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TAX

TRANSFORMATION BEST PRACTICES IN ALTERNATIVE INVESTMENTS:

A Step-by-Step People,
Process, Technology Guidebook for
Modernizing K-1 Processes



In the dynamic landscape of today's business environment, tax organizations are constantly seeking ways to enhance efficiency, improve customer satisfaction, and stay ahead of the competition. One effective strategy is to transform tax processes by analyzing and optimizing the key components of **people, process, and technology**. We'll explore the interplay between these three elements relative to the K-1 aggregation process especially when dealing with the compressed deadlines caused by delays in the K-1 ecosystem.

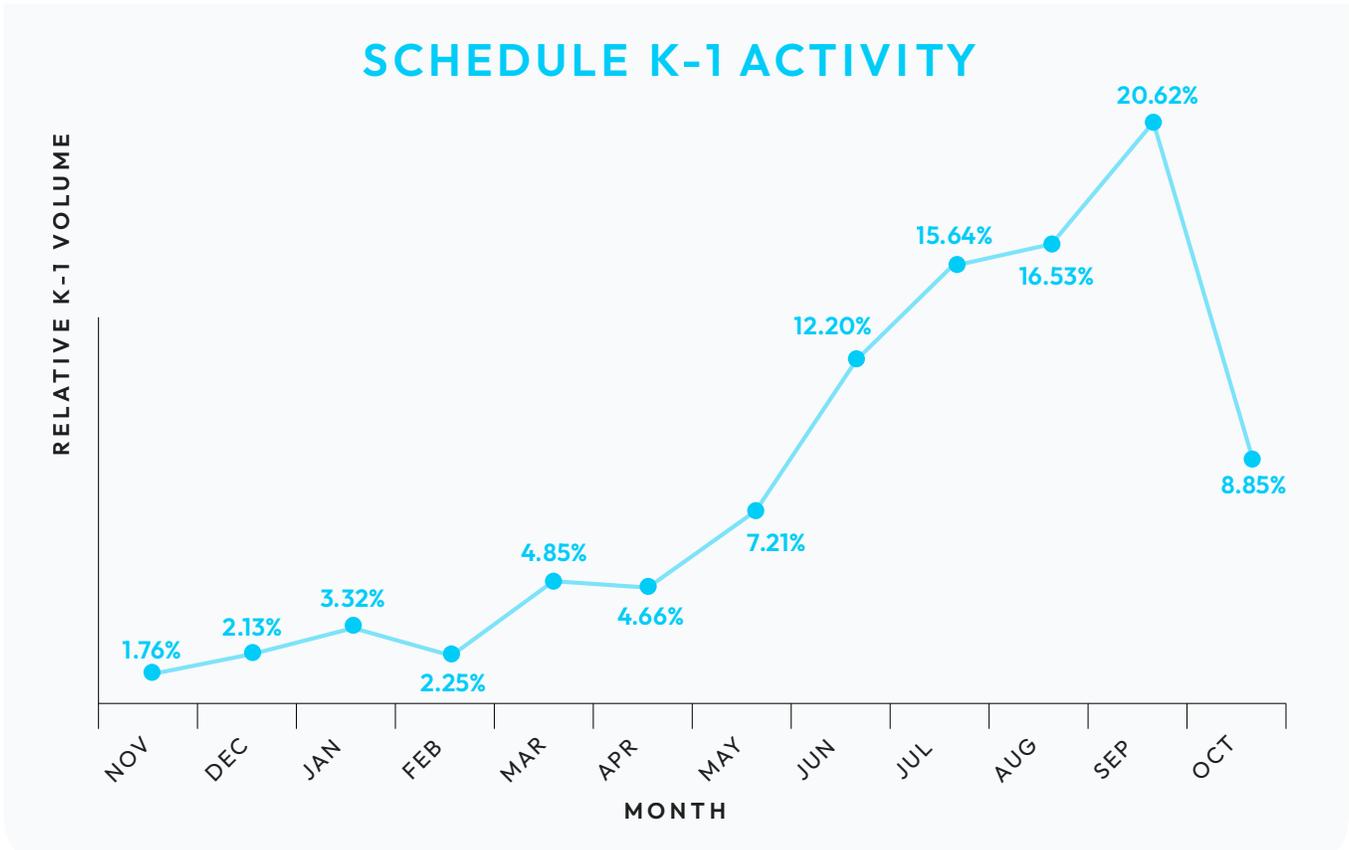
Let's start our discussion with this point — delays in the K-1 ecosystem — as it's an important backdrop to everything else we'll share. Anyone in the tax transformation business would naturally gravitate to looking for ways to smooth out the peaks and valleys stemming from a calendared workflow. It's elementary to schedule your work and resource capacity for a consistent, streamlined approach. But

