs will be required to file Form 1099-K to report transactions when the amount of total payments for those transactions is more than $5,000 in calendar year 2024. This threshold will shift to more than $2,500 in calendar year 2025; and more than $600 in calendar year 2026 and after.

withhold and pay backup withholding tax during the calendar year. However, it will assert penalties for calendar year 2025 and after.

Luscombe also pointed to the likelihood of bipartisan disaster relief, which could potentially impact the tax season. "There's a lot of bipartisan support for doing something on disaster relief. Congress has tended to do disaster relief on a piecemeal basis. … Now, with [Hurricanes] Helene and Milton, I think there's probably going to be an effort at year-end to get through some disaster relief that could impact taxpayers for 2024," he said.

When looking at new tax regulations or rule changes that could impact firms and their tax clients, Rema Serafi, vice chair of tax at KPMG, referred to what the Big Four firm calls the "Tax Policy Trifecta."

"In 2025 and beyond, accounting firms — as well as other firms of all sizes — will continue to grapple with the Tax Policy Trifecta: the expiration of $4 trillion in tax cuts from the 2017 Tax Cuts and Jobs Act, the ongoing implementation of the Organisation for Economic Co-operation and Development's global minimum tax and the future of the regime should the U.S. not comply, and a wave of regulatory changes, including changes introduced by the Inflation Reduction Act, the corporate alternative minimum tax and potential tariffs," said Serafi. "These issues are top of mind for our firm and clients, as they'll impact both businesses and individual taxpayers. The expiration of the TCJA provisions, for example, will have wide-reaching implications for many individuals and businesses alike. It's expected to be a priority for the Trump administration right out of the gate, come next year."

Working with the IRS

In 2024, service problems with the IRS were cited as a leading issue for most CPA firms, according to an American Insitute of CPAs survey. Will the experience be much the same for firms in 2025?

With funding from the Inflation Reduction Act, the agency has been working to modernize its technology and systems and hire more employees. According to the IRS, the efforts are resulting in improved phone service, faster response times, and higher usage of its virtual assistant tool on key IRS.gov pages, among other improvements.

While progress has been made in improving service, there remains room for improvement.

"The IRS's efforts to modernize are promising but still uneven," said Hughes. "While e-filing and automation enhancements have improved processing times, challenges remain with responsiveness and issue resolution. The IRS recently received a multibillion-dollar cash infusion from the government to work on [modernizing] their systems and the increasing of their staff. This means increased security and oversight, including more audits. We anticipate an increase in these activities from the IRS over the next several years."

Commenting on the IRS's efforts, Cathy Rowe, senior vice president and segment leader of the U.S. professional market of Wolters Kluwer Tax and Accounting North America, said, "I think the rollouts have been slow, overall, but they are continuing to make progress. I think some of the improvements that we have seen already have been around their communications, so we are expecting that to continue to improve this tax season. Last season they did have a lot of new hires that could not necessarily answer the phones, so the training that they would have had should help for this coming tax season."

Automation, AI take center stage

It likely comes as little surprise that greater automation and increased usage of artificial intelligence-powered technology are top of mind for many as firms look for more ways to keep pace with legislative and regulatory changes, improve efficiencies, and ease staffing issues.

Take, for instance, Thomson Reuters' new generative AI assistant, named CoCounsel, with which tax professionals can ask a question in everyday language and, within moments, the solution will deliver a relevant answer with links to Checkpoint Edge editorial content and source materials.

"As legislation expands, and we know that the talent shortage out there means that there's more work to be done with less resources, in addition to making the research easier, we see the opportunity for increased automation of different phases of the tax preparation process to be really important. Whether that is the automation of the source document gathering and then eventually the extraction and mapping of that data into tax returns," said Piritta van Rijn, head of product for accounting, tax and practice at Thomson Reuters. "And then, ultimately, when we go into these periods of change, being able to advise clients on what and how did these legislative changes impact them and what kind of actions to take."

