

Total Value Analysis™ (TVA) of K1x for Collection, Extraction and Analysis

Taming Alternative Investment Data Complexity by Optimizing
Your K-1 Collection, Extraction and Analysis Processes

An independent analysis was conducted, modeling the financial impact of K1x technologies on a capital asset management firm receiving 500 K-1s, automating the K-1 collection and analysis process

For the composite organization, K1x was found to:

- Deliver **\$420k** in direct benefits from productivity improvements, outsourcing cost transition and cost avoidance
- Produce **\$106K** in indirect benefits from compliance and staff risk avoidance
- Tally **\$526k** in total benefits over a three year analysis period
- Yield **287%** ROI (net benefits / total investment)
- Generate **5 month** Payback Period (duration from the first investment to break-even)



An independent white paper by:

GENIUS DRIVE

Taming Alternative Investment Data Complexity by Optimizing Your K-1 Collection, Extraction and Analysis Processes

Tax professionals like you face a perfect storm of increasing volume of alternative investments, ever-changing regulatory demands, elevated investor expectations, historic staffing constraints, and clunky technology, driving up costs in a high-stakes, mad scramble for missing and late tax and reporting information.

The IRS, state and local governments and other stakeholders demand that you aggregate complex tax data from your Schedules K-1 and other sources in a timely and accurate manner. But you struggle with a tsunami of data from disparate sources, in different forms and formats, all bottlenecked into compressed deadlines multiple times per year. Analog processes to handle the data are too manual, too costly and too frantic, and for investors this is all too last-minute, too opaque and too risky.

It's tempting to hire more internal staff to keep up, or outsource your headache to an accounting firm. However, since labor has never been tighter, both of these are costly options and neither solve the problem of high expertise professionals stuck doing manual work or you ultimately being responsible for large chunks of the process that just can't be outsourced.

Did you know...

- It typically takes **5 person hours** or more to collect, extract, validate, aggregate, analyze, each K-1 form using in-house staff– and from **\$300 to \$500** per K-1 to outsource the work to an accounting firm (and this doesn't even cover all your tasks).
- Not only are K-1s late, many K-1 packets come in dribs and drabs, across as many as **five** different distributions with estimates, federal, state, international and K3.
- The risks of noncompliance are high, with **\$10K** per missed filing for foreign forms alone.

To gauge the extent to which these issues are affecting your team, you may want to consider the following questions:

- How long does it take you to deal with your K-1 collecting, extraction and analysis process over the course of a year?
- How much are you spending on outsourcing to help with your K-1 processing?
- Despite outsourcing, how much is still left with you and your team to deal with?
- How many late nights and weekends do you and your team need to put in just to get by?
- Has this led to burnout and retention issues within your team?
- How have staffing shortages and wage inflation impacted your ability to collect, extract and analyze K-1s, and how have you coped with these challenges?
- Have you run into tax data compliance issues due to unfortunate oversights, errors or delays?

Ever-changing regulatory demands, historic staffing constraints, and clunky technology all conspire to make it difficult for you and your team to effectively keep up, improve efficiency, reduce costs and risks, and accomplish your goals in a timely manner.



Total Value Analysis™ (TVA) Methodology

To gain insights into the impacts of these challenges and identify potential improvements for your organization, K1x has commissioned a Total Value Analysis (TVA) to be conducted by the independent value consulting firm, Genius Drive.

The Value Experts at Genius Drive modeled and analyzed a sample capital asset management firm - a representative "composite" organization with the following characteristics:

- Collecting and analyzing 500 K-1s
- Three tax accounting team members to do the in-house work
- 40% outsourcing of analysis tasks to help



500
K-1s



3
Tax Accountant
Team Members



40%
Outsourced

The analysis began by quantifying the impact of the current K-1 manual processes and tools, in order to assess the As-Is costs before any potential improvements and automation were introduced.

Next, the team modeled the implementation of K1x Analyzer to automate the K-1 collect, extract and analyze processes, taking into account the total investment required to implement and license the solution.

The potential benefits of the K1x solution for the capital asset management firm were then analyzed against the current As-Is costs, tallying the tangible savings and business benefits that the organization is likely to derive from the solution. To gather cost and benefit experiences, the team examined the use of K1x at over a dozen capital asset management firms in order to compile, model, and analyze the composite metrics.



Current
(AS IS)

-



Proposed
(TO BE)

=



Savings &
Benefits

Business benefits that were analyzed include:

- **Reduced Costs:** reducing business expenses, eliminating spending or avoiding planned and required expenditures.
- **Improved Productivity and Processes:** streamlining and transforming tax accounting and compliance processes, reducing the time it takes to complete the K-1 collection and analysis work, migrating some of the current outsourced work in-house in order to take control, removing process friction and delays and leveraging less expensive resources to accomplish the tasks.
- **Reduced Risks:** reducing and avoiding business risks including the chase of experiencing compliance and regulatory issues, improve work-life balance and reduce employee turnover.
- **Improved Growth:** improving experiences to help boost internal and external relationships and drive additional investor opportunities.

Value Map



The TVA analysis compared the investment in K1x Analyzer to the benefits, using a cost-benefit analysis conducted over a three-year time horizon. The analysis factored in the cost of capital, escalating complexity, and labor cost inflation over the analysis period to understand the financial impacts over time and calculate the discounted cash flow.

The analysis culminated in a risk-adjusted tally of key financial metrics used to understand potential returns, prioritize the proposed project compared to other investment options, and track goal accomplishment. These metrics include:

- **Return on Investment (ROI):** the net benefit minus the total investment over the three-year analysis period.
- **Net Present Value (NPV) Savings:** the present value of the cash flow, discounted by the cost of capital over the three-year analysis period.
- **Payback Period:** the time it takes for the cumulative benefits to exceed the cumulative investment, from the start of the project.