MORE THAN
50%

of K-1 aggregation work is done in a 3-month period.

what if that's impossible and driven by forces outside of your control? Our latest pull of K1x data highlights the issue at hand. As you can see, when looking at the timing of when K-1s are processed, the data would support the anecdotes — **more than 50%** (52.79% to be exact) of K-1

aggregation work is done in a 3-month period. **81% of the work is done over six months.**



While this graph is focused on K-1 aggregation work, I think it's safe to say that the traditional "tax busy season" of January – April has expanded to July – October.

This makes tax transformation tough! But there are people, process and technology enhancements that can ease this summer/fall burden.





People:

People are the cornerstone of any successful tax process transformation and this focuses on the “WHO & WHERE” of our people, process and technology equation. Successful transformation projects have included use of para-professionals, lower-cost outsourced resources, and off-shoring. The goal is to remove the more rote and administrative tasks from the delivery of complex, value-added tax advice.

Proper alignment of the work being done, the skills required to do the specific tasks and the cost of those resources is critical. Balancing risk mitigation & value-add with margin considerations is the tight-rope we're walking in this area.



The most expensive resources are spending time on mundane tasks because there's no other choice.

Now let's throw in the monkey-wrench of a compressed timeline when there are not enough hours for anyone to meet the work demands. What may work in the valleys or moderate seasons of the year may not address the need for speed and immediate

turnarounds. Often when forced with client demands or tight turnarounds, we find that the efficient, transformed process is thrown aside and the most expensive resources are spending time on mundane tasks because there's no other choice. Building on this,

while those expensive resources have the skills to make the right tax determinations, they probably haven't been trained on the latest tools or techniques to make the process efficient and scale to get maximum

margin improvements. I'm sure most tax managers with budget responsibility would agree that most budgets get blown to bits in the final hours of an engagement.



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But all is not lost...there are successful strategies to deploy to keep the right resources focused on the right tasks and limit the last-minute fire-drills as much as possible. Here are a few:

ABK1 (ALL BUT K-1)

I know how accountants love their acronyms, so I thought I'd try this one for size. Firms have been very successful in collecting data (other than K-1s) from their clients on a prescribed timeline. They've also been successful in creating a first draft of the tax return - 1040, 1065, 990T, etc....with the majority of the

data. But after that, the return tends to sit in a holding pattern. Obviously, engagements can't afford to pick-up/put-down returns multiple times, but I'd encourage teams to get to final output and conduct reviews before those straggler K-1s come in. You also have the option to put in placeholder data based on prior year, estimates or draft K-1s.

TAX TIP

K1x technologies allow for easy tracking of K-1s integrates that data into end software. Leverage this technology to determine

your plan for tight turnarounds. You'd even be able to do a before/after variance report to account for the K-1 stragglers.



