

# The future of tax



An Accountancy Age report,  
published in association with Tax Systems

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# Foreword

No one could have foreseen the events of the past few months.

For accountants and tax professionals it was to be a busy period regardless, with one financial year turning into another with IR35 and MTD grabbing the market's immediate attention. As the coronavirus pandemic started to take its toll, the professions' daily workload quickly changed – as did the advice they would give their changing client base and their internal resources.

And they've been kept busy: cash flow has become the most pressing priority for most going concerns, and the UK government's many different initiatives to keep businesses afloat have kept accountants up late at night as they consider the best advice to give their clients during a period of profound uncertainty.

The delays to IR35, MTD and the VAT deferral have rewritten the way those within accounting will operate in the months ahead. As the coronavirus crisis unfolded, Accountancy Age – in partnership with Tax Systems – was surveying our readership with regards to attitudes and preparedness for MTD, digital resources, and how businesses were dealing with VAT reporting as these were the three most important pertinent issues on the industry's mind at that time. Here, we present the results of our research, revealing just how the industry was positioned.

There are a number of conclusions to be made from the study, and in the following pages we've assessed just how far along businesses were in terms of digital restructuring and how businesses have been dealing with VAT reporting, among other issues. For those less advanced in their digital adoption, economic pressures may now be taking significant tolls. For those devoting too much resource to VAT reporting, perhaps the government's delays will force a complete recalibration of their business.

Here, therefore, we present a clear snapshot of where the market was when the crisis hit, illuminating just how well prepared – or not – we were.

## Michael McCaw

Editor

Accountancy Age

## KEY TAKEAWAYS

- ◆ Almost two thirds of the market admitted a lack of confidence in the accuracy of their reporting capabilities
- ◆ Nearly two fifths of businesses spend more than 25 days per year collating, identifying and inputting VAT data annually, with a substantial share of the market still falling back on spreadsheets
- ◆ Although MTD was delayed, many businesses are ill prepared to deal with the complications they face in the wake of the pandemic
- ◆ Around a third of finance teams have used MTD to encourage technological advances across their wider businesses

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# MTD: A catalyst for change

## GETTING READY

Much has been written about how the industry has embraced MTD, but it is often worth recalling just how well prepared the market was when the first mandatory deadline hit in April 2019.

At that point, legislation came into force that meant any VAT-registered business above the VAT threshold had to submit VAT returns via software, and keep all their records in a digital format.

While the rules were mandatory, there were a plethora of options available and organisations looked to the tech market to fulfil the new criteria, with our research showing nearly half of our respondents utilising dedicated MTD software compliance software. While a large portion of the industry chose to rely on experts to comply, about a quarter looked to supercharge basic spreadsheets using MTD bridging only solutions.

## PREPARING FOR PHASE 2

**14.9%** of respondents were unaware that the deadline for phase two of MTD for VAT (digital links) also signifies the end of the soft landing period, and that businesses can be penalised for non-compliance