Current Costs (As Is)

The TVA analysis begins by modeling the current costs of the composite organization's operations, which includes the following four key business dimensions:

- 1. Labor Costs:** The costs associated with K-1 collection, extraction and analysis, including the time and effort expended by in-house accounting team members, as well as the cost of outsourcing.
- 2. Systems and Tools Costs:** The costs associated with the current homegrown systems and tools used by the team to manage K-1 collection and analysis processes.
- 3. Staffing Risks and Turnover Costs:** The risks and costs associated with team member turnover, such as the recruitment of replacements, training costs for new hires, and the impact on processes from hiring delays.
- 4. Compliance Risks:** The regulatory risks, costs and penalties from delayed and missed filings.

Current labor costs for K-1 collection

To start the K-1 process, you first have to gather information from all the K-1s to be received.

To accomplish this, you have to keep track of all the entities and K-1s that need to be received, and then process notifications via a portal. The process to collect the K-1s is a time consuming manual task, authenticating with each portal (with MFA making delegation of the task beyond a couple of key managers difficult), extracting the K-1 data, validating their contents and recording status across all the entities and K-1s to stay organized and compliant. And this has to be repeated throughout the process, to get updates from initial estimates through to final updates and addendums.

Did you know...

- It can take 15 to 20 minutes to access and authenticate to each portal, determine the information that has been updated or has changed and collect the information from the site into a spreadsheet, database or other data store.
- During the season, notices are received every day regarding updates, interrupting the team as they process each notice to be sure updates and key data are not missed
- Access is often restricted with multi-authentication protocols, limiting who can handle the tedious collection tasks to a few managers and making delegation difficult if not impossible.
- Each portal is accessed multiple times per year in order to get updates, an average of 5 per portal

Currently the team has to:

- Track and manage the entities and K-1s that need to be collected, often in a spreadsheet checklist
- Keep track of update notifications, usually via emails or manually track when to visit portals to gather data
- Visit the portal and authenticate for access
- Categorize what data updates are available and for what entities and K-1s
- Download the K-1 data updates and extract the data
- Validate that the correct K-1 data has been extracted and recorded in a spreadsheet, database or other data store
- Deliver the data to the K-1 analysis team

Across these tasks for the 500 K-1s, with **15 to 20 minutes** per update conducted multiple times per year, an average of **1.5 person hours per K-1** is typical. For an organization this added up to **750 person hours** over a twelve month period, adding up to **\$48k** per year in labor costs for these manual collection processes.



Much of these collection tasks are done in-house by the organizations we analyzed, with a limited opportunity to outsource. This places the tedious burden of K-1 data collection squarely on the shoulders of the in-house accounting team.

Current labor costs for K-1 analysis

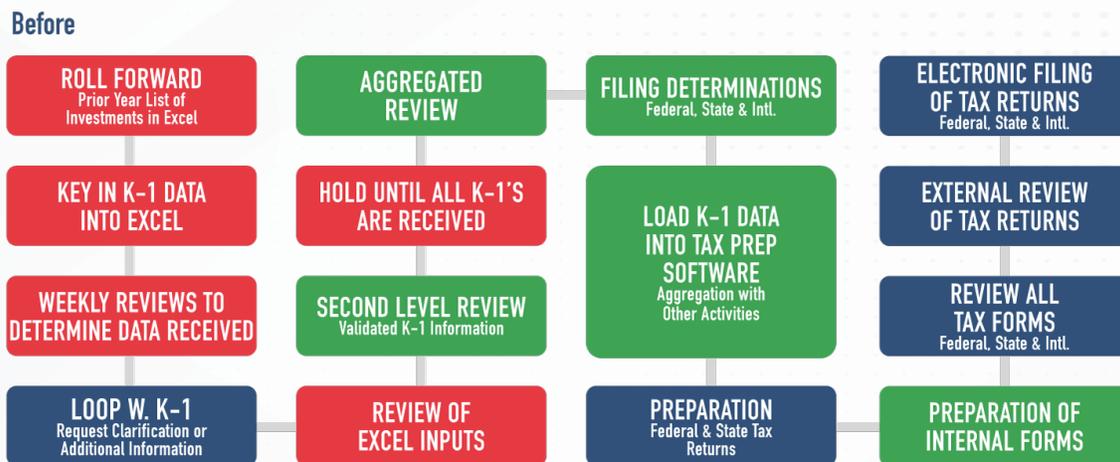
Once you have the K-1 updates and the data in hand, it is very tedious to key data from each K-1 you have gathered in order to aggregate and analyze the information for tax filings.

For every K-1, you have to validate the manual entries, an error prone process with inconsistencies making validation more time consuming. Extraction, validation and review of each K-1 is then followed with aggregate reviews, determinations and filings across received K-1s.

And as updates trickle in, this analog process is performed multiple times throughout the year as you move from initial estimates, through state, federal and international filings.

Did you know...

- The average tax professional spends **15-30 minutes** manually entering K-1 data into spreadsheets. Over a batch of 100 or more K-1s, this can add up to weeks of time performing basic functions that do nothing to alleviate the overall tax compliance burden.
- It takes up to **5 hours** to extract, review, and aggregate each K-1 form using in-house staff, or from **\$300 to \$500** per K-1 for outsourced processing (and this doesn't even cover all your tasks)
- Not only are K-1s late, many K-1 packets come in dribs and drabs – as many as **five** different distributions with estimates, federal, state, international and K-3s.



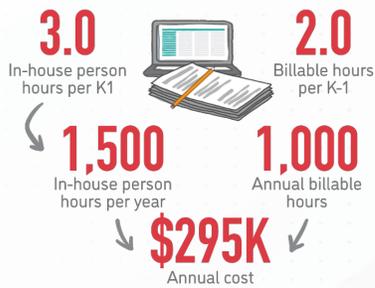
When it comes to the K-1 manual analysis process currently used by most organizations, the in-house team typically kicks off the process with a roll forward of the prior year information.

Next, the K-1 data that has been collected for each K-1 is now entered into the analysis spreadsheet. As data trickles in, there are weekly reviews to determine what data has been received, and what data remains to be gathered. As the data is reviewed, requests for clarification and additional information are made and additional second level reviews are conducted of the excel inputs and validated K-1 information.