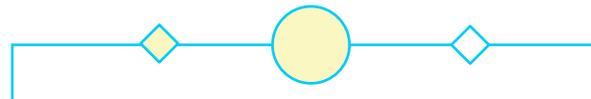
CENTRALIZED K-1 GROUP

While many firms have moved to outsourced/offshore models, few have gone to the next step of having resources focused specifically on K-1s, a K-1 specific review process, technologies and timelines. I would argue since the majority of the data missing are K-1s, having a K-1 specific strategy is warranted. Perhaps this group would also scale up or down depending on the season. In addition to a specialized team, having the data to track status and progress — how many K-1s still missing, those in

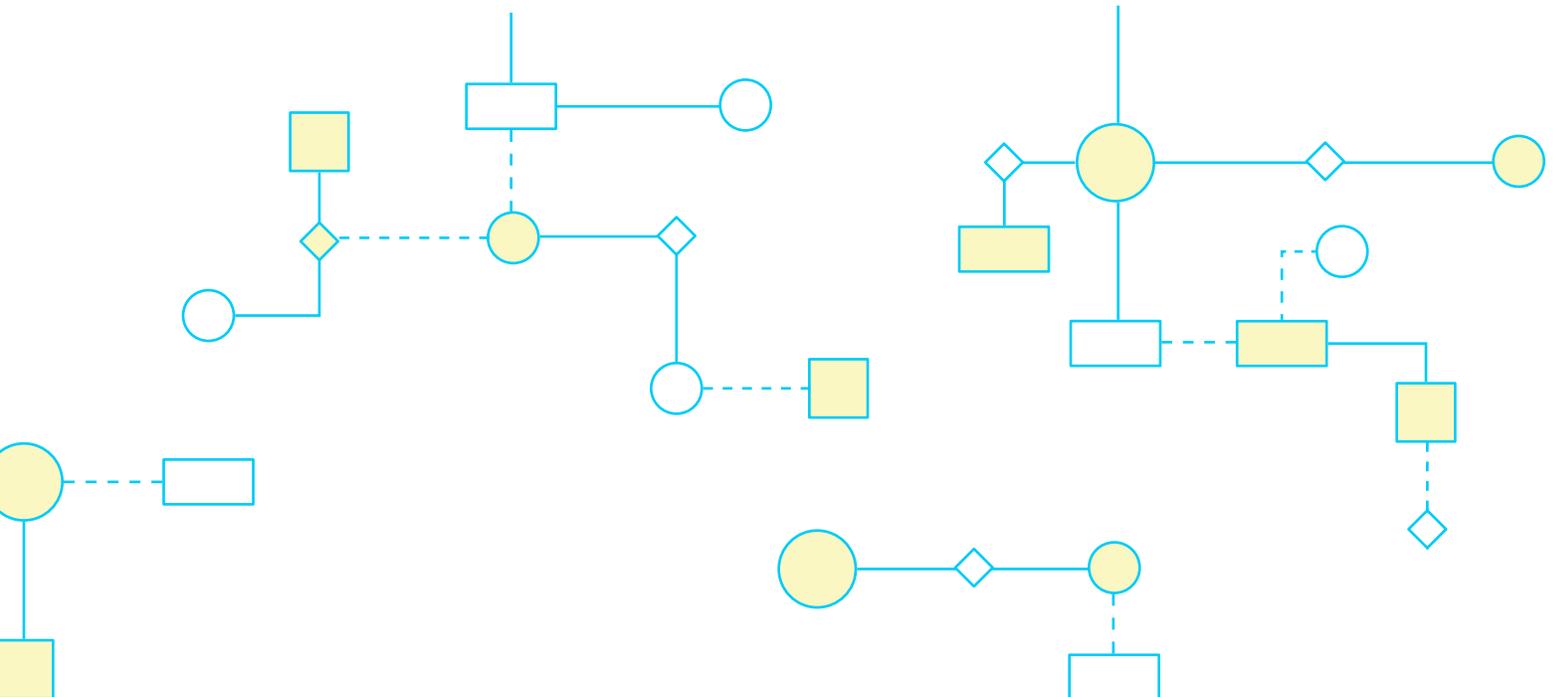
process, etc.... — will help in understanding resources and turnaround times.