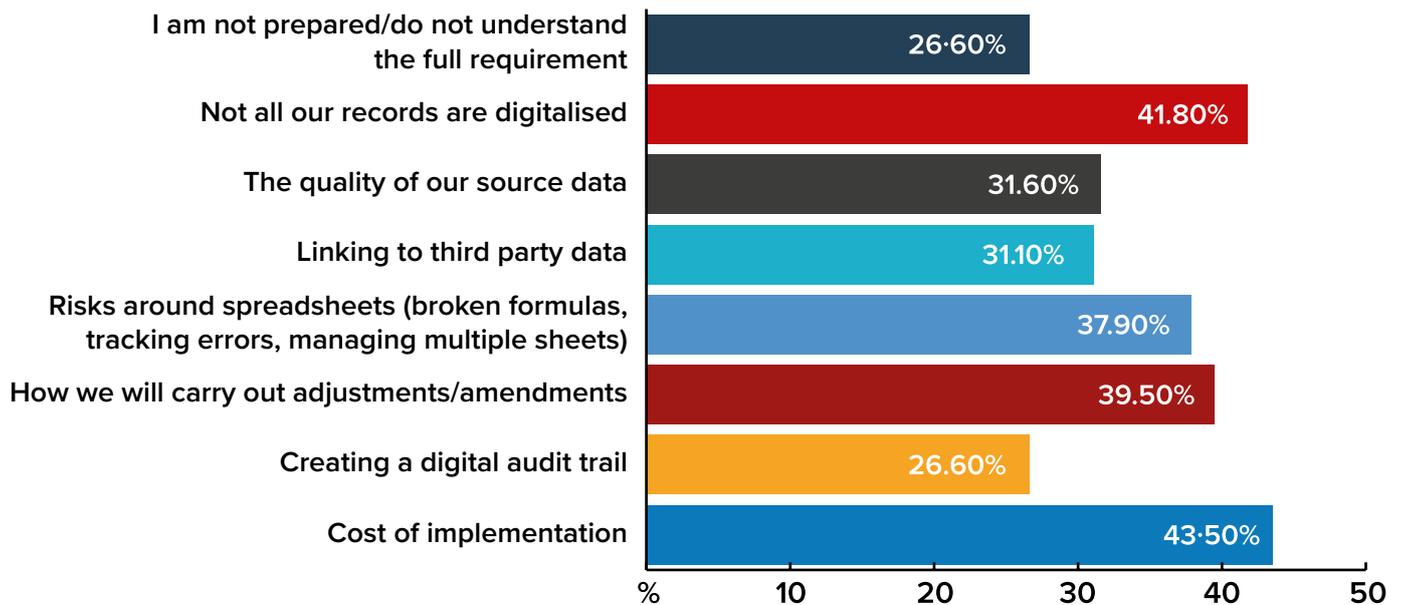
Our survey was conducted just before the original deadline for of April 1 and this has now been delayed twelve months but surprisingly nearly a sixth of our respondents were not aware of the severity of failure to comply.

Indeed, although the circumstances that motivated the delay were unfortunate, in the days and weeks that followed various industry bodies – including the Chartered Institute of Taxation (CIOT) – said they welcomed the delay. By all accounts, many in the industry were still wrestling with legacy and complex systems, and as such were unprepared for phase two of the new rules.



# Digital links

## What are your biggest concerns around the digital links requirement?



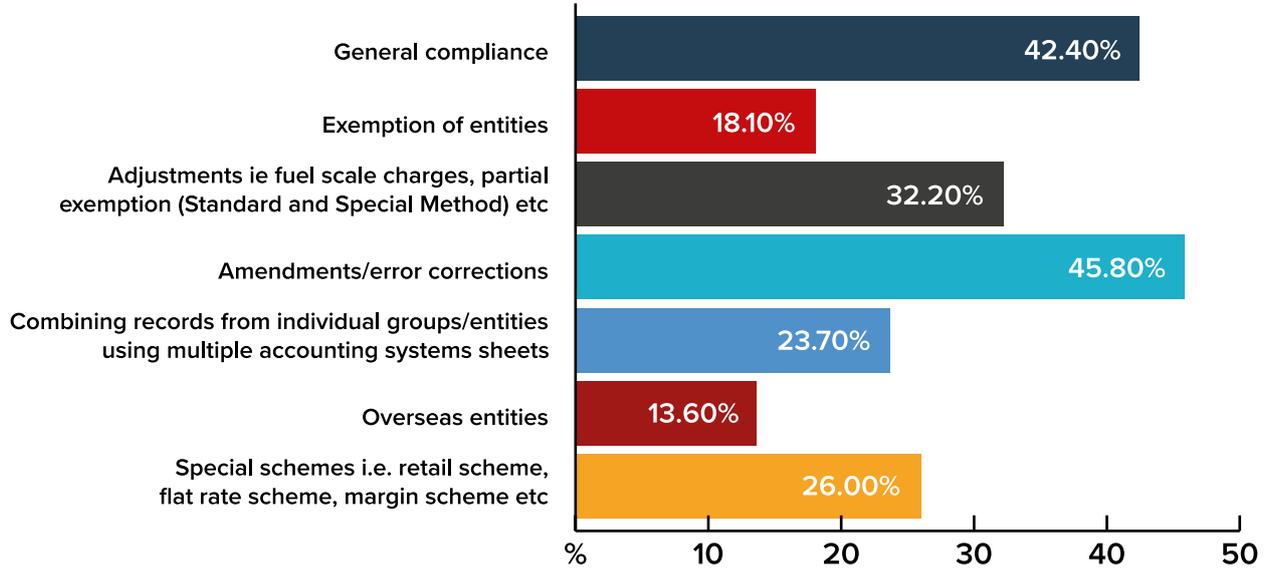
Drilling down further, more than a quarter of respondents said they were unprepared or simply did not understand the requirement. Again, this may be down to legacy infrastructure and the fact the industry has relied for so long on simplistic systems to deal with complex processes.