Unfortunately, at this point the process gets delayed until all the K-1s are received because excel is not a great tool to allow for real-time updates that would flow through an entire system. Usually nearing the end of the tax filing season and every K-1 packet is received, an aggregated review is conducted, and filing determinations are made across federal, state and international requirements.

To support the filings, K-1 data is loaded into the tax preparation software and aggregated with the other business activities. From there, the federal, state and international tax returns are prepared, internal forms are prepared, reviews are conducted internally and externally, and electronic filing is executed. At most organizations, the K-1s received at the last minute are the most complex. In addition, the riskiest decisions – where and what to file – is done with only a few days consideration.

K-1 Analysis – Processing



For a fund with 500 K-1s to be analyzed, assuming 60% of the effort is handled in-house, just looking at extraction, validation and review of the K-1s, this consumes:

- 3.0 hours of analysis per K-1 throughout the annual lifecycle
- A total of 1,500 person hours
- \$96k in annual in-house labor costs

With 40% of the K-1 extraction, validation and review work outsourced, the costs add up quickly, with a \$200 per hour rate, with

- 2.0 billable hours per K-1 throughout the annual lifecycle,
- a total of 1,000 billable hours
- \$200k in annual outsourcing fees.

K-1 Analysis – Aggregation & Filings



This adds up to a whopping **\$296,000 annually** in K-1 processing alone.

Adding in the aggregate reviews, determinations and filings across received K-1s, assuming the same 60%/40% in-sourced / outsourced mix:

- Consumes an additional 240 person hours over the annual lifecycle and \$15k in annual in-house labor costs
- Results in an additional 360 billable hours over the annual lifecycle and \$72k in annual outsourcing fees.
- \$87k in total annual K-1 aggregate review, determination and filings costs

Adding in the aggregate reviews, determinations and filings across received K-1s, assuming the same 60%/40% in-sourced / outsourced mix:

- 1,740 in-house person hours throughout the annual lifecycle
- \$111,360 in-house annual labor costs
- \$272,000 out-sourced annual fees
- A total of \$383,360 each annual lifecycle.

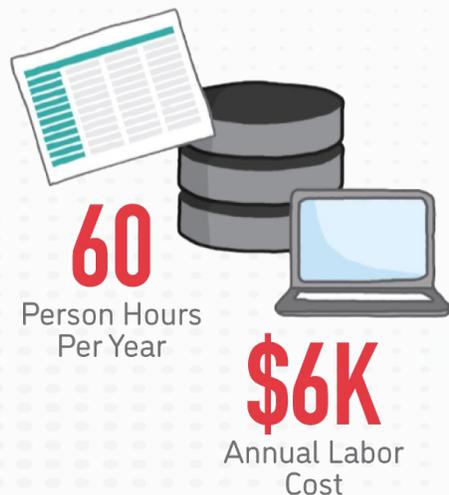


Current Homegrown Systems and Tools

In order to manage the current process, accounting teams cobble together a collection of homegrown and commercial tools to assist. Each of these systems and tools has a cost, sometimes small, sometimes more significant, but regardless in need of consideration for any financial analysis.

Many times, each entity, and certainly in aggregate across the entities and K-1s, there is typically a spreadsheet to aid in collecting, organizing and aggregating the K-1 data.

In some instances, a simple Access or other database can be leveraged, along with Tax software.



In the analysis of a fund, the use of a spreadsheet and Access database were considered, as this is typical for most K-1 collection and analysis teams with:

- **40** person hours each year to maintain and support tax and compliance spreadsheets.
- Database applications are often used to help support data collection and recording efforts, with an average of **\$1,500** in annual licensing costs and **20** person hours per year for administration, maintenance and support.

Across all the systems, this adds up to just over **\$6,460** spent each year on homegrown spreadsheet and database support and maintenance labor and licensing, with **60** person hours spent customizing, evolving, maintaining and supporting the spreadsheets and databases.

Current Staff Risks

With the magnitude of manual tasks, process friction and stress involved, many internal tax accounting groups suffer from staff burnout, engagement challenges and turnover as a result.

When it comes to staffing constraints, the impacts on your business have likely already been felt with the research highlighting some of these challenges:

- There has been a **33%** decline in new CPA candidates between 2016-2021 (AICPA).
- More than **300,000** U.S. accountants and auditors have left their jobs in the past two years¹
- Organizations have experienced a whopping **17%** accounting staff turnover over this past year, with intense shortages to find competent replacements
- It costs an estimated **\$65,000** in replacement cost for each lost employee at **1/2 to 2x** salary cost per turnover.

For our composite organization, with an estimated three people on staff, it is anticipated that because of the burnout from manual tasks and today's high turnover rate of **17%**, that the organization would lose and need to replace a team member every other year to attrition, a **\$33,280** estimated cost for replacement (offboarding, replacement recruitment, onboarding and training).



Current Compliance and Regulatory Risks

Tracking entities and K-1 downloads can be error prone, leading to many important updates. Manual K-1 processing at high volume is prone to error. The introduction of the K-3 has only added to the problem with a 20-page document and nearly 1,000 data elements to track, leading to even more chances for errors and potential delays

As K-1s trickle in, updates are made and allocations are amended, the analysis can be held up with each K-1 expected, leading to late filings and missing the deadlines.

The risks of noncompliance are high, with **\$10k** per missed filing for foreign forms alone.



¹ Why Are So Many Accountants Quitting - Wall Street Journal - <https://www.wsj.com/articles/why-so-many-accountants-are-quitting-11672236016>

Examining the risks to the fund with 500 K-1s being processed, it is anticipated that as many as 10 filings could be delayed and lead to compliance risks. With an estimated \$10k per issue, this can be a \$100k annual risk. And moreover, there is not just the potential financial impact, but the potential reputational damage to your team and your organization.

