



The Accountants Confidence Report

Business and Economic Outlook for Small Business, 2023

By CPA Trendlines Research with Avalara
April 2023

EXECUTIVE SUMMARY

Armed with insider insights from over 100,000 tax returns, the nation's Main Street accountants look with worry at the year ahead for U.S. small business

Accountants closed the books on another tax season in April 2023 just as the U.S. economy appeared to be teetering on the brink of recession – with growing concerns about surging inflation, increased unemployment, rising interest rates, and crumbling consumer confidence.

The survey of the nation's local accountants – each imbued with the data and minutiae from hundreds of freshly-completed client tax returns – delivers a unique, and uniquely insightful, view into the plans and prospects of U.S. small business and their owners.

The bottom line: Accountants have been turning decidedly bearish on the economic outlook for 2023.

This report

- Describes the key performance indicators that are top-of-mind for small-business accountants,
- Their outlook and confidence levels going forward, and
- Some of their best advice for the nation's small business owners facing economic headwinds.

For this study, CPA Trendlines obtained:

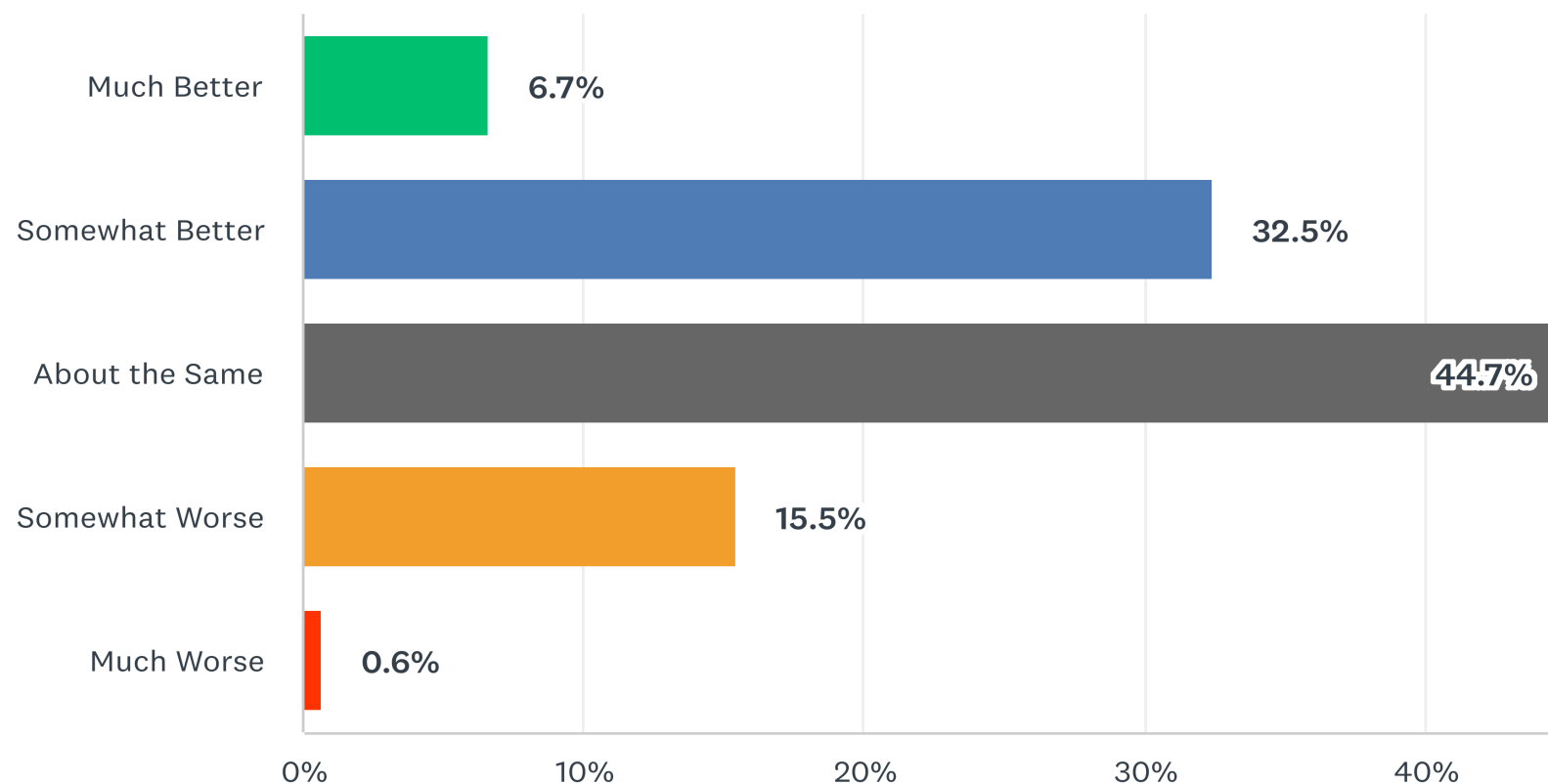
- 536 validated responses,
- 94.3% of them professionals practicing in public accounting, tax preparation services, bookkeeping, or consulting;
- 91% practicing in local, Main Street firms employing up to 50 persons; and
- 93% employed as owners, managing partners, partners, or other C-suite management.