But as the industry looked to the full MTD world there was a wider realisation that accountancy hasn't embraced the technological revolution seen in other markets, and specifically other financial services which have fully embraced the benefits recent developments have brought. A whopping 41.8 percent said their

records are not fully digitised, while 37.9 percent raised concerns around spreadsheet risks.

Those organisations up to speed with the regulation would have found themselves in far better stead, even though MTD has been pushed back. By embracing digitisation they will inevitably find themselves with greater capabilities, much more agility, and a condensed cost base. Even considering the digital links requirement, 43.5 percent were wary of the cost of implementation – which may now seem an even more valid concern given the pressure the impact of coronavirus has put on the industry.

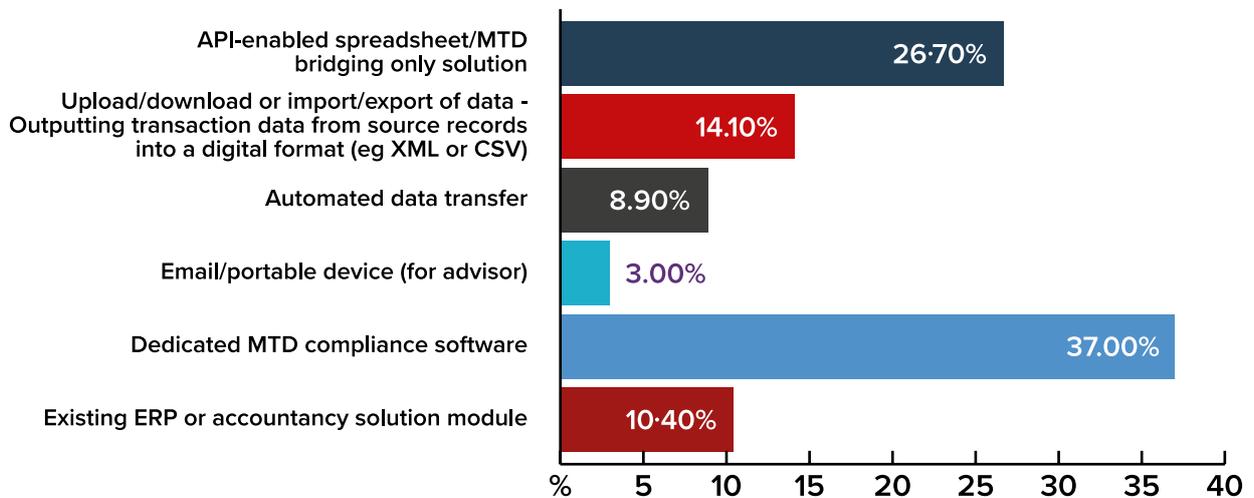
## Do you have concerns over how you will comply with MTD for VAT phase two regulations in respect to any of the following?



Concerns around non-compliance are many, which comes as little surprise given the reliance on makeshift processes to conform with the rules. A large proportion of respondents foresaw problems related to migration to new technological systems, with functional issues also presenting hurdles.

Significant reporting and audit challenges exist, with 46 percent concerned about having to make amendments and error corrections and a further 32 percent worried about having to make adjustments, while 26 percent were unsure how they would meet the requirements of special schemes.

## Which of the following techniques are you considering using to become phase two digital links compliant?



What's clear from our research is that businesses were approaching the second phase with short term technological solutions. While 37 percent of the market was turning to dedicated MTD compliance software, the remaining two thirds looked to alternate ways to comply with the rules. This is worrying because relying on existing systems could lead to difficulties for businesses and firms with the rules designed for a different digital environment.

As reflected in earlier results on how the market was fulfilling MTD's first phase requirements, more than a quarter were hoping to comply through API-enabled spreadsheets and bridging solutions and a further 14 percent were planning to use transaction data from source records to digital format. It seems few had taken the year from phase one to phase two to expand technological capabilities.