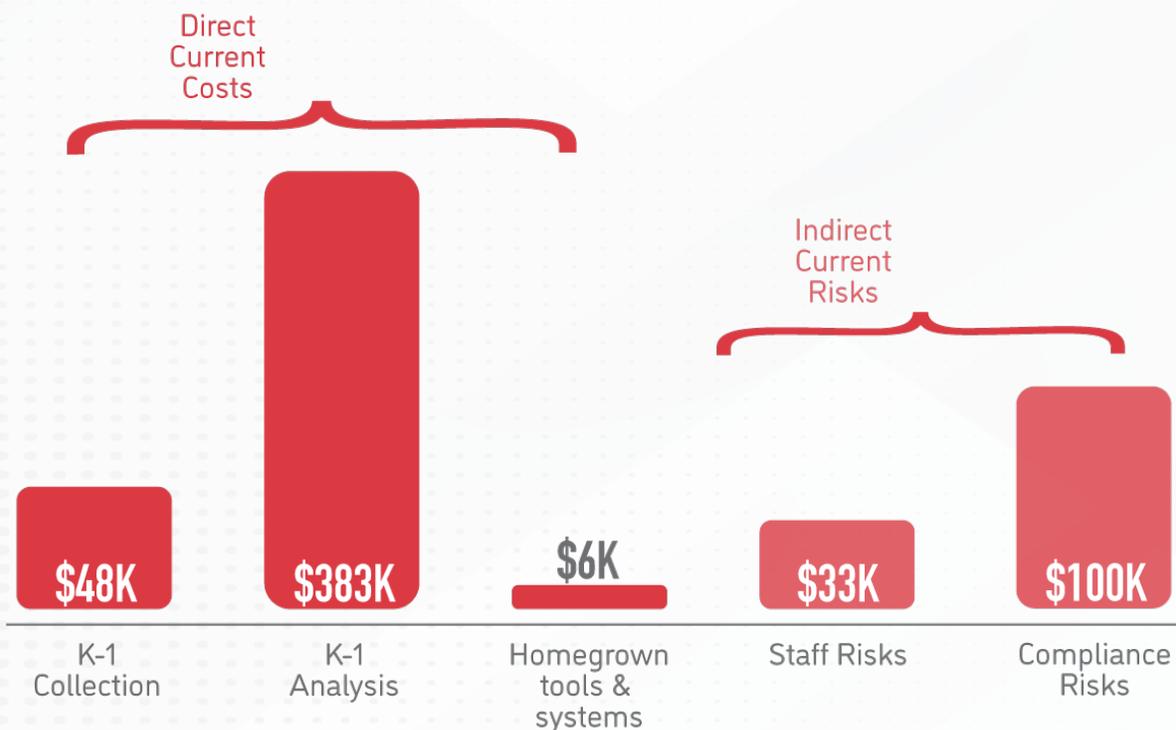
Current (As Is) Costs Add Up

For a recipient of K-1s, the impacts and costs of these challenges add up. This includes direct annual costs of:

- **\$48,000** for K-1 collection
- **\$383,360** for K-1 analysis
- **\$6,460** in homegrown spreadsheet and database support and licensing
- **\$437,820** in total per year (the equivalent of over **1.3 FTEs**)

Additional annual indirect (soft) costs of **\$33k** in staff turnover risks and **\$100k** in compliance risks (**\$133k** in total indirect costs per year).

In total, direct and indirect amount to **\$571k** each annual cycle.



Proposed (To Be) with the K1x Solution

Against these current (As Is) costs, a fund was modeled as transcending these challenges, leveraging K1x, the only solution built by CPAs for CPAs, to:

- Digitally transform the K-1 tax compliance process to improve efficiency, reduce stress and minimize risks
- Leverage AI and machine-learning to free your organization from the tedium of K-1 data collection, extraction, aggregation, and analysis processing.
- Streamline your tax determinations for Federal, State, Local, and International filings.

In order to understand the benefits, the Genius Drive team configured and applied a K1x solution, to automate and streamline the fund's current manual K-1 collection, extraction, aggregation and analysis and filing processes, reduce costs, and mitigate staff and compliance risks.

The modeling revealed that K1x solutions were able to leverage automation and AI/ML to eliminate mind-numbing manual processing tasks, improve process efficiency, boost accuracy and accelerate timeliness. This resulted in significant positive savings and business benefits including:

- Enhanced staff productivity, allowing the team to streamline workload today and deal with an increasing number of forms and complexity over time
- Freed internal team members from mundane K-1 data collection, extraction and other tedious tasks, to focus on strategic tax accounting efforts
- Empowered the organization to take control of more of the K-1 process by migrating from expensive outsourcing
- Improved team work-life balance, job satisfaction and engagement, reducing staff risks
- Assured that compliance risks were minimized.

Examining the Collect process, automation was applied to streamline and automate key tasks, this includes

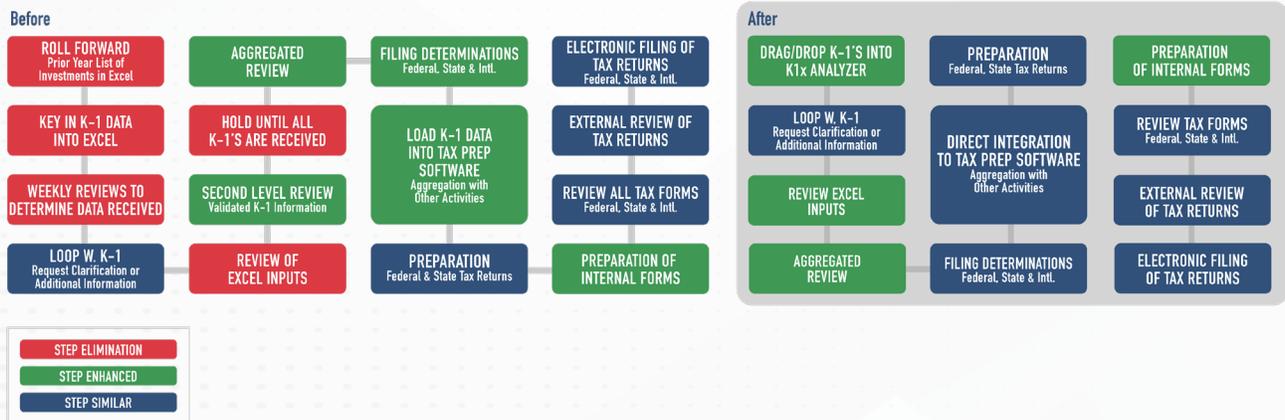
- Ingesting disparate document types and formats
- Streamlining retrieval of the data from emails, portals and other sources
- Categorize, rename and store documents
- Identify late or missing documents in real-time

Beyond OCR data capture methods, an advanced blend of AI and machine learning technologies is applied to coordinate and perform spatial recognition, perform natural language processing, perform meta data analysis, leverage text anchoring and perform advanced table detection to name a few.