FINDING #1 [Chart]:

Baseline Improvements over Last Year

How does this year compare to last year for your small-business clients?

As a baseline, 39% of accountants report "better" performances for their small-business clients this year, compared to the prior year, with only 16.2% reporting "worse" performances.



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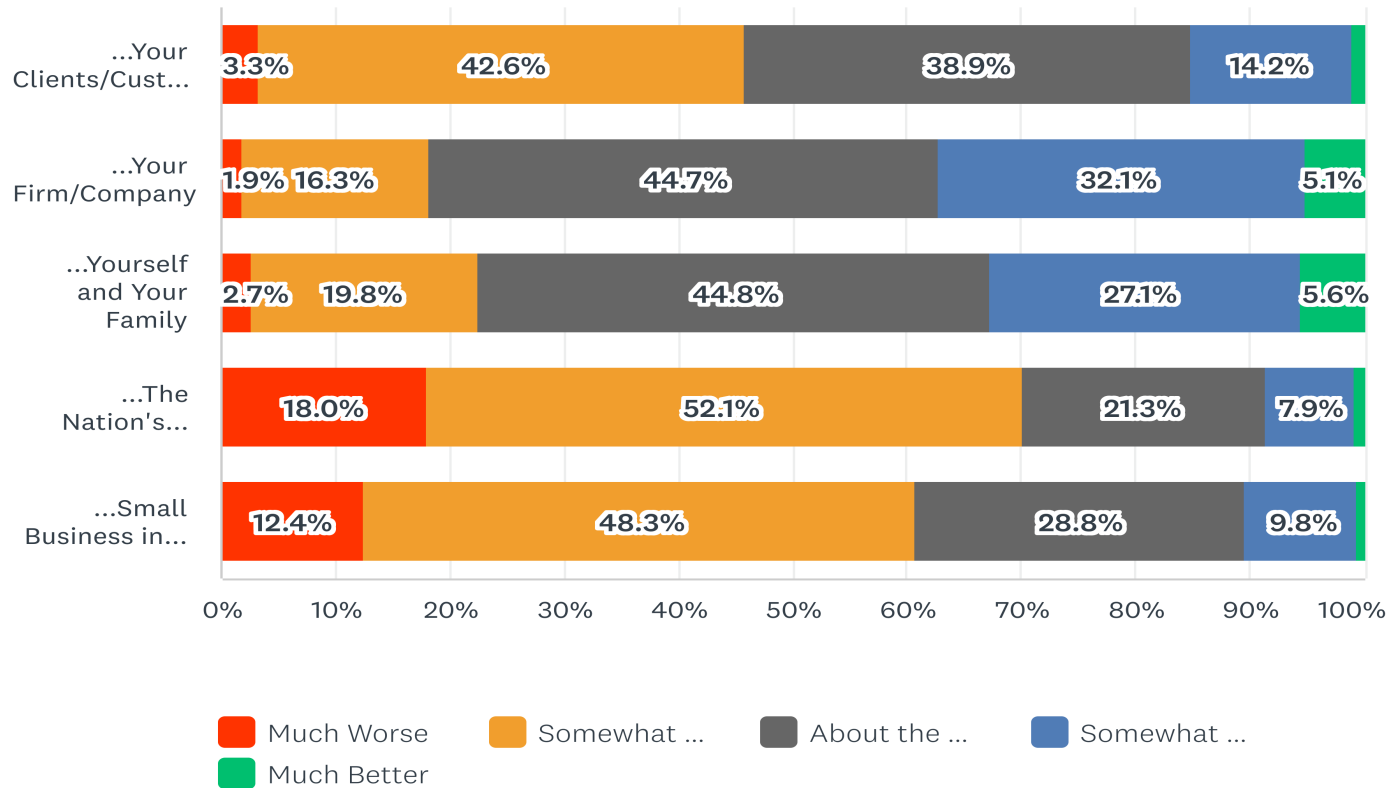
How does this year compare to last year for your small-business clients?	
Much Better	6.67%
Somewhat Better	32.47%
About the Same	44.73%
Somewhat Worse	15.48%
Much Worse	0.65%
<i>n = 485</i>	

FINDING #2 [Data Table]:

Economic Outlook Darkens

For the nation's economy in general, 70.1% of accountants expect "worse" conditions.