With this in mind, many have entered these difficult economic conditions lagging behind the competition because they have not fully embraced technological advantages. Although HMRC has given the market a year's grace to bring systems up to speed, it may be a mistake to approach April 2021 in a similar position with existing systems struggling to keep up with requirements.

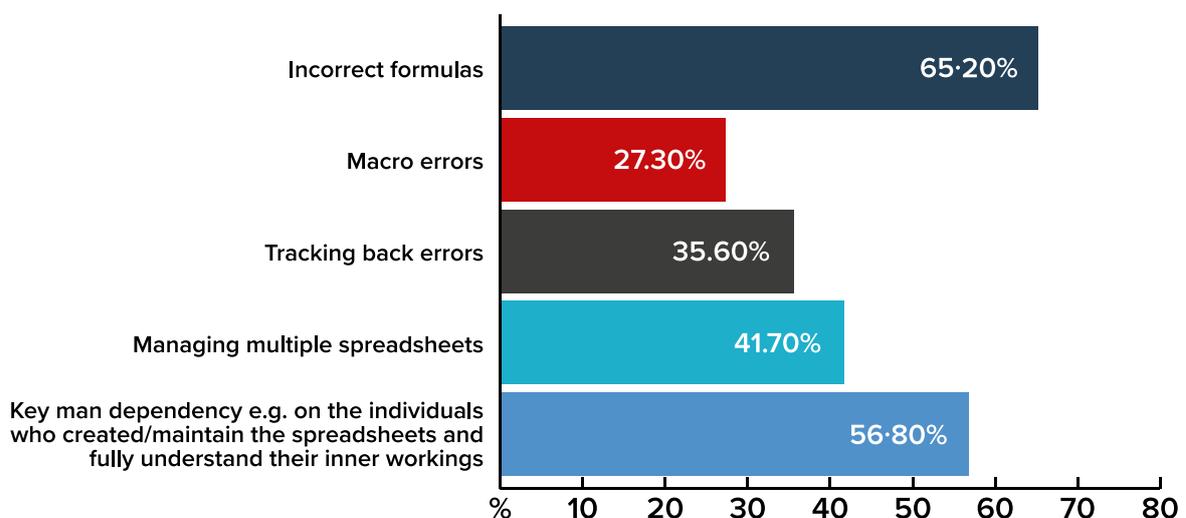
## RISKS IN THE REPORTS

But many who rely still on spreadsheets are aware of the risks when processing returns. We asked those who were planning on using spreadsheets to comply with phase two of MTD what their concerns might be, and it seems the failings are well known.

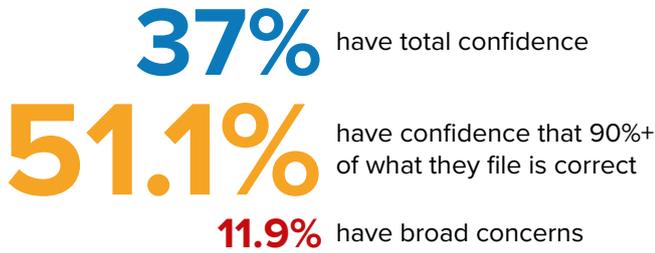
More than 65 percent admitted that incorrect formulas could lead to errors in returns, while macro and tracking back errors are also a significant area of concern. From an operational perspective, spreadsheet limitations of processing returns are clearly felt: more than half of those still reliant on spreadsheets are aware of their inability to allow multiple individuals to work on returns simultaneously, and more than forty percent suggested managing multiple spreadsheets is an operational challenge.

Many may be concerned about their ability to implement new technological solutions with staff working remotely, but reports have suggested this is far from the case with fintech vendors offering online workshops and adapting service agreements to smooth out transitions.