Advancing beyond collection to analysis, K1x Analyzer was able to leverage automation, AI and ML to further streamline processes. The AI gets smarter as you use it, helping to reconcile any issues / challenges, and once it's read and reclassified on import you don't have to manually reclassify. Examining the current, mostly manual K-1 analysis process, five steps were automated including.:

- Roll forward of prior years investments in Excel
- Manually keying in K-1 data into Excel
- Weekly reviews to determine data received
- Review of Excel inputs for accuracy and completeness
- Hold on the process until all K-1s are received

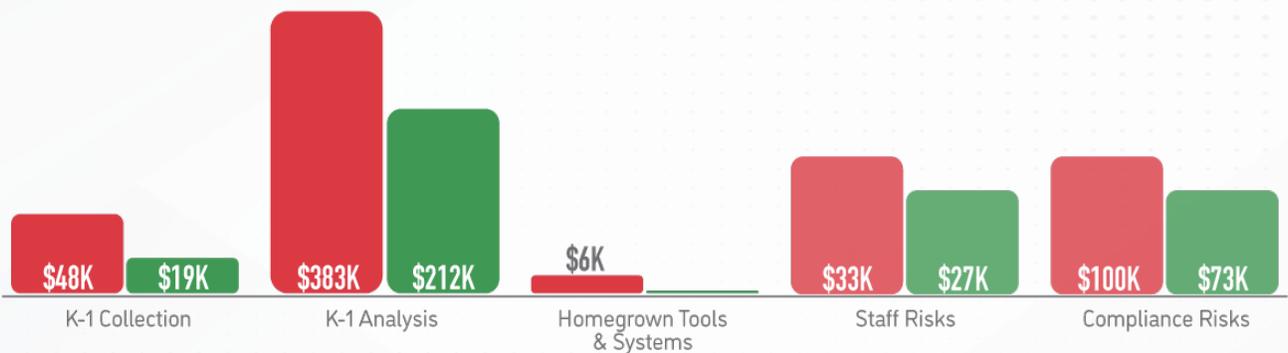
Other current K-1 analysis steps, although not eliminated, were dramatically streamlined especially second level and aggregated reviews, filing determinations, K-1 data loads into the tax prep software and prep of internal forms.



As a result of process automation and improvements like these, for the fund, the K1x solution was shown to deliver significant savings and business benefits including:

- Reducing current, mostly manual, K-1 collection tasks by **60%**, a savings of **450** person hours each annual cycle, generating yearly labor cost savings of **\$28K**
- Reducing K-1 processing and aggregating workload, helping to eliminate **477** person hours of manual tasks, allowing the team to no longer be stressed and reallocate tasks, shifting up to **50%** of the work currently outsourced to in-house for a net labor savings of **63** person hours a year (**\$4k** annually).

- Helping to take control, moving almost **50%** of expensive outsourced billable hours, **572** hours and **\$114k** in annual outsourced expenses.
- Eliminate the need for maintaining K-1 processing and aggregation spreadsheets and databases, helping to avoid **\$6k** in annual maintenance, support and licensing costs.
- Reduce staff tedium and burnout, helping to reduce high 17% turnover by 13% or more, an annual estimated benefit of **\$7k** per year.
- Avoiding compliance and regulatory risks by almost 30%, an annual estimated benefit of **\$28k** each year.
- Increasing the timeliness of filings helps migrate to early warnings of tax liability versus current eleventh hour notifications.

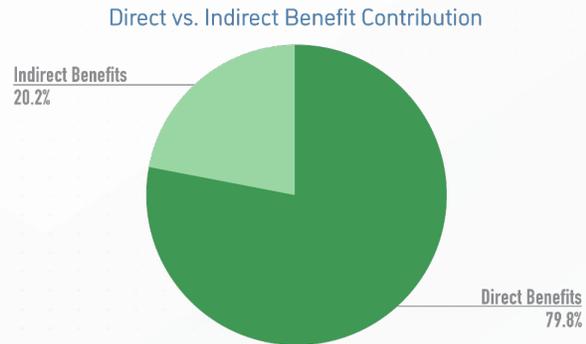
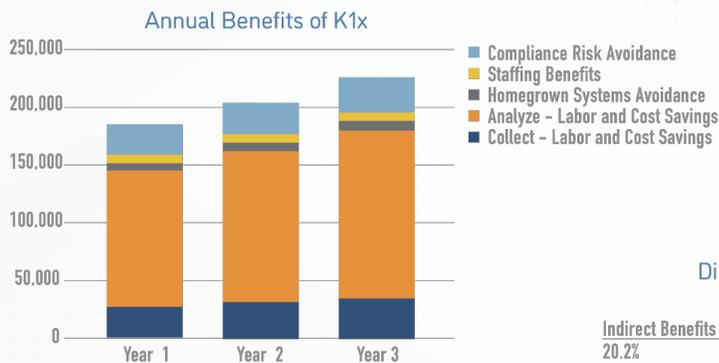


Leveraging K1x for the composite organization delivered:

- **573** net person hours of improved productivity and reclaimed internal resources
- **\$114k** savings in outsourced billings by taking control and moving key processes efficiently in-house
- **\$158k** in bottom-line savings and risk avoidance over the first 12 months
- Consisting of **\$420k** in direct benefits (cost avoidance and productivity improvements) and **\$106k** in indirect benefits (compliance and staff risk avoidance) over the three year analysis period.