- Small business fares slightly better, with 60.8% of accountants forecasting "worse" conditions.
- Few accountants are expecting anything that could be termed "better."



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Looking ahead for the next 12-18 months, how will the economy shape up for...?					
	Much Worse	Somewhat Worse	About the Same	Somewhat Better	Much Better
...The Nation's Economy in General	17.98%	52.07%	21.28%	7.85%	0.83%
...Small Business, in Particular	12.45%	48.34%	28.84%	9.75%	0.62%
...Your Clients/Customers	3.29%	42.59%	38.89%	14.20%	1.03%
...Yourself and Your Family	2.69%	19.83%	44.83%	27.07%	5.58%
...Your Firm/Company	1.85%	16.26%	44.65%	32.10%	5.14%
<i>n</i> = 486					

On the other hand, accountants are relatively upbeat about the outlooks for their own clients, their firms, and themselves – with minorities predicting "worse," most predicting "about the same," and some even predicting "better."

FINDING #3 [Data Table]:

Capital Crunch Ahead

Given a range of seven key performance indicators, accountants see the most acute problem facing small business to be their ability to "access fresh capital," which is consistent with an environment of inflationary pressures and rising interest rates.

- 72% of accountants expect deteriorating conditions for new borrowings or capital infusions.

How will the economy affect the ability of small business to...?					
	Much Worse	Somewhat Worse	About the Same	Somewhat Better	Much Better
Access Fresh Capital	25.63%	46.43%	23.74%	3.57%	0.63%
n = 479					

FINDING #4 [Data Table]:

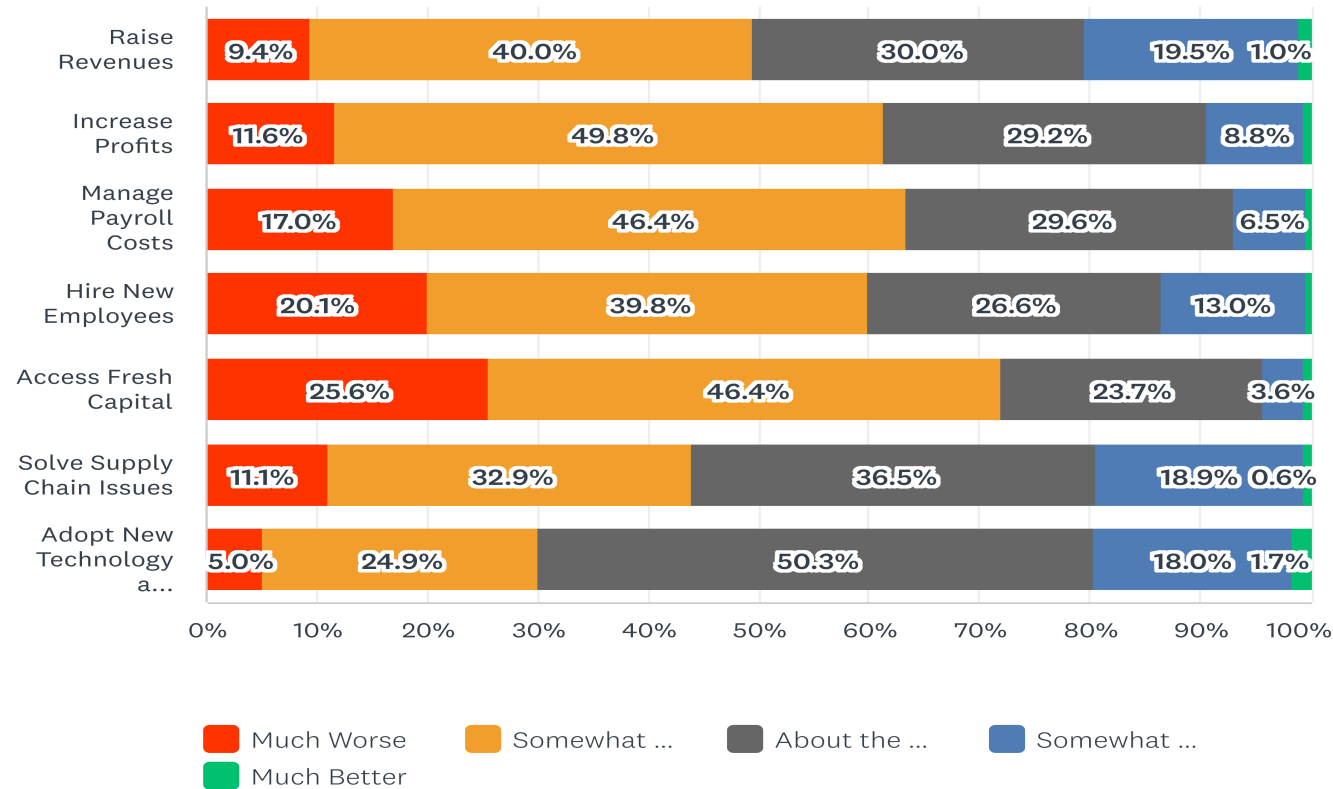
Banking on New Technology and Automation

While not precisely rosy, the outlook for small businesses' ability to "adopt new technology and automation" ranks as the best among the seven KPIs, with 50.3% seeing no fall-off, and 19.7% actually seeing improvements.