DEPLOYING A CUT-OFF/TRUE-UP METHODOLOGY.

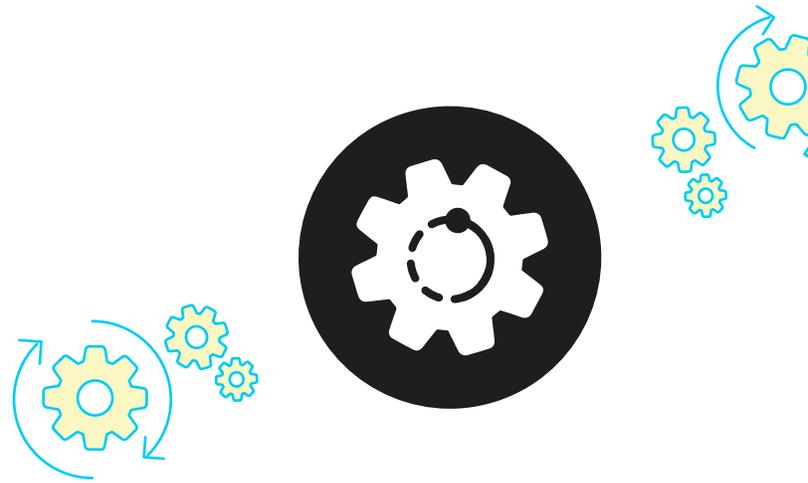
While this may not be a firmwide approach, there are benefits to speaking to clients about the use of a cut-off strategy. This promotes a strategy by which returns can be filed with estimate numbers and trued-up in the following year. The approaches need to be reasonable, and a process/methodology standardized to ensure proper compliance.



With K-1 season just around the corner, there might still be time to deploy one or more of these people strategies to ease some of the pain of busy season.



Process



Standardized processes are fundamental to any process optimization plan, but this may prove difficult with the complexities of tax laws, frequent regulatory changes, and evolving business landscapes.

In addition, traditional tax processes are characterized by manual data extraction and data entry, disparate systems, and inefficient workflows which result in errors, delays, and increased compliance risks. While this is true of tax in general, it is especially true of the Schedule K-1 and now K-3. The introduction of the K-3 alone introduced **20 additional pages of tax form** and countless potential overflow pages. Beyond the WHO and WHERE of our people category, we'll now focus on the WHAT and WHEN of process.

So, what is the WHAT? As you start your transformation process, it's always important to understand the main objectives of the job-to-be done. Some might say that K-1 work is simply about extracting the K-1 data and getting that data into tax prep software. I can see why that might be the conclusion, when most tax documents are straightforward (W-2, 1099, 1098, etc...) Once the data is extracted (often easily done by OCR technology) and loaded into standard tax preparation software then the bulk of the work is complete.

But I would challenge that thinking for K-1 work, **especially** for an extensive portfolio of alternative investments in excess of 20 K-1s received. Your transformation wouldn't just be about extracting K-1 data, you should look at all the steps in the process, and which processes could be optimized.

The average manual extraction per K-1 takes on average

45
MINUTES.

Given the unique nature of K-1s, merely extracting K-1 data is a single step (albeit a huge time waster) in the overall process. The true objective of K-1 processing is to understand the federal, state and international tax implications of the K-1 data

received. And from a process standpoint, are you handling the gathering of this information and the reporting of it in the most effective manner? If you agree with me on this point, then let's discuss what this means in terms of standardizing the process for a large tax department or accounting firm. Where perhaps hundreds of people are focusing their energies on making these determinations.