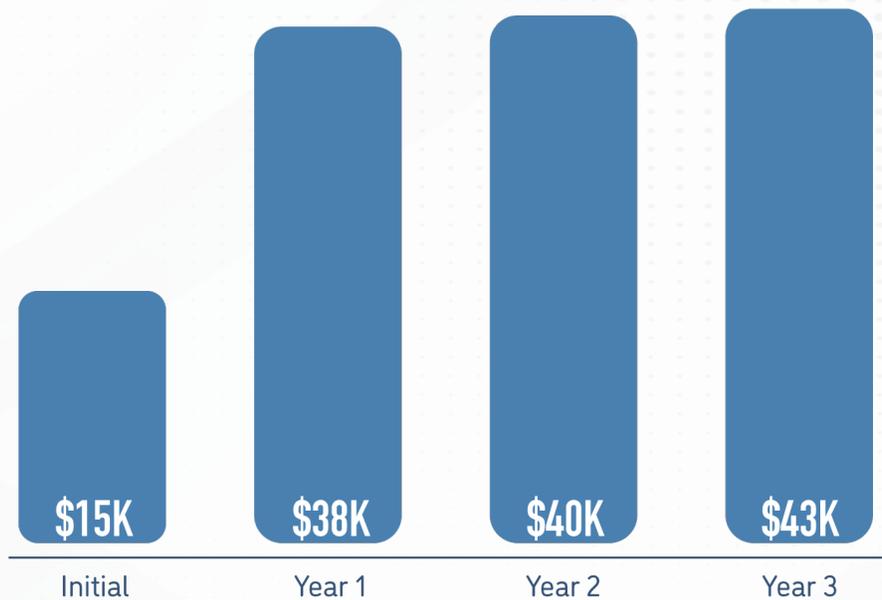
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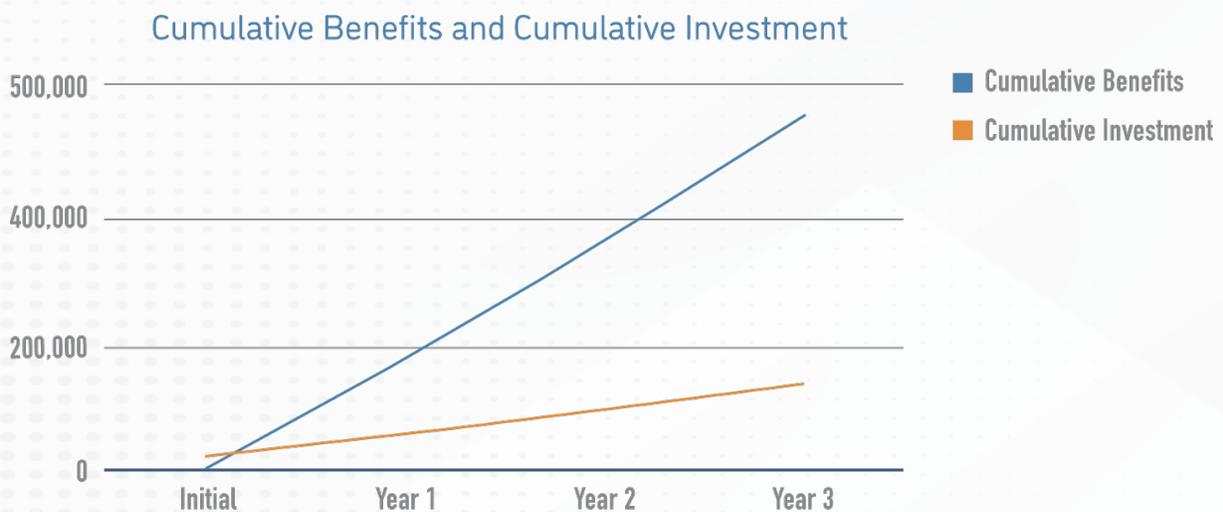
Benefits From K1x	Year 1	Year 2	Year 3	Total
Efficacy Improvements				
Collect - Labor and cost savings	\$28,800	\$32,112	\$35,805	\$96,717
Analyze - Labor and cost savings	\$118,470	\$132,094	\$147,285	\$397,850
Homegrown systems avoidance	\$6,460	\$7,203	\$8,031	\$21,694
Risk Reduction				
Staffing benefits	\$6,656	\$7,089	\$7,549	\$21,294
Compliance risk avoidance	\$27,000	\$28,350	\$29,768	\$85,118
Total Benefits	\$158,586	\$174,736	\$192,633	\$525,956

The K1x solution required an investment for the composite organization of

- **\$15k** in change / start-up costs (implementation services, training and project management)
- **\$40k** in average annual licensing costs (over the three year analysis period).



Based on this investment versus the benefits, the model projected that the composite organization achieved **\$2.87** in net incremental bottom-line benefits for every **\$1** investment over the three year analysis period.



Cost -Benefits Analysis	Initial	Year 1	Year 2	Year 3
Total Benefits		\$158,586	\$174,736	\$192,633
Cumulative Benefits		\$158,586	\$333,322	\$525,956
Total Investment	\$15,000	\$38,000	\$40,280	\$42,697
Cumulative Investment	\$15,000	\$53,000	\$93,280	\$135,977
Net Benefits	-\$15,000	\$120,586	\$134,456	\$149,937
Cumulative Net Benefits	-\$15,000	\$105,586	\$240,042	\$389,979

Overall, for the composite organization, K1x was able to deliver a significant:

- **287%** ROI (net benefits / total investment)
- **\$312k** in NPV Savings (the discounted net cash flow benefits over 3 years, assuming an 11% cost of capital)
- **5 month** Payback Period (duration from the first investment to break-even)

The Details

K-1 Collection Productivity Benefits

You have to keep track of all the entities and K-1s that need to be received, and then process notifications via a portal. The process to download the K-1s is a time consuming manual task, authenticating with each portal (with MFA making delegation difficult), gathering the K-1s, validating their contents and recording status across all the entities and K-1s to stay organized and compliant. Across all the K-1s, over the course of an entire year through the K-1 lifecycle as updates are made and need to be collected and categorized, these collection costs add up.