How will the economy affect the ability of small business to...?					
	Much Worse	Somewhat Worse	About the Same	Somewhat Better	Much Better
Adopt New Technology and Automation	5.03%	24.95%	50.31%	18.03%	1.68%
n = 479					

FINDING #5 [Data Table]:

Trouble Ahead in Key Performance Indicators



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Trouble Ahead in Key Performance Indicators

Accountants are also forecasting significant small business challenges in:

- Hiring new employees – 59.9% term the outlook "worse," including 20.1% who say it will be "much worse."
- Managing payroll costs – 63.5% expect "worse" conditions.
- Increasing profits – 61.4% say the forecast will be "worse."
- Solving supply chain issues – 44% see worsening conditions.
- And, in Raising revenues -- 49.4% are downbeat.

How will the economy affect the ability of small business to...?					
	Much Worse	Somewhat Worse	About the Same	Somewhat Better	Much Better
Hire New Employees	20.13%	39.83%	26.62%	13.00%	0.42%
Manage Payroll Costs	17.02%	46.43%	29.62%	6.51%	0.42%
Increase Profits	11.55%	49.79%	29.20%	8.82%	0.63%
Solve Supply Chain Issues	11.11%	32.91%	36.48%	18.87%	0.63%
Raise Revenues	9.43%	40.04%	29.98%	19.50%	1.05%
<i>n = 479</i>					

Best Advice – Accountants Counsel Caution and Courage

Control your costs.

- Plan ahead.
- Act promptly and proactively to changing conditions.
- Understand and leverage your strengths.
- Shun debt but keep credit lines open.
- Stay focused.
- Retain your best talent.

Some of the terms most often used by accountants when providing their "best advice" to small business today, includes references to:

- Cash
- Costs
- Profits
- Debt
- Employees



For illustration purposes only.

[Verbatim Comments]

Accountants' Best Advice

It has been said that small business owners listen to their lawyer and heed the advice of their doctor.
But they obey their accountant.

Question: What's the best advice you can give small business owners these days?

Sample Answers:

- *A.I. is taking over a lot of business work.*
- *Add overhead costs only if assured that the associated revenue is not transitory.*
- *As an owner, don't get spread too thin trying to do everything within your business.*
- *Automate as much as possible to take out the staffing issues. Invest in cyber security Raise prices where you can. Stay lean and mean.*
- *Be careful about expenditures.*
- *Be conservative.*
- *Be engaged in your business and ensure you get timely, accurate financial information to make informed decisions. This is always important, but especially in times of economic uncertainty.*
- *Be nimble to respond to changes. Take care of your good employees. It is difficult to find new people and expensive to train them.*
- *Be patient. It's a marathon, not a sprint, so prepare for the long haul.*
- *Be prepared to increase your prices to maintain your profit margins. And keep looking for talented people to hire (and don't fret about overpaying them what they're worth!).*
- *Be unique in your offering and promote that uniqueness.*
- *Be very careful in every decision that you make.*
- *Block out external noise and focus on core competencies Ability to execute and deliver your good product can be a profitable difference-maker and allow you to create your own niche.*
- *Brace yourself.*
- *Build a good reputation, and it will come back to you.*
- *Business owners will need to be prepared to roll up their sleeves and do the work that they used to have (what seemed to be) a good supply of eager and quality employees doing.*
- *Cash flow planning is necessary, not just for 12 months but looking forward 3-5 years. Resource management is key – what work needs to be done by people, and where can automation plug in?*
- *Cash is king.*

METHODOLOGY

Developing and Fielding the Survey Tools

Survey questions were field-tested in February 2023 to a proprietary CPA Trendlines list of accountants, bookkeepers, CPAs, payroll agencies, and IRS enrolled agents. Early phases of the questions were used to develop the final survey tool, which was launched March 24, 2023. The survey was closed April 24, as accountants wrapped up Tax Season 2023.

The preliminary data obtained from more than 300 respondents in February, when compared with the data gathered in the run-up to Tax Day April 18, suggests a sharp change in the accountants' sentiments. Whatever optimism they may have had in February was falling off markedly only a month later as gloomy economic news piled up.