A standardized process and workflow is critical especially when you'll likely have multiple

people playing various roles. The workflow needs to be simple yet comprehensive, provide guidance to users so they can be efficient with their time and accessible to all contributors. Once a standard system is in place, then we can focus on the activities to be conducted (the WHAT) and WHEN these steps can be taken. While these steps are outlined as tasks, you should consider these may also be roles by specific individuals to create a more efficient and effective process. **The tasks/roles are:**

1. DATA COLLECTION

In the K-1 space, even the step of collecting data has gotten out of hand and a candidate for optimization. When you're managing a portfolio of K-1s that could be coming your way between roughly February and October, attention to data collection is essential. How are K-1s received? Are clients providing the K-1s directly to you? Are you using a third-party K-1 "portal scraper" that is conducting the data collection? Once data is collected, where is it housed? Is it in a secure location yet accessible by those that need to know and work with this data. How is the status managed? **Many K-1s come in bits-and-pieces so tracking whether the K-1 information is complete is not an easy task.** And once that data is received can it be moved to the next step of the process?

2. DATA EXTRACTION

There is a lot of focus on the time associated with manually extracting this data. And no wonder when **the average manual extraction takes on average 45 minutes per K-1.** But in addition, this step should focus on comprehensiveness of the extraction. Once extraction is complete, how often does a reviewer need to return to that same K-1? Sometimes knowing what you know and what you don't know are equally important.

3. DATA VALIDATION

Until digital K-1 transmissions become the norm, validation is a critical step — whether extraction is done via machine or human. Have all the tax data elements been extracted and documented correctly. Is there anything missing that's expected?

4. FOLLOW-UP FOR MORE INFORMATION

Often the K-1s are incomplete or there are follow-up questions. This is not only a very important step, but also a step that should be taken as soon as K-1s are received so there is ample time to get answers to open questions. If K-1s aren't processed as soon as feasible, you might miss a valuable opportunity to gather necessary information to make decisions.

5. REVIEW OF AGGREGATED DATA

Each K-1 received is going to adjust your federal, state and international filing requirements. For a large portfolio you wouldn't necessarily review the aggregated reports as soon as every single K-1 is received but it does make sense that you're reviewing these aggregated findings periodically or within batches of K-1s. As time gets tighter, you may also consider putting in placeholder K-1 information possibly based on information provided by the GP so that you can get ahead of critical tax filings.

6. INTEGRATION TO TAX PREP SOFTWARE

While K-1s might be a significant piece of the tax puzzle, it's not the only item to be reviewed so integrating K-1 data with the other tax data will give you the complete picture of your federal, state and international tax impact.

Standardizing these processes and following a prescribed workflow is the best way to achieve optimization of a very time-consuming, high-risk area for any tax department dealing with lots of K-1s. A standardized workflow is also critical when

K-1s are coming in throughout the entire year. Getting the entire team acclimated to a universal approach helps people to specialize in tasks and move the process along rather than waiting until the very end to conduct the entire process.



Technology

The integration of artificial intelligence into tax processes represents a paradigm shift in tax management, offering unprecedented opportunities to enhance efficiency, accuracy, and compliance. By embracing AI technologies, organizations and tax authorities streamline tax processes, improve decision-making, and deliver value to taxpayers and stakeholders.

But there's a lot of chatter about the dangers of AI, particularly Generative AI and deep learning models like OpenAI's GPT series. As such, all AI technologies seem to be painted with a broad brush due to the fears of manipulation and misinformation, deepfakes, harmful outputs and unintended consequences. This leaves tax leaders in an unenviable position of making technology decisions within an ever-emerging field. Gartner tends to call this temporary phenomenon, the "Trough of Disillusionment". While some take a wait-and-see approach during this phase, others adopt the new technologies, leapfrogging the other players who are forced to play catch-up.

K1X MODELS ACT DIRECTLY ON THE DATA

in the documents, making it impossible for the model to erroneously respond with some other client's data.