### If you use spreadsheets, what could increase the risk of inaccuracies in the return?



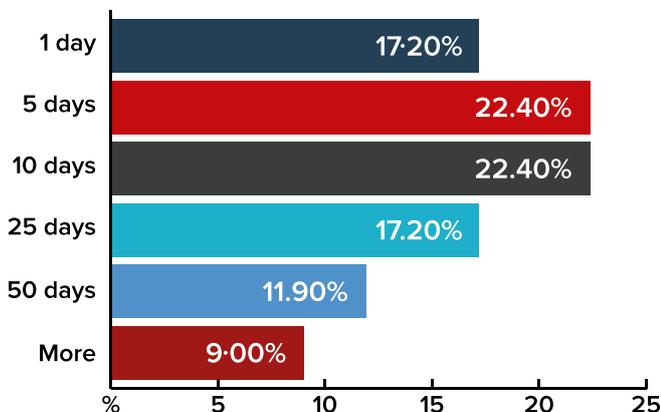
**HOW MUCH CONFIDENCE DO YOU HAVE IN YOUR REPORTED VAT FIGURES?**



With those questioned using a variety of systems and execution methods, as well as being dependent on spreadsheets, it is perhaps of little surprise that just over a third of our respondents have total confidence in their VAT figures.

The government’s announced three month deferment to VAT payments has eased pressure from a cashflow perspective and this, together with the delay to MTD has taken the pressure off finance teams. It is to be hoped that the added time will allow businesses to consider automating the computation process sooner rather than later to gain from the benefits of utilising accountancy technology ie. the ability to gather and validate data at source and the reduction of errors.

**How much time does the business spend collating, identifying and inputting VAT data annually? Please select the closest option.**



The entire market has not fully embraced the technological advances and it’s clear to see where the shortcomings are. Around 38 percent of finance teams are spending more than 25 days per year collating, identifying, and inputting VAT data. Of that, a shocking 20 percent spend more than 50 days a year doing so.

Overall, there has been a move towards automating these and related processes over the past few years, with many businesses following the regulator’s agenda and also discovering the cost and resource savings of moving away from manual processes.

However, as the pandemic hit and businesses started to feel the impact, the race to automate may well gather pace.

**CHANGE AND AUTOMATION**



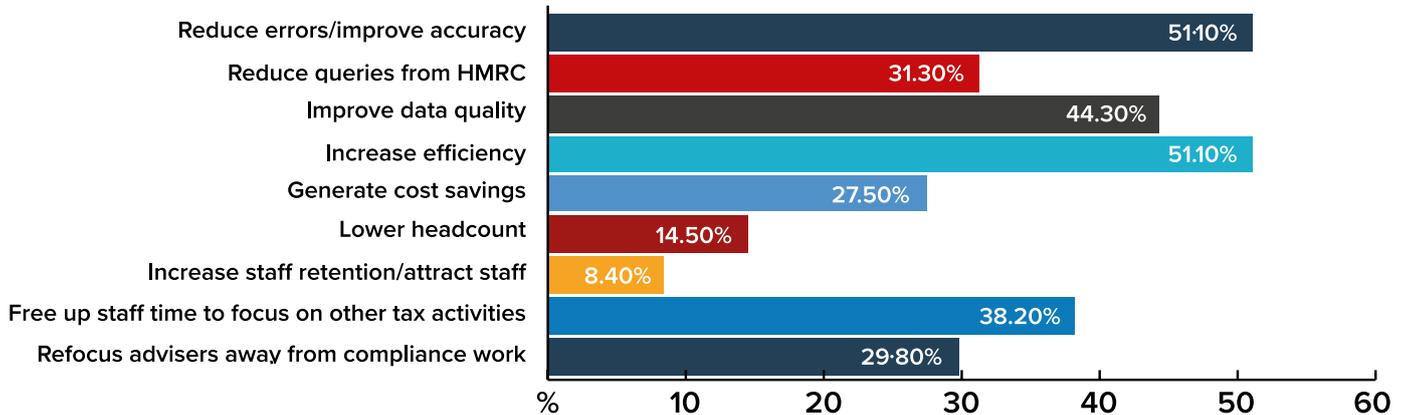
Just as the pandemic was tearing through markets, accountants were in the final throes of MTD preparation. Yet some organisations were ahead of the game, embracing technological advances ahead of mandation.

Another narrative that has emerged from our research is that a substantial portion has utilised the rules put forth by HMRC to digitalise other aspects of the business. According to our research, nearly a third of the market has taken the opportunity to look at processes and infrastructure to move forward with technological transformation.

With both the accounting tech and business process optimisation markets developing apace over the past few years, it is encouraging to find that the industry has been proactive in terms of grasping the opportunities, particularly as it enters such a testing economic downturn. Although MTD’s second phase was delayed, it seems its benefits are now being felt.