Respondents

Prospective respondents were sampled from the 537,00,000 panelists maintained by CPA Trendlines Research, a research and business intelligence service for the tax, accounting, and finance sectors. CPA Trendlines also provides consulting and research services to accounting firms and the vendors who serve them. CPA Trendlines is a service of Bay Street Group LLC, based in New York.

Survey prospects were incentivized with a promise that they would be among the first to see the top-line results, which they understood could help their business, their clients, and the profession. No other incentive was offered.

Confidence Levels and Margins of Error

At 500 validated responses, generally accepted principles suggest a +/- 4-point margin of error at a 90% confidence level and a 5-point margin of error at a 95% confidence level.

Intrinsic Bias

There is a natural bias in the nature of the survey that favors responsiveness from accountants who are operating as going concerns, over those who may have exited the industry, and it favors respondents who are interested in the results, over those not interested in the results.

Demographics

- Public Accounting, Tax, Bookkeeping
- Firms with up to 50 Employees
- Managing Partner, Partner, Owner

Terminology

"Small Business" – The term used in this study is defined by professional accountants' general practices and common parlance. The Small Business Administration codifies it as commercial establishments with one to 1,500 employees or annual revenues of up to \$40 million per year.

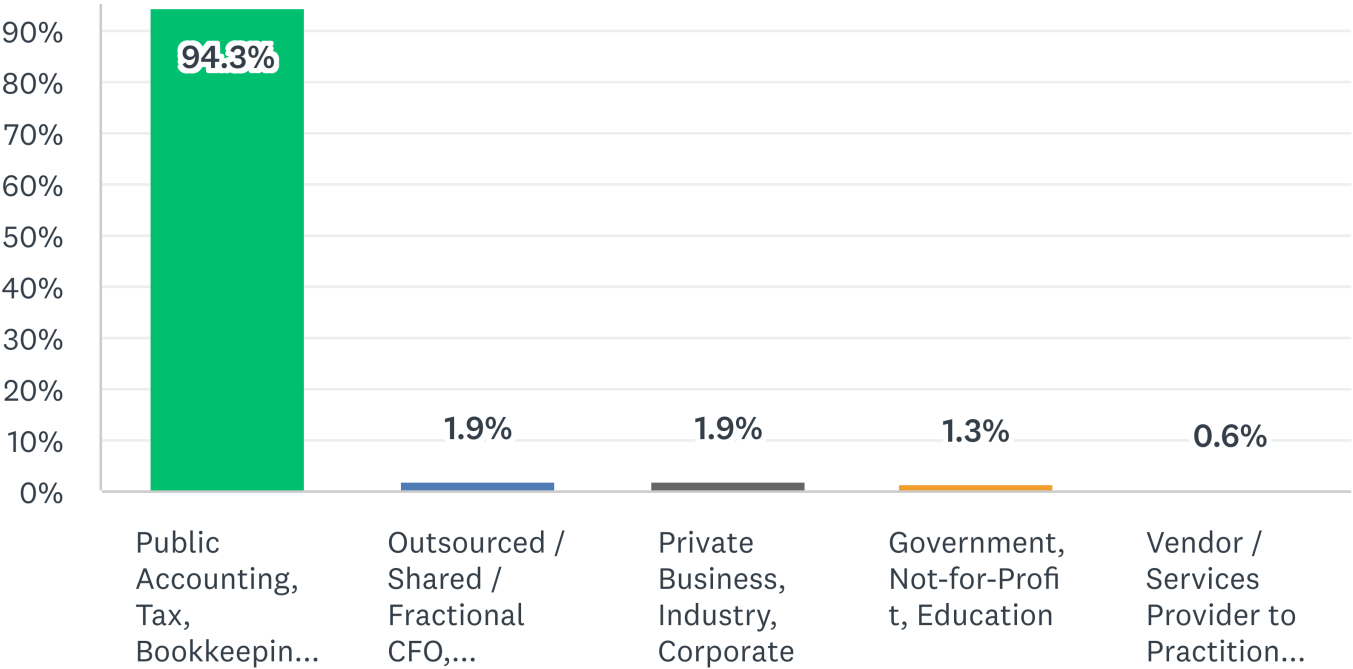
Geographic Distribution

Results generally reflect the geographic distribution of public accounting firms in the U.S., with natural concentrations in high-density states such as California, New York, Illinois, Ohio, Texas, and Florida.