Understanding the technologies available and their underlying technology architecture is important to identifying if a particular technology is appropriate for your use. Not only from a "jobs-to-be-done" perspective but from a security and risk perspective. Typically, your IT and security teams would be able to assist you in this review to ensure the safety of your and your client's data. This then leaves you to determine whether the technology meets the needs and can assist in your K-1 process optimization.

In this section we'll discuss the HOW in our strategy transformation and share how we think K1x technologies can solve the K-1

problem. The K1x team has been focused on K-1s for two decades and has been training the machine-learning models since 2017. Our patented software does not leverage generative AI but rather, it directly extracts values from the document rather than ‘generating’ them. This means the answers our model produces were sourced from the PDF. By contrast, a generative AI approach would “read” the document and then “answer” questions posed to it from “memory”,

increasing the likelihood of ‘fictitious but plausible sounding answers, a big reason for that “Trough of Disillusionment”. Unlike generative AI, K1x models act directly on the data in the documents. So you can be certain that the data appeared in that PDF, and moreover it is impossible for the model to erroneously respond with some other client’s data that it saw during some training process. (The latter scenario being another danger of generative AI.)

AI-POWERED TECHNOLOGY BY K1X ASSISTS YOUR K-1 PROCESS BY:



AUTOMATION:

AI-powered data extraction streamlines repetitive tasks such as data entry and document processing, reducing manual efforts and errors while improving efficiency. Extraction of a single K-1 manually is approximately 45 minutes. This task is now handled in under 12 seconds per K-1. Natural Language Processing (NLP) and other algorithms extract insights from unstructured whitepapers and present the data into a structured format. Once the data is structured you can move to analysis.



DATA ANALYSIS:

Beyond mere extraction of the K-1, our AI algorithms identify the tax data element and route that data element for validation, aggregation and filing determinations. Said differently, our machine-learning models not only extract the data and put it in a structured format, it routes the data to the exact structure you need for the next step in your workflow. (For example, state tax modifications for the state of New York get routed to the right area for further validation.)



VALIDATION:

K1x takes the first validation steps by sharing a taxable income check. This focuses review time to those areas where the machine is less sure of the extractions conducted — a major time saver since the reviewer can focus only on exceptions.



FILING DETERMINATIONS:

While this part of our technologies does not deploy AI or machine-learning, our systems automate the summary and aggregation of all the structured data to allow for a more methodical determinations process — without additional manipulation. All the extraction and analysis done is to facilitate a higher-level review through one-page summaries. Mitigate risk by receiving a more holistic view of state filing requirements and international activity that could yield additional international tax filings.



INTEGRATIONS:

Then the last part of the job-to-be-done is integrating the tax data from your analysis into your end tax prep software. This is managed through a streamlined approach to CCH and Thomson Reuters' products.

Often the most effective technologies are developed by individuals or teams who have direct experience dealing with the problem they are trying to solve. The K1x team has an in-depth understanding of the K-1 problem. They've experienced the problem firsthand and possess a deep understanding of its nuances, complexities and pain points. This firsthand experience helps them develop a comprehensive insight into the problem, enabling them to identify innovative solutions that address the root

Mitigate risk by receiving a

MORE HOLISTIC VIEW

of state filing requirements
and international activity.

causes and meet the specific needs of users.

But it's not just experience that the K1x team possesses. They have passion and commitment to delivering this solution.

INTEGRATION OF PEOPLE, PROCESS, AND TECHNOLOGY

And now we get to the WHY part of our story. WHY or maybe said differently, WHY NOW?

WHY is it important that you transform your

K-1 practice today. Here are a few things to consider:

- **Timing — no matter when you're reviewing this article, you're about to start the next "tax season"** so it's never a waste of time to see if you can do something better the next time around. There might be a process change or people adjustment that can be tweaked right now that could shave some time for the team. There might be an opportunity to see what technologies are available to you to deploy and how long it would take to see a return on that investment.
- **K-1s aren't going away** — approximately 45 million K-1s are produced each year. We're also expecting the alternatives industry to more than double in the next four years. That means even more K-1s ingested into the system and likely to recipients that may be investing in these

vehicles for the first time.