What if the composite organization could address these challenges, automating the collection of K-1 data across the portals, eliminating interruptions and manual tracking, collection and categorization tasks?

K1x was modeled and analyzed, delivering automated portal access and data collection, proactively gathering necessary information, updates and assuring key data is not overlooked or missed.

K1x was determined to help eliminate **60%** of the workload from the collect process, especially streamlining access, determinations and updates. This can help save up to 12 minutes per portal access, helping to save a cumulative **1.2** person hours per portal per year. For the composite organization, this adds up to **450** person hours of annual savings and **\$28,000** in annual benefits.

Collect	Current (As Is)	Savings with K1x	Proposed with K1x (To Be)
Number of portals	500		500
In-house time and labor savings			
Average person hours per portal in-house	1.5	60%	0.6
Total annual person hours	750.0	450.0	300.0
Average cost per hour for in-house staff	\$64.00	\$28,800	\$64.00
Annual cost for in-house	\$48,000	\$28,800	\$19,200
Total annual in-house person hours			
	750.0	450.0	300.0
Total annual in-house costs			
	\$48,000	\$28,800	\$19,200
Total annual outsourced costs			
	\$0	\$0	\$0
Total			
	\$48,000	\$28,800	\$19,200
	Year 1	Year 2	Year 3
Collect - Labor and cost savings	\$28,800	\$32,112	\$35,805
Annual growth	11.5%		

K-1 Analysis Productivity Benefits

With K-1s in hand, it is very tedious to extract and key data from each K-1 you have gathered. For every K-1, you have to validate the manual entries, and this process is error prone and with inconsistencies making validation more time consuming. This analog processing is performed multiple times throughout the year.

Extraction, validation and review of each K-1 is then followed with aggregate reviews, determinations and finally State, Federal and international Filings.

Did you know...

- The average tax professional spends 15-30 minutes manually entering K-1 data into spreadsheets. Over a batch of 100 or more K-1s, this can add up to a week of time per forming basic functions that do nothing to alleviate the overall tax compliance burden.
- It takes up to 5 hours to extract, review, and aggregate each K-1 form using in-house staff, or from \$300 to \$500 per K-1 for outsourced processing (and this doesn't even cover all your tasks)
- Each year, there is a 10% to as much as 33% increase in the number of K-1s to process, an increase in K-1 complexity and inflation in burdened labor wages, making this process more time consuming and costly each year
- Not only are K-1s late, many K-1 packets come in dribs and drabs – as many as five different distributions with estimates, federal, state, international and K-3s.

What if the composite organization could address this challenge, leveraging automation and AI / ML to digitally transform the current analog K-1 receipt process, streamlining the collection, extraction, review and aggregation processes?

K1x provides automation and AI:

- The only solution built by CPAs to free your organization from the tedium of consuming, managing, aggregating, and processing your volume of Federal, State, Local, and International filings.
- AI gets smarter as you use it and reconcile any issues / challenges, once it's read reclassification on import and doesn't have to manually reclassify.
- Resources are optimized and freed, allowing you to take control from costly outsourcing and reclaim some of the work, more effectively in-house.

K1x is proven to eliminate over **90%** of manual data entry, restoring over 11 hours each week to each member of your tax accounting team, and slashing **6 to 8** weeks for each cycle. This means over a **26%** savings in end-to-end data processing task time and costs. And most of all, alleviated staff stress and limitations (your nights and weekends are finally free!).

For the composite organization, when we examine the K-1 processing tasks - extractions, validations and reviews - we find that **450** person hours of current manual processing can be avoided. This is used to reduce outsourcing by **50%**, cutting **500** billable hours and **\$100k** in billings. To accomplish the move of outsource to inhouse, some internal labor is allocated, resulting in a net **105** internal person hour savings, and an overall benefit of **\$107k**.

Factoring in the K-1 aggregation, reviews, determinations and filings, **5%** task savings can be accomplished, with outsourcing by **20%**, resulting in an additional **\$11k** of annual savings.

Adding these up, there is a net reduction of **63** person hours of internal labor, **\$114k** in reduced outsourcing costs per year, and **\$118k** in total K-1 analysis savings.

Analyze	Current (As Is)	Savings with K1x	Proposed with K1x (To Be)
K-1 Processing (extraction, validation and review)			
Number of K-1s each year	500		500
In-house time and labor savings			
Average person hours per K-1- in-house	3.0	31%	2.1
Total annual person hours	1,500.0	465.0	1,035.0
Average cost per hour for in-house staff	\$64.00	0%	\$64.00
Annual cost for in-house	\$96,000	\$29,760	\$66,240
Reducing the need to outsource			
Percentage of work outsourced	40.0%	50.0%	20.0%
Average billable hours per K-1 - outsourced	2.0	1.0	1.0
Total annual outsourced hours	1,000.0	500.0	500.0
Average hourly billable rate - outsourced	\$200.00		\$200.00
Annual cost for outsourcing	\$200,000	\$100,000	\$100,000
Taking the outsourced work in-house			
Average person hours of work transferred to In-house work			500.0
Labor savings with K1x			31.0%
Total person hours of work transferred			345.0
Average cost per hour for in-house staff			\$64.00
Annual cost for taking control (outsourced to in-house)			\$22,080
Annual Total - K-1 Processing	\$296,000	\$107,680	\$188,320