RESPONDENT PROFILE

The Main Street Accountant

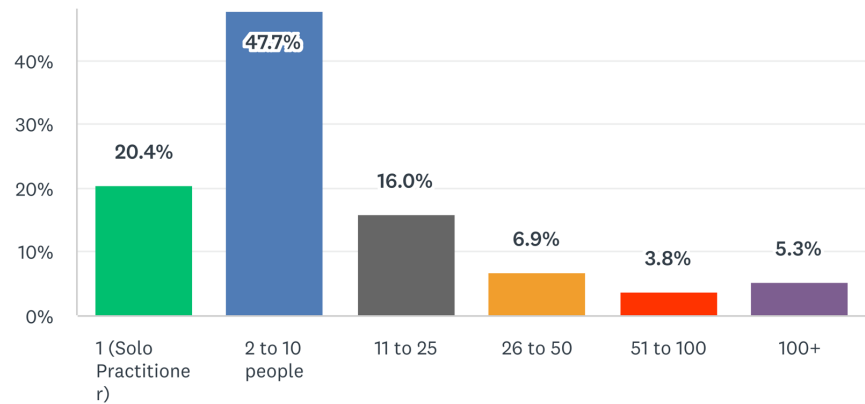
Respondents overwhelmingly represent the public accounting, bookkeeping, and tax preparation sector of the profession.



RESPONDENT PROFILE (Cont'd)

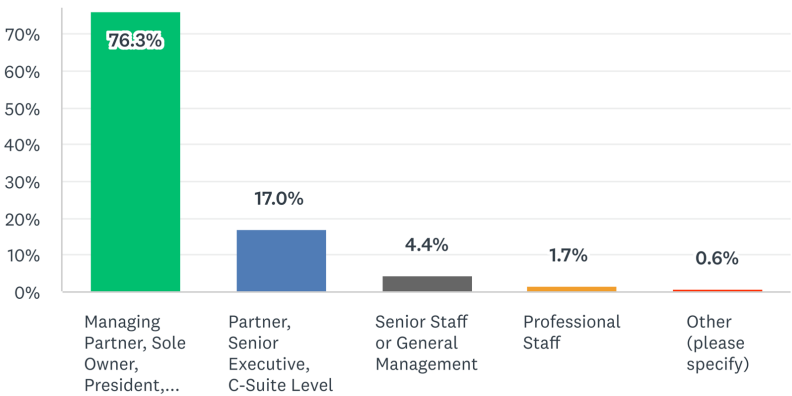
Local Accounting Firms Serving Local Business

Respondents at firms of 50 or fewer employees represent 91% of the survey sample.



Leaders of their Firms

By functional responsibility, 87.3% of respondents are owners, partners, or other C-suite-level firm leaders.