In light of the issues facing today's firms, Thomson Reuters has been working to enhance its products and deliver more generative AI-assisted experiences to help firms do more with less, van Rijn noted.

During its Synergy 2024 user conference in November, Thomson Reuters showcased some of the developments such as Review Ready, an AI-assisted tax preparation experience to increase firm efficiency. It combines the power of CoCounsel with workflow automation and software integrations and will be coming in beta this tax season, starting with UltraTax CS. Based on testing to date, van Rijn said users could save at least two hours per 1040 tax return this coming season.

Mr.Frost - stock.adobe.com

Van Rijn also pointed to the recent acquisition of Materia, a U.S.-based startup that specializes in the development of an agentic AI assistant for the tax, audit and accounting profession. The agentic AI assistant automates and augments research and workflows to help accountants improve efficiency and effectiveness.

"We are really excited to see how we can evolve that [Materia] offering and use it to accelerate some of these other areas. We've already got some of our proprietary Checkpoint content integrated into the Materia platform, and we are excited to see how that can also then help enable more workflow automation, continue to augment the research capabilities, document analysis capabilities, and really drive that product," van Rijn said.

Meanwhile, Wolters Kluwer is also taking steps to help firms increase automation and improve their ability to harness the power of data. At its recent CCH Connections user conference, the company showcased "some new modules as it relates to firm intelligence," Rowe said.

"What you are going to see as we move into next year is some schedule optimization modules, and some new reporting modules … . We are also delivering research differently through our CCH Axcess platform, so we've had more integration of research within our tax and the browser views," Rowe explained.

Hughes stated that his firm leverages advanced analytics to help clients optimize their tax positions, and they are also exploring the use of predictive AI for strategic financial modeling.

Online to ProConnect to Tax Advisor makes tax planning so much easier than it had been in the past," Hughes said.

Hughes also stated that the firm uses automation and AI tools to "streamline processes like data entry, to flag potential compliance risks, and to provide data-driven insights for strategic planning. This is done through AI-powered tax software. In addition, AI-powered tax software can now recommend tax strategies based on the client's current situation. This allows us to spend more time on client engagement and proactive advisory work, helping clients avoid pitfalls and capitalize on opportunities."

Serafi at KPMG expects that generative AI will "continue having a significant and positive impact on the profession, where benefits outweigh risks."

"From automating routine tasks — such as data entry and recordkeeping, to free up human resources to focus on more strategic tax planning activities — to analyzing large sets of financial data to identify patterns and trends, and providing real-time insights and recommendations based on changing tax regulations and market conditions to help companies stay ahead of the curve and make more informed business decisions, we're infusing the technology in our everyday processes and work and expect it to continue enabling our professionals to better serve our clients. Additionally, the technology is helping tremendously as we help clients navigate the current landscape in tax," Serafi said.

And while leveraging technology can certainly help firms ease bandwidth constraints during tax season, they would be wise not to overlook additional ways to handle staff shortages or skill gaps, whether that means hiring talent from outside of the tax profession or outsourcing.

For example, Serafi said that a recent "Tax Reimagined" survey conducted by KPMG found that a greater number of corporate tax departments are rethinking their approach and hiring more technology experts who can learn tax, rather than hiring tax experts who can learn technology.

"While a blend of both tech and tax skills will continue to be important, we're seeing a shift in the desire to increasingly prioritize tech proficiency in certain parts of the tax department," Serafi said.

And at Counting Pennies, Hughes said the firm focuses on three things:

- Staffing at levels that allow for the firm to get work done even if one or two associates are out;
- Cross training as much as possible; and,
- Having a contractor or two available as a backup in the event of an emergency situation.

Clearly, there's a lot of change, as well as lots of opportunities, afoot, as tax laws continue to evolve and tax professionals increasingly explore and navigate the powers of AI-enabled innovation.

"While we are still in early days, there is so much value, there is so much that is already available to our customers and to the industry. While it might be a little bit of the calm before the change, we are really optimistic and excited about the future ahead," van Rijn said.

Antoinette Alexander