Analyze	Current (As Is)	Savings with K1x	Proposed with K1x (To Be)
K-1 Processing (extraction, validation and review)			
Number of K-1s each year	500		500
Aggregate reviews, determinations and filings across Received K-1s			
In-house time and labor savings			
Total annual person hours	240.0	5%	228.0
Average cost per hour for in-house staff	\$64.00	0%	\$64.00
Annual cost for in-house	\$15,360	\$768	\$14,592
Reducing the need to outsource			
Average cost per hour for in-house staff	60.0%	20%	48.0%
Average cost per hour for in-house staff	360.0	72.0	288.0
Average cost per hour for in-house staff	\$200.00		\$200.00
Annual cost for in-house	\$72,000	\$14,400	\$57,600
Taking the outsourced work in-house			
Person hours of work transferred - In-house work			72.0
Labor savings with K1x			5.0%
Total person hours of transferred work			68.4
Average cost per hour for in-house staff			\$64.00
Annual cost for taking control (outsourced to in-house)			\$4,378
Annual Total - Aggregate reviews, determinations and filings	\$87,360	\$10,790	\$76,570
Total annual in-house person hours	1,740.0	63.6	1676.4
Total annual in-house costs	\$111,360	\$4,070	\$107,290
Total annual outsourced costs	\$272,000	\$114,400	\$157,600
Total	\$383,360	\$118,470	\$264,890
	Year 1	Year 2	Year 3
Analyze - Labor and cost savings	\$118,470	\$132,094	\$147,285
Annual growth	11.5%		

Maintaining and Supporting Homegrown Systems

To manage current tax compliance and reporting, many organizations use spreadsheets to collect, compile and tally the information and databases to store the content.

It can take an average of 40 hours each year to maintain and support tax and compliance spreadsheets, and database applications are often used to help support data collection efforts, with an average of \$1,500 in annual licensing costs per year.

The composite organization was able to eliminate current homegrown systems for handling alternative investment data and managing tax and compliance reporting. With K1x, spreadsheets and databases were ultimately replaced and retired, and the associated costs eliminated.

Maintaining and Supporting Homegrown Systems	Current (As Is)	Savings with K1x	Proposed with K1x (To Be)
Spreadsheets			
Person hours per year	40.0	100.0%	0.0
Average burdened labor rate	\$64.00	0.0%	\$64.00
Annual labor costs	\$2,560	\$2,560	\$0
Annual licensing, maintenance and support fees for current tools	\$0	100.0%	\$0
Total	\$2,560	\$2,560	\$0
Databases			
Person hours per year	20.0	100.0%	0.0
Average burdened labor rate	\$120.00	0.0%	\$120.00
Annual labor costs	\$2,400	\$2,400	\$0
Annual licensing, maintenance and support fees for current tools	\$1,500	100.0%	\$0
Total	\$3,900	\$3,900	\$0
Total annual homegrown and current systems costs	\$37,210	\$37,210	\$0
Total person hours	110.0	110.0	0.0
	Year 1	Year 2	Year 3
Homegrown systems avoidance	\$37,210	\$39,629	\$42,205
Annual growth	6.5%		

Reduce staffing limitations, stress and turnover

The manual K-1 processing tasks consume accounting resources, with tedious and mind-numbing work. This leads to accountant burnout, raising the chance of turnover, and making it even more difficult to find replacements, as few want to do this work. With so much heads-down work it becomes difficult to get the job done on time without adding more staff (which are difficult to find) or to elevate your accountants beyond the manual tasks to more strategic, value-added roles.

Outsourcing is an option, but it is expensive, with many hidden costs and elongated cycle times, a challenge when you can't get the work done in the time allocated as it is.

What if a fund could ...

- Eliminate manual K-1 processing and menial tax data distribution tasks
- Reduce burnout and improve retention
- Enhance the ability to scale with existing team members, and better attract new teammates
- Elevate the team's ability to focus on more strategic, value added tasks and investor experience?

With K1x the fund was able to:

- Automate key manual tasks and reduce workload end to end by 26% or more
- Leverage AI and technology to reduce process friction and avoid frustrating stalls and delays
- Improve accounting job satisfaction and engagement
- Reduce turnover by 10% or more
- Improve recruiting capability, elevating the job from manual data entry and analog processing to more strategic and value add.

Analyzing the fund and applying an average **17%** risk of turnover each year, the organization can expect to lose a resource once every two years or so, a **\$33k** annual cost. Applying K-1 to the Collect and Analyze process, a **13.5%** reduction in turnover is estimated conservatively, an annualized benefit of almost **\$7k**.

Staff Risks	Current (As Is)	Savings with K1x	Proposed with K1x (To Be)
Number of team members	3.0		3.0
Annual turnover	17.0%	13.5%	14.7%
Number of replacements per year	0.5		0,4%
Average cost per FTE replacement	\$66,560	0.0%	\$66,560
Annual turnover cost	\$33,280	\$6,656	\$26,624
	Year 1	Year 2	Year 3
Staffing Benefits	\$6,656	\$7,089	\$7,549
Annual growth	6.5%		

Reducing compliance risk

Tracking entities and K-1 downloads can be error prone, leading to missing K-1s and missing updates. This can lead to missing data and updates, errors, and worse, missed filings.

The risks of noncompliance are high, with \$10k per missed filing for foreign forms alone.

The key is to improve the tax data filing process via automation, AI and ML, to reduce the risk of missed deadlines and filings.

Applying K1x to the composite organization helps:

- Automatically track K-1 collection to minimize or eliminate missing data and updates
- Automate K-1 extraction to reduce manual keying errors
- Reduce the need for large cumbersome and error prone spreadsheets, automating tracking and special allocations
- Eliminate delays in filings due to missing information.

With K1x the composite organization was able to reduce the risk of missed or late filings by **27%** or more conservatively. In a typical organization processing 500 K-1s, up to ten missed filings or compliance issues would not be unheard of. With an estimated **\$10k** per issue, this means **\$100k** each year is at direct risk. Applying the **27%** conservative reduction results in **\$27k** in potential compliance risk reduction benefits.

Compliance Risks	Current (As Is)	Savings with K1x	Proposed with K1x (To Be)
The number of missed filings or compliance issue over the past 12 months	10	27.0%	7
Average fine / penalty per missed filing or compliance issue	\$10,000		\$10,000
Annual compliance risk costs	\$100,000	\$27,000	\$73,000
	Year 1	Year 2	Year 3
Compliance Risk Avoidance	\$27,000	\$28,350	\$29,768
Annual growth	5.0%		