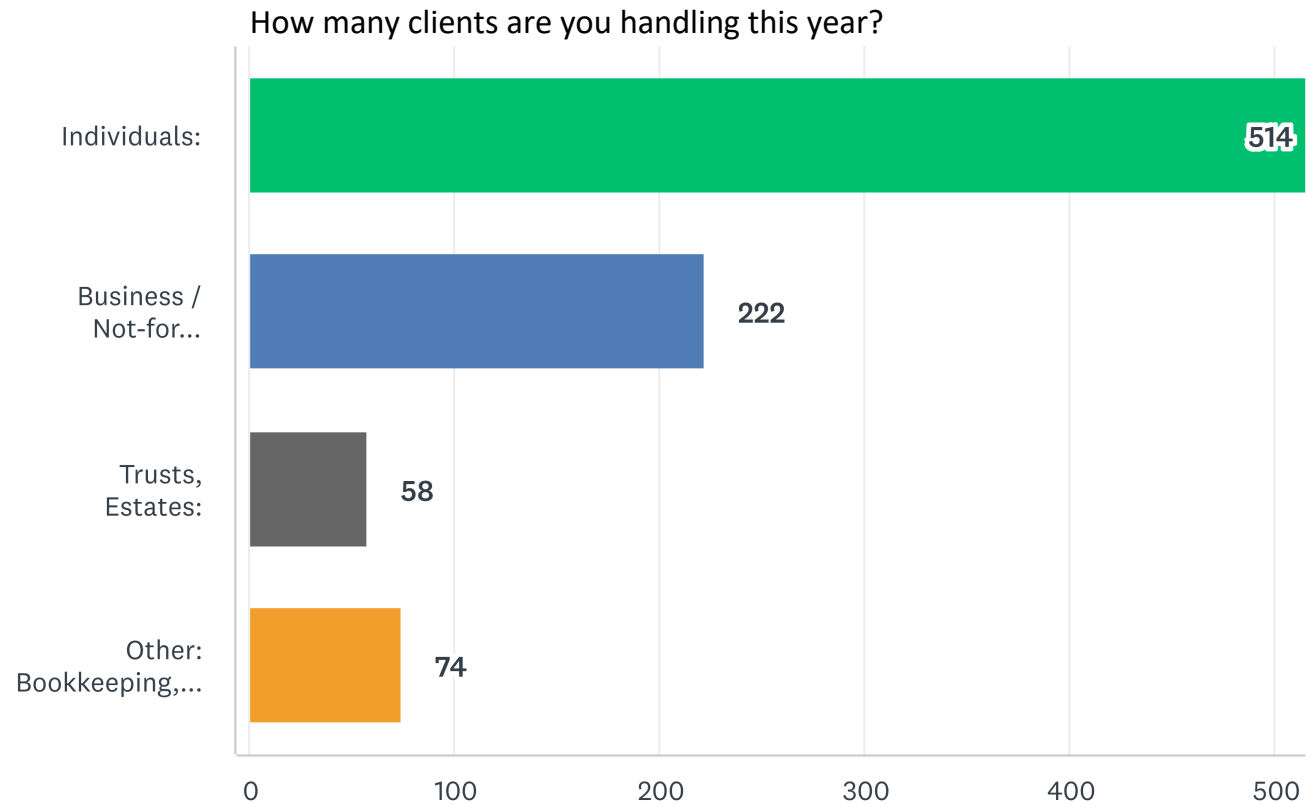


Survey Provides New Visibility into More than 100,000 U.S. Small Business Entities

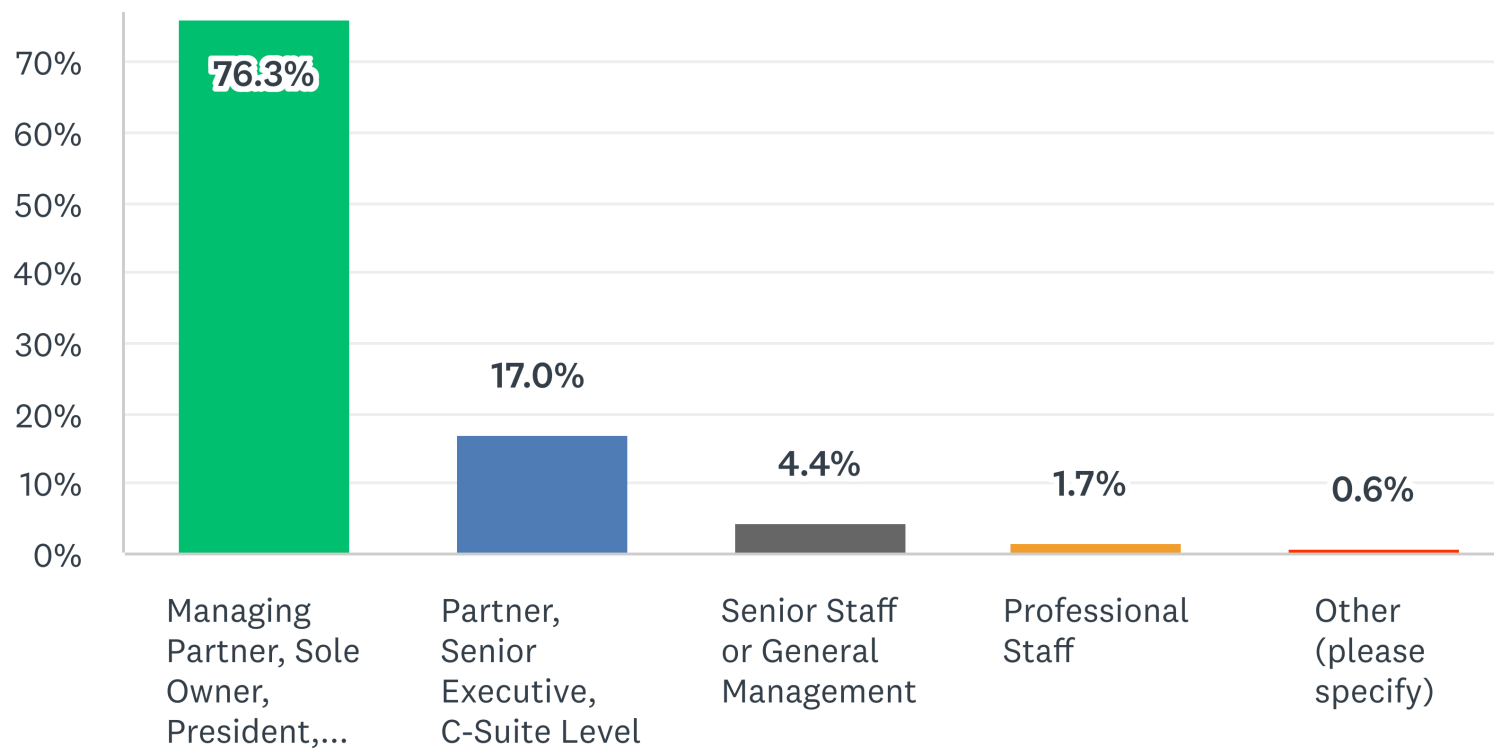
Respondents report, on average, that they are personally handling 222 business and/or not-for-profit entities.