# Change and automation

Would the ability to automate your tax compliance requirements allow you to benefit from any of the following?



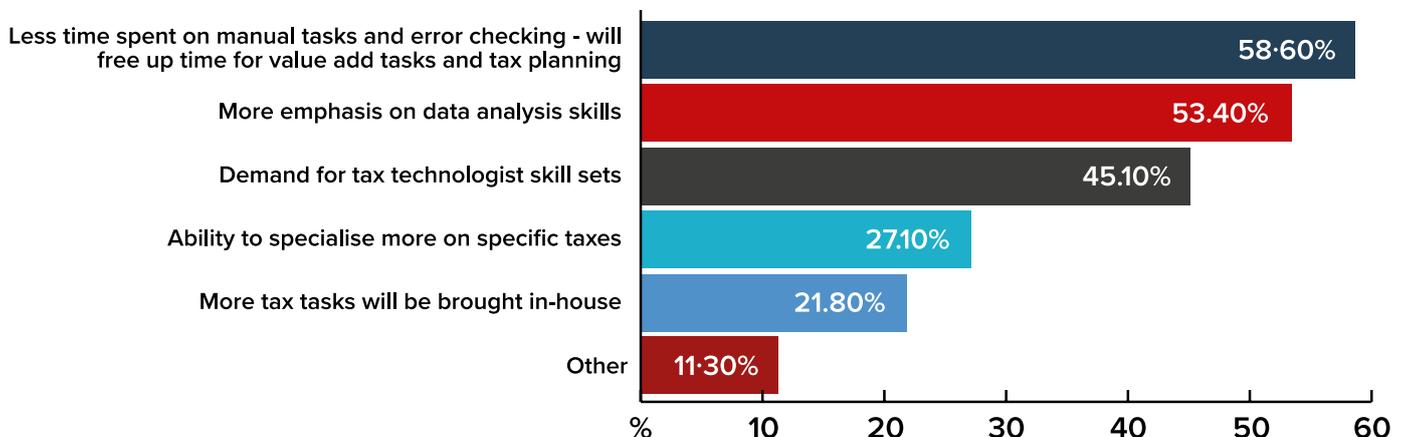
A key driver for MTD and for businesses to look closer at technological advances have of course been the potential to automate processes – and in particular the laborious and resource-heavy tax compliance requirements. Given the recent challenges facing accountancy, many should perhaps be looking to speed up the transition to solutions that can help reduce the resource burden.

The benefits of automation are clearly well known and have been gauged by the market. More than 50 percent recognise the fact it can reduce errors and improve efficiency, while many recognise the various resource improvements utilising automation can bring –

from improving data quality to freeing up advisors from compliance work. Significantly, almost a third of respondents suggested automating processes through the use of technology could reduce queries from HMRC, which would represent a substantial weight lifted from finance teams.

As tax teams have recognised the many benefits of automation, the industry is in agreement that the future will see much less time spent on manual tasks and checking errors, and much more emphasis placed on data analysis. As much as 45.1 percent recognise a growing demand for tax technologist skillsets, suggesting the digital revolution is well and truly underway.

How do you see the role of the finance professional changing in the next five years?



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# Conclusion

There have been two major disruptions over the past few years in terms of the way accountants operate.

Firstly, the technological revolution which clearly continues to gather pace and help accountants operate in a more progressive and efficient manner. While MTD has clearly been a driver of that, technological advances in automation continue to spur the market to reassess efficiencies and look for ways to better itself.

Secondly, the pandemic has overhauled the market, putting pressure on businesses to deliver better services and do so with lower cost bases. Couple that with the

support the UK government has offered businesses since the coronavirus spread, and there's a lot on many an accountant's plate. In short, accountants must raise their game and investment in technology to remain both competitive and compliant.

Our research suggests some are well positioned to deal with the changes facing the market while others could struggle. While markets resettle into a new normal, the accountancy industry is in for a major overhaul – and technology will play a far larger part in determining resilience.

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## About this report

This survey was conducted between January and March 2020. The primary aim of the survey was to identify and evaluate how businesses were approaching VAT reporting, and preparations and attitudes towards MTD.

Responses came from senior management in tax, audit, consultancies, corporate and personal finance, and forensics.

The survey and the report were conducted by Accountancy Age in partnership with Tax Systems.



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