- **K-1s are not going to get smaller.** The impact of the K-3 is still in flux as preparers become more accustomed to this form and the reporting requirements. And this is just the start. As the IRS continues to focus on this wild west of pass-through reporting, we can expect to see more reporting changes in this area.
- **Resources are scarce.** One of the biggest push-backs on AI tooling is the loss of jobs. That is not the case in AI-powered technologies focused in the tax industry. There are not enough people to do tax work and most tax practitioners are focusing far too much of their time on menial tasks. We need to leverage technology effectively to free up skilled resources to conduct higher level tax analysis.

Tax transformation is not merely a technological overhaul but a multifaceted



endeavor that involves aligning people, process, and technology to enhance tax operations, drive efficiency, and mitigate compliance risks. By integrating these three critical components, organizations can achieve a seamless transition to a more agile, data-driven, and strategic approach to tax

and K-1 management. But in addition to the items above relative to people, process, and technology, **be sure to also consider the importance of the following key factors to your transformation plan:**

EXECUTIVE SPONSORSHIP AND LEADERSHIP:

Executive sponsorship and leadership are critical for driving tax transformation initiatives and securing organizational buy-in and support. As you work through your K-1 practice overhaul be sure you're in alignment with leadership and priorities are in sync.

CROSS-FUNCTIONAL COLLABORATION:

Foster collaboration and alignment among the various groups that may be touching K-1s — off-shore resources, paraprofessionals, and tax professionals across the various disciplines — federal, SALT and international.

AGILE METHODOLOGIES:

Adopt agile methodologies and iterative approaches to transformation to promote flexibility, adaptability, and continuous improvement. You're not going to overhaul your K-1 practices with a single process, people, or technology change. Recognize and monitor the increments to achieve the expected value.

CHANGE MANAGEMENT AND COMMUNICATION:

Implement robust change management strategies and communication plans to engage stakeholders, manage resistance, and promote user adoption of new processes and technologies.



In conclusion, successful tax transformation requires **a holistic approach that integrates people, process, and technology.** By aligning talent, optimizing processes, and harnessing advanced technologies, organizations can navigate the complexities of tax management, drive efficiency, and achieve sustainable compliance and strategic objectives.

ABOUT K1X, INC.

Private Market Tax Data. Digitized. Distributed. Decoded.

A Fast Company Most Innovative Companies honoree and US Fintech Award winner for Best Accounting Tech, K1x is building the intelligent tax infrastructure for private markets. Our patented, AI-powered SaaS platform automates the extraction, validation, and distribution of tax data from IRS K-1s, 1099s, and W-2s, and streamlines IRS-certified 990 e-filings—bringing compliance, clarity, and speed to an industry drowning in PDFs.

The platform connects investors, accounting firms, tax software, and taxing authorities in a seamless data workflow—simplifying entity tax operations, compressing cycle times, and reducing rekey risk. It also frees professionals from the robotic work that overwhelms busy

season—copy-pasting, keying, collating—so they can focus on higher-value strategy, analysis, planning, and client service. K1x is trusted across the private-market ecosystem, including:

- **44 of the 100 largest U.S. institutional investors**
- **20 of the top 25 accounting firms**
- **45 of the top 100 university endowments**

Battle-tested by the best and built for scale, K1x makes tax time less taxing—turning weeks of manual effort into minutes of digital throughput while restoring time, balance, and impact to the professionals who power the tax system.

SCHEDULE K-1 PROCESS MATURITY ASSESSMENT



ABOUT CPA TREADLINES

CPA Trendlines is the independent research and advisory platform for the global tax, accounting and finance community, delivering actionable intelligence, timely data, clear analysis and practical guidance to practicing professionals, firm leaders and decision-makers.