When multiplied by 520 total respondents, the accountants in the survey represent 115,440 small business / non-profit entities, and 266,760 individuals.

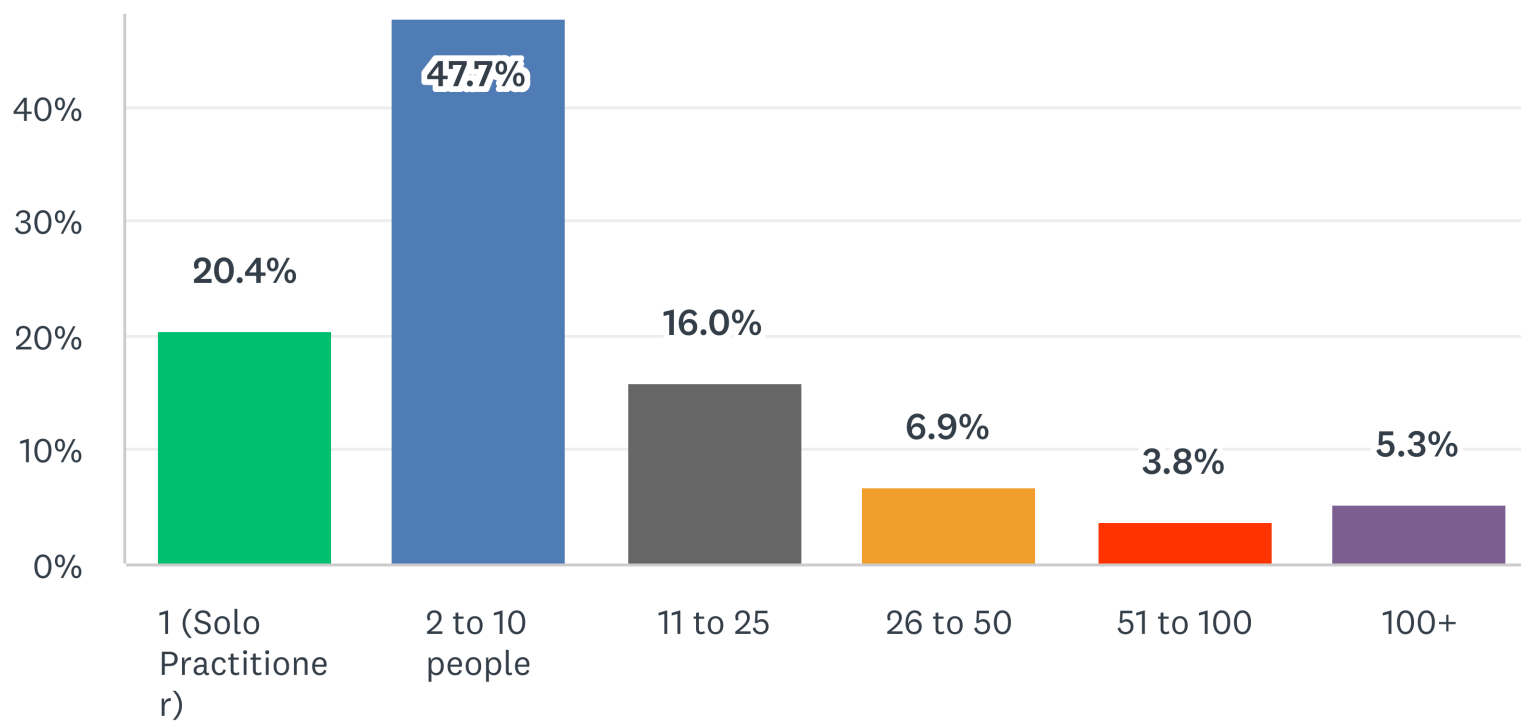
As a point of reference, the latest statistics show that there are 33.2 million small businesses in the U.S., which account for 99.9 percent of all U.S. businesses (SBA, 2022). The SBA defines a small business as a firm that has fewer than 500 employees.



Which best describes YOUR POSITION?



HOW MANY PEOPLE work in your firm or organization?



Behind the Accountants Confidence Report

The Business and Economic Outlook for Small Business, 2023

About Avalara

Avalara helps businesses of all sizes get tax compliance right. In partnership with leading ERP, accounting, ecommerce, and other financial management system providers, Avalara delivers cloud-based compliance solutions for various transaction taxes, including sales and use, VAT, GST, excise, communications, lodging, and other indirect tax types. Headquartered in Seattle, Avalara has offices across the U.S. and around the world in Brazil, Europe, and India. More information at avalara.com.

About CPA Trendlines

CPA Trendlines delivers data-driven, actionable business intelligence to professional tax, accounting, and finance professionals to help build their firms, to enhance their careers, and to better serve their clients. More at cpatrendlines